What are the costs associated with Product Recall?

Product recalls can involve numerous expenses including but not limited to:

1. Costs associated with notifying customers, the cost of shipping and disposal of the product, extra warehouse expenses and the cost of extra personnel required to conduct the recall
2. The cost to repair, refund or replace and ship the product back to the customer
3. Damages of a third party resulting from the recall
4. Income loss and the cost to rehabilitate brand name and reputation

RecallResponse℠ helps limit the negative financial impact of a product recall

What does RecallResponse℠ Cover?

RecallResponse℠ has two parts, Coverage A, First Party Expenses and Coverage B, Third Party Liability.

Coverage A covers the Direct Expenses of the Insured associated with the recall, this includes:

1. Notification and communications
2. Shipping
3. Actual cost of disposal of the products
4. Warehousing/storage space
5. Extra personnel

Coverage B covers damages of a third party sustained due to a product recall attributable to your product. It covers the insured’s legal obligation to pay compensatory damages. This includes but is not limited to:

1. The recall expense of any third party for the recall of any product that incorporates Your Product including the cost to repair or replace such product
2. The business interruption losses of others resulting from the covered incident
3. The cost to repair or rehabilitate brand reputation
4. The additional cost to purchase substitute goods to replace Your Product(s)

RecallResponse℠ does not cover any Bodily Injury or Property Damage from products involved in a recall.

Which Coverage does my Company need?

Most companies need both.

Any company that sells finished goods under their own label has a greater exposure under Coverage A than Coverage B. You will handle the recall in most cases directly incurring the Recall expenses. However, if there is a third party between your company and the ultimate consumer, you also have an exposure under Coverage B because that third party can claim loss of income or reputation due to the recall.

Similarly, any company that manufactures a product that is ultimately sold under a third parties brand name, whether it be a component part or the finished product has a greater exposure under coverage B. You may or may not be involved in the decision to recall or involved in the actual recall itself, but can still be held liable for damages by the ultimate seller. However, Coverage B would not cover any direct expenses you could incur such as replacement parts, repair, retrofitting or disposal if the recalled item is returned to you for handling.

Insureds are free to choose either Coverage A or Coverage B, separate limits for each, or our combined single limit option. We recommend the combined single limit option for any insured that has both first and third party recall exposures.
Does the recall need to be Government Sanctioned?

No, RecallResponse℠ provides for the recall, removal, recovery, or disposal of your product from a third party due to a Covered Incident. There is no requirement for Government involvement nor does there need to be a formal announcement.

What is a Covered Incident?

The use or consumption of your the product has resulted in or poses the danger of causing bodily injury or property damage. This trigger can be endorsed to include impaired property (see below).

What limits are available?

RecallResponse℠ can be issued with limits of $500,000 to $15,000,000.

Coverage A and Coverage B can be purchased separately with different deductibles and limits. Or, they can be purchased as a combined limit with a single deductible and participation requirement.

Can the policy be Enhanced?

Currently there are three enhancements available for RecallResponse℠.

Cost to Refund, Repair or Replace - Amends Coverage A to include cost to refund, repair or replace the insured’s product(s).

Worldwide Coverage - Amends Coverage Territory to include all parts of the world, excluding any jurisdiction in which this policy may be prohibited by statute, regulation or local laws.

Impaired Property - Amends Covered Incident to include Impaired Property for Coverage B.

What is the Impaired Property Endorsement

The Impaired Property Endorsement extends coverage B to include impaired property. Impaired property means tangible property, other than the insured’s product, that cannot be used or is less useful because it incorporates the insured’s product that is known or thought to be defective, deficient, or inadequate if such property can be restored to use by the repair, replacement, adjustment or removal of the insured’s product.

Impaired Property is a major exposure of any component or ingredient manufacturer. The resulting damages are similar to product recall claims. The major difference is that while impaired property is less useful, it does not necessarily cause bodily injury or property damage or pose an imminent danger of bodily injury or property damage. The Impaired Property Endorsement was developed to meet the needs of component manufacturers that needed broader coverage than provided by the product recall trigger of bodily injury or property damage.

What Deductible/SIR’s are available?

Our standard deductible is $25,000, but we will be happy to provide you with pricing for higher deductibles. Any retention over $25,000 for Coverage B is quoted as a Self Insured Retention. Retentions up to $25,000,000 are available. Since most insureds do not have any coverage for product recall/impaired property exposures, their current retentions are unlimited. Many customers have elected high retentions to lower premiums while obtaining limits for truly large losses.
What is the Participation?

You will share in Coverage A expenses in addition to the deductible. The standard participation is 10%. The participation percentage only applies to Coverage A. There is no participation percentage applicable to Coverage B.

What if I have other questions?

Answering questions is part of our job. Teleconference calls to answer specific questions or to cover “what if” scenarios are routine at AIG. Customer feedback helps us design products which meet customer needs.

RecallResponse℠ is written in admitted Companies in most states. To obtain a premium indication, please fill out our application and submit:

Before we can provide a bindable quotation, we will need a signed application and perform a Loss Control Interview. We will provide an indication prior to having the Loss Control interview. At that time, the Customer can make an informed decision if he wants to proceed based on the premium level indicated.