

Product Recall Insurance

It is a common misconception that product recalls are covered under a general or product liability policy. Those coverages do a good job of covering bodily injury and property damage, but generally exclude contamination and recall events. This is referred to as the sistership liability exclusion. The addition of a product contamination or product recall policy protects a company's bottom line by covering the direct costs of recall, but transferring the risk is only one part of closing the recall exposure gap.

Every company with products on the market, regardless of size, should establish solid product risk management policies and procedures for handling a recall or contamination event.

Insurance for first-party losses caused by product tampering and contamination incidents are broadly labeled as product recall insurance. Product recall policies help to cover the additional costs of a recall, including product loss, costs to withdraw the product from market, product disposal, product testing, overtime wages and crisis management—costs that can be devastating because they arise at a time when a company's revenues are typically hit hardest.

There are several coverage forms, each designed to isolate some component of first party product exposure. Work with HRO Resources to ensure your product recall policy provides indemnity for:

- **Recall expense.** This out-of-pocket expense is

associated with executing a large-scale product withdrawal. It includes costs like extra temporary employees, overtime, public safety messages, special testing and handling, destruction and disposal costs, and crisis management and/or PR consulting fees.

- **Replacement cost.** As the name implies, this is the cost of replacing any product that had to be destroyed. This includes the cost of materials, labor and overhead directly associated with producing the product.
- **Lost profits.** This indemnifies the insured for profits which would have been earned on the withdrawn products and also for profits which would have been earned on future product sales, but which were not earned because of resultant future sales declines. This is usually limited to a specified time period.
- **Brand rehabilitation expense.** Most underwriters will also indemnify the insured for necessary rehabilitation of the recalled product's consumer image. This includes costs like extra advertising, extra expense to rush a new product to market and special promotions to rebuild public trust in the manufacturer and its products.

In addition to transferring risk, thorough risk management practices are essential to minimize the exposure and the cost of a recall event. The product recall insurance marketplace is highly specialized. Our team of experts can help secure the coverage you need and



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collaborate with you to develop a business contingency plan that meets your specific needs. Contact us today at 1-512-355-7697.