

Delay in Software System Causes Breach Of Contract

A regional insurance agency hired a company to create a premium booking and billing system that would bind and bill for premiums for commercial insurance policies. The delivery of the system was delayed for eighteen months. The agency fired the company, and retained another firm to develop their system. They sued for development costs of the system and breach of contract.

Demand: \$1,000,000. Indemnity paid: \$510,000. Defense costs: \$140,000.

Payroll Software Fails To Issue Checks

A software consulting firm developed an HR payroll system for hospital systems. The software did not work, causing a failure to deliver employee paychecks. This required the hospital system to have their payroll department work overtime to create paychecks, and also to retain a second consulting firm to get the payroll system within scope for the timely payment of paychecks.

Demand: \$750,000. Indemnity paid: \$350,000, plus \$95,000 in defense costs.

Returned Transformers Reduces Profits

A company sold transformers to a customer who incorporated them into a telephone system. The telephone system was then sold to a third party. Some of the transformers had reversed polarity, which necessitated them being returned to the company for repair. The customer sought a waiver of all costs of the transformers, as well as the costs for employees to remove all of the transformers from the telephone systems (they asserted this was essential to maintain their reputation with their customers). In addition, the customer sought to be compensated for lost potential business opportunities that reduced their overall profits.

Demand: \$482,000 Indemnity paid: \$213,900 Defense costs: \$85,000

Online Employee Error Erases Billing Capability

A national on-line florist had software installed in their billing system. The upgrades were launched shortly before Valentine's Day. During testing, an employee erroneously deleted links to coordinate the order and billing systems, causing failure in retaining records to bill for all floral orders during the week of Valentine's Day.

Demand: \$1,430,000 Indemnity Paid: \$600,000 Defense costs: \$225,000

Software For Product Returns Is Returned

The insured was engaged to design software to help manage production returns. The customer claimed the software failed to meet expectations, as it was delivered late and did not perform to the level expected. Claimant did not pay the future installments to the insured, so the insured sued for payment. Claimant countersued for breach of contract and deceptive trade practices, asking for \$18 million in damages. Policy limit was \$5 million.

Integration Failure Between HR and Payroll Systems

A large organization bought human resources and payroll software from the insured. During installation, it was discovered that there were many conflicts between their existing accounting system and the new payroll systems. The company was then forced to hire additional IT professionals because the software was difficult to operate and not functioning as they expected. The customer then filed a claim, stating the insured materially misrepresented the product. The claimant seeks more than \$550,000 in damages, including the cost of the system, consequential damages and attorney fees.

Lost Sales Due To Malfunctioning Warehouse Management System

The insured was hired by a customer to install \$250,000 worth of hardware and software for warehouse management. After installation, the client determined that the system lacked promised features, and did not perform up to the levels needed. Shortly after, the insured stopped providing support for the product. The customer claimed it lost sales and profits because of the product malfunction, and was required to buy a new system. Customer seeks unspecified damages, plus \$1 million in punitive.

When a customer makes a claim for product or service errors, there are more than just monetary damages involved. Litigating such claims is more costly than the average lawsuit, as they require highly specialized defense attorneys as well as costly experts including forensic accountants and IT professionals. A company's reputation is also at stake when a product or service fails, and its customer may fail to pay for services that have already been delivered and refuse to allow additional services to be provided by that company.

IT Contractor Fails To Deliver On Billing System

A prominent IT contractor failed to resolve computer-related billing problems for a large telecommunications client. The original contract was awarded in August 2004 to design, build and operate various IT systems for billing. Profound customer billing problems began almost immediately, and after three years, the telecom decided to transition the work to another vendor. The IT contractor agreed to a \$52 million settlement and agreed to waive outstanding invoices, bringing the total settlement to \$90 million for the telecom.