



# Product Recalls Are Costly: A Case Study



## Product Recalls Are Costly A Case Study

In 2010 alone there were over 40 product recalls relating to children's products in Australia. The damage that can be done from a children's toy product recall can be significant – both at a human and financial level. Parents entrust their children to toy manufacturers in good faith, expecting that the products they purchase will be safe. So when a leading international toy manufacturer discovered a fault in their most popular product a magnetic building set, the company immediately went into action.

A company ordered a recall of their magnetic building set after becoming aware of one death and several serious injuries caused as a result of children swallowing multiple magnets that had been detached from the building set pieces. The small but powerful magnets could attract each other inside the child's intestines, causing perforations or blockages which had the potential to be fatal.

Within a 12 month period an expanded recall was announced after several other cases were reported of injuries due to children swallowing the magnets from the building set.

### THE FACTS:

**Complaints:** The company received over 1500 complaints relating to the product fault in this period

**Products recalled:** Over 4 million units recalled.

**Cost:** The company estimated the cost of the recall totalled over \$20 million, including:

Writeoffs for faulty building sets	\$4.3m
Product replacement expenses	\$5.6m
Gross Profit	\$6.1m

Along with the negative publicity the client suffered as a result of the recall, the company was penalised for the poor handling of the recall which can also contribute to further loss of sales and negative reputational damage.

The information in this document is presented by Liberty International Underwriters Pte Limited (UEN. 201538069C). The claims examples are intended to illustrate broadly some, but not all, of the kinds of product recall exposures a business can face. How Liberty's policy responds to any circumstance will depend on the particular facts. Refer to the policy wording for the complete terms and conditions. The information about the policy coverage and consumer recall law and processes is general comment only on the subject matter, and should not be relied upon as advice or any definitive statement of law or the principles of insurance in any jurisdiction. This information is accurate as at May 2009.

LIU's PRplus Product Recall Protection Insurance is a comprehensive product, with specialist crisis response consultants to help companies respond swiftly and effectively to a crisis of this type, as well as planning for and managing the risks associated with a potential incident. Ensuring a company has the resources in place to conduct an effective recall is a fundamental aspect of good risk management.

#### **PRplus – Product Recall Protection**

##### **Coverage**

LIU PRplus Insurance provides protection against:

- Defect
- Government Recall
- Malicious Product Tampering
- Product Extortion

Covered Losses include:

- Business Interruption
- Replacement Costs
- Recall Costs
- Third Party Recall Costs
- Consultants & Advisors Costs
- Rehabilitation Expenses
- Third Party Financial Loss

#### **About Liberty International Underwriters**

LIU is part of the Boston-based Liberty Mutual Group, a global insurer established in 1912, which ranks 81st on the Fortune 100 ranking based on 2012 revenue. As of December 31, 2012, Liberty Mutual Group had \$120.1 billion in consolidated assets, \$101.5 billion in consolidated liabilities and \$36.9 billion in annual consolidated revenue.

That scale, capacity and experience stands behind every policy we write. Just as importantly, LIU puts its trust in its people on the ground, wherever they are in the world. So clients get the benefit of local understanding and autonomy – quick, efficient underwriting and a more responsive claims service.

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