Product Recall
Are You Prepared?
Product recalls are increasing
A key theme for prudent risk managers

Interventionist regulators, pressured margins, complex supply chains, better technology and the proliferation of social media have led to an increase in the incidence and severity of product recalls.

Globalisation has yielded great benefits for manufacturers in the form of higher productivity and better cost efficiency. The move towards more global business models also creates key risks. Some manufacturing risk can be mitigated using technology, but errors can and do affect even the most prestigious product manufacturers.

A spontaneous and overly energetic chemical reaction to humidity within airbag inflators has led to the third consecutive year of losses for a major Japanese automotive component manufacturer. Total recall losses in 2016 came to over US$ 550m.

Crisis planning and exceptional quality controls are key to mitigating the risk of product recall. Insurance cannot replace such practices, but product recall insurance can support and complement an effective risk management strategy.

Source: NHTSA
Who do we work with?

Who buys

- Automotive Components
- Food & Drink
- Consumer Goods
- Aviation Components

Why buy?

- Aggressive Regulatory Environment
- Complex Supply Chains
- Contract Stipulations
- Negative Social Media

Size?

Revenues of GBP 10m to GBP 8bn. Publicly traded or privately owned.

Where?

We work with companies all around the world but most frequently with:

- US
- Europe
- China
- Japan
- Taiwan
- Australia
- New Zealand

The market

- Over 23 Insurers
- USD 350m Deployable Capital
- Lloyd's + USA Hubs
Key claims statistics and themes
Q4 2016:

Top auto hazards by % of recalls
- Injuries: 86.7%
- Fire: 9.2%
- Other: 4.1%

Top consumer hazard by % of recalls
- Chemical: 26.0%
- Electric Shock: 18.4%
- Choking: 16.8%
- Injuries: 13.9%

Top food categories by # of recalls
- Produce: 171
- Nuts/Nut Products/Seeds: 151
- Fish/Fish Products: 142

Top passenger vehicle recall causes
- Airbag: 11
- Seats: 8
- Brakes: 7
- Fuel Related: 5

Source: Stericycle Expert Solutions: European Recall & notification index Q4 2016
# Specialised product recall vs CGL and generic recall extension

Stand-alone product recall coverage is significantly broader

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Specialised Product Recall</th>
<th>Extended Product Liability</th>
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</thead>
<tbody>
<tr>
<td><strong>Recall expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recall costs</td>
<td>✓</td>
<td>✓ *</td>
</tr>
<tr>
<td>Physical/Chemical analysis of product to establish cover</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Inspection costs</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Destruction costs</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Product replacement costs</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Slotting and re-slotting fees</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Rehabilitation of brand (to restore sales and market share)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Relations assistance</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Promotional offers</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Point of sale notice's</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Advertising costs</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Business interruption</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Months loss of gross profit</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Overhead's including wages/salaries and depreciation of plant and machinery</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Clean down and repairing of machinery or plant</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Subcontracting of manufacturing</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>All affected products included</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Consultancy advice</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crisis Consultancy cover with no deductible</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Damages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resulting from product liability litigation</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Triggers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cover for product that ‘would’ cause bodily injury or damage.</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Cover for products that ‘fail to perform their intended function’.</td>
<td>✓ **</td>
<td>✗</td>
</tr>
<tr>
<td>Recall ordered by government authority</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Cover for alleged product safety issues (Adverse/Negative Media)</td>
<td>✓</td>
<td>✗</td>
</tr>
</tbody>
</table>

* Not given as standard and likely to be sub-limited.

** ‘Failure to perform’ coverage (Product Guarantee) only available for certain manufactured products (not food & beverage).
Stages of a product recall
Typical indemnity available at each stage

- **Step 1**: Inspection Costs
- **Step 2**: Announcement Costs
- **Step 3**: Cancellation Costs
- **Step 4**: Reputation Costs
- **Step 5**: Resources
- **Step 6**: Retrieval Costs
- **Step 7**: Disposal Costs
- **Step 8**: Remediation Costs

Recall Cycle:
- **Start of crisis**
- **Product Repair or Replacement**
- **Safe Product Disposal and/or Salvage**
- **Transportation, Notices, Credits**
- **Labour Hire, Extra Warehousing**
- **Advertising and Promotional Activity + Media Management**
- **Crisis Communications Costs**
- **Business Interruption**
Why choose us?

**Expertise/Credentials**

Approx. 25% of the full-time Product Recall specialists in the London market making it the largest team.

First to establish an Aviation Product Warranty Facility.

FTSE 100 and Fortune 500 Placement undertaken for large and complex listed companies.

Team size means we can advocate in the same detail for small businesses to the very largest.

Major market share of automotive recall business.

Claim professionals with over 50 years combined experience.

Experienced, qualified and well-thought of team, including two ex-underwriters.

**Testimonials**

Such an amazing experience for working together! What you provided to us is just what we really need.

Willis Towers Watson, Taiwan

The timeframe was very tight for this renewal. However, thanks to the service and expertise of the UK Recall team we always succeed in completing the renewal in the timeframe required.

Willis Towers Watson, The Netherlands

Our client was concerned that their complex risks weren’t being recognised by a ‘standard’ recall insurance policy. WTW Recall team listened carefully and then sourced extended coverage that not only addressed the client’s main concern, but also significantly reduced costs and deductibles. WTW Recall provided the client with confidence in the knowledge that their policy would respond to an adverse event.

Willis Towers Watson, UK Risk Solutions Leader
About Willis Towers Watson

A truly compelling combination

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries.

We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals.

Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance.

Together, we unlock potential.

Willis Towers Watson can be found all around the world

A strong client focus, an emphasis on teamwork, unwavering integrity, mutual respect and a constant striving for excellence are the values at the core of the new Willis Towers Watson organisation.

Willis Towers Watson is trusted by the world’s leading organizations

We work with...

78% of the Fortune Global 500

81% of the Fortune 1000

86% of the FTSE 100

80% of the S&P/TSX 60

We have 40,000 employees serving 140+ countries and territories
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