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PRODUCT LIABILITY, PRODUCT WITHDRAWAL, AND PRODUCT RECALL INSURANCE – WHICH DO I HAVE AND WHAT DOES IT MEAN?

Marie Gallanar | Account Exective, Parker, Smith & Feek

Product liability insurance is designed to cover the costs associated with bodily injury and property damage caused by your product. For example, say you manufacture pellet stoves and your stove does not properly function, burns down a customer's house, and injures a customer. Product liability coverage (which can be included in your general liability policy) would most likely cover the cost to replace your customer's house and pay their medical expenses.

After the incident and subsequent internal investigation, you discover that the pellet stove malfunctioned due to an issue with the internal auger. You decide to initiate a voluntary recall of all pellet stoves with this specific auger. Some **product withdrawal** expense forms (if added to your general liability policy) will cover the costs to notify your customers, ship the product back to your facility, and store or destroy the product. It might also provide coverage for the expenses related to "good faith advertising" to repair your tarnished brand name. This type of coverage is called "first party" coverage, because it only covers your costs. This is where your products withdrawal expense form ends, but your potential financial liability does not.

You go through the product withdrawal process, however, fallout from this incident continues. It's expensive and impractical to pull your pellet stoves out of all of your customer's homes to replace the auger that caused the initial fire. You need to hire local stove repair professionals to go onsite and switch out the auger. This expensive and daunting task must be completed on a short timeline to avoid further potential property damage and bodily injury to your customers. You also need to order new augers to replace the malfunctioning augers. To add insult to injury, you have more than 1,000 of these pellet stoves in your warehouse that will need to have the auger replaced before they are sent out. Then, 22 of your distributors cancel their new orders for the upcoming season because of the bad press from the voluntary product recall which results in lost income for both you and your distributors. You decide to hire a crisis management firm to help you deal with the fall out and manage the situation. More robust stand-alone product recall policies may cover some of these ancillary costs depending on the language of the form.

But what happens if you are actually the manufacturer of the auger? In that case, the pellet stove manufacturer and their insurance carrier will be knocking on your door to recoup their costs. More and more manufacturers are requiring their supply chain to carry not only product liability insurance, but also **product recall insurance** for this very reason. In 2013, General Motors adopted a new purchasing contract that would allow the auto maker to recover the cost of safety recalls from its suppliers, according to an article published in Automotive News. A standalone product recall policy may include coverage for these "third party" expenses.

It's important to understand what coverage you have and then assess the risks of your specific products to understand where your gaps may be. Be sure to explore risk management strategies outside of insurance such as vendor contract language and supply chain quality management. Preparedness and execution in managing your product recall plan will ultimately affect your company's bottom line.