



LIU PRplus Product Recall Insurance Q&A



Liberty
International
Underwriters

LIU PRplus - Product Recall Insurance Q&A

Is Product Recall covered under a Public and Products Liability policy?

The financial impact of a product recall can be highly damaging. In many cases product recall expenses is excluded under standard Product Liability Insurance policies and therefore little, if any, cover is provided for a client's loss.

LIU's PRplus Insurance policy may offer broader protection than recall expenses cover offered by standard Product Liability Insurance policies. In addition, LIU's PRplus Insurance policy can be varied to meet the specific needs of an organisation, including additional cover and limits to match exposures.

We have seen many examples where recall expenses offered by standard Product Liability Insurance policies cover less than 5% of a client's losses arising from a recall incident.

The substantial differences between the coverage provided by a standard Product Liability Insurance policy with recall expenses cover and LIU's PRplus Insurance policy are outlined below:

Cover	PRplus	Recall Expenses offered by a standard Product Liability Insurance policy
Defect	✓	✓
Malicious Product Tampering	✓	x
Government Recall	✓	?
Recall Costs	✓	✓
Third Party Recall Costs	✓	x
Replacement Costs	✓	x
Rehabilitation Expenses	✓	x
Business Interruption	✓	x
Third Party Financial Loss	✓	x

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The actual recall costs of an incident are most often the smallest costs incurred as a result of a recall incident. The expensive items usually include replacing the product and loss of profits.

The table below sets out the typical split of losses that we see in a recall incident:

Covered Loss	% of cost
Recall Costs (including advertising, transport and destruction)	5%
Retailers Recall Costs	31%
Replacement	21%
Loss of Profit	37%
Rehabilitation Expense	6%

What is a typical loss?

The following case example is based on a real product recall incident.

When an Australian importer of children's clothing with a turnover of over A\$100m was investigated by an Australian Government Authority, this led to a full scale recall affecting a large number of its product lines.

It was discovered after investigation that incorrect fire danger labels were attached to the products. They should have been labelled high fire danger but were labelled as low fire danger.

A recall was conducted by a third party distributor. The distributor sought compensation from the Australian importer for loss it sustained as a result of the recall.

The third party distributor's claim for compensation was as follows:

Extra expense to replace products:	\$40,000
Loss of profit:	\$450,000
Advertising costs associated with the recall:	\$55,000
Cost to Identify and destroy affected product:	\$60,000

As a result of the recall a complete review was conducted by the Australian importer to ensure tighter controls were in place. The Australian importer also enhanced systems to ensure it fully complied with relevant regulatory requirements.

What type of products can be covered?

Literally all products will have some type of product recall exposure. Examples of recent recalls include:

- Kids 5 piece table set recalled as the melamine fork in the set can break when force is applied to the teeth of the fork;
- Radiant heater recalled due to the risk of fire and electrical shock;
- Top loader washing machine recalled as it may pose a fire hazard;
- Kids jackets recalled as the dyes and colourants used during the manufacturing of these jackets may be hazardous;
- Outdoor bean bag covers recalled as the seam of the bean bag may split, causing polystyrene beans to escape the bag and potentially cause a choking hazard;
- Electric chainsaw recalled due to electrocution risk;
- Capsule coffee machine recalled as users may receive an electric shock;
- DC isolater switch for solar energy installations recalled as it may overheat causing a fire hazard.

What responsibilities does the Australian Consumer Law impose on clients?

Under the Australian Consumer Law (ACL), importers of goods must guarantee that products are of acceptable quality if the manufacturer of the goods does not have a place of business in Australia.

Goods are of acceptable quality if they are:

- ✓ fit for all the purposes for which goods of that kind are commonly supplied;
- ✓ acceptable in appearance and finish;
- ✓ free from defects;
- ✓ safe; and
- ✓ durable.

The ACL introduced legislation in 2001 relating to consumer products safety and in particular a mandatory reporting regime that requires importers, suppliers, wholesalers and retailers to notify the Commonwealth Minister when they become aware a consumer good or product-related service they supplied has caused, or may have caused:

- ✓ death;
- ✓ serious injury; or
- ✓ illness.

A serious injury or illness is an acute physical illness or injury requiring treatment by, or under the supervision of, a qualified doctor or nurse whether or not provided in a hospital or clinic, or in a similar place.

Notification to the Commonwealth Minister in the above circumstance must be provided within two (2) days of becoming aware of the incident.

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