PRODUCT RECALL EXPENSE

TALKING POINTS

Product recall expense coverage is available for all business segments Selective writes.

WHY PRODUCT RECALL?

- Increase in product recalls and safety incidents for companies of all sizes
  - The median worldwide jury award exceeds $3M, the average award is in the $6M range. These figures are inclusive of very large Fortune 100 and 500 companies, but it is important to recognize that both small and medium size manufacturers and wholesalers are vulnerable too.
  - There were 417 U.S. FDA recall events in the 1st quarter of 2015 alone for food, medical devices and pharmaceuticals impacting over 100M units. There were also 57 U.S. Consumer Safety Products Commission recall events during the same period

- Excluded on the commercial general liability coverage form
- If not dealt with quickly and aggressively, a product recall cannot only hurt the insured’s bottom line now, but can negatively impact its reputation and future business prospects
- Strengthened regulations and increased enforcement is resulting in additional product safety inspections
- Complex and diverse supply chains are more difficult to monitor and quality control
- Adequate limits are especially important on industrial machinery and food / kindred manufacturing classes

WHY SELECTIVE? STRONG FORM AND EASE OF DOING BUSINESS.

- Strong offering on par with, or superior to, the marketplace:
  - **Broad coverage trigger**: Government mandated recalls and/or insured-initiated recalls when known or suspected defects or tampering can lead to bodily injury or property damage to third parties
  - **Two coverages**: Product Recall Expense (8 expenses directly related to the recall) and Additional Covered Expenses (3 additional expenses, including customer’s loss of profits and good faith advertising)
    - No prior manufacturing or sales date restriction
    - Coverage for one year after recall
    - Contingency plan analysis available

- Our product recall expense coverage is included at limits of $25,000 occurrence / $25,000 aggregate and $12,500 occurrence / $12,500 aggregate for additional covered expenses when one of our GL ElitePac® options is selected. Higher limits are often needed by manufacturers. Selective offers up to $1M per occurrence for Product Recall Expense / $500K for Additional Covered Expenses
- Ease of doing business: No additional underwriting questions for higher limits up to $100K

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COVERAGE HIGHLIGHTS

♦ Eight covered expenses, including:
  • Costs of advertising
  • Costs of stationery, envelopes, production of announcements and postage or facsimiles
  • Costs of overtime paid to regular non-salaried employees and costs incurred by employees, including transportation and accommodations costs
  • Costs of hiring independent contractors and other temporary employees
  • Costs of transportation, shipping or packaging
  • Costs of warehouse or storage space
  • Costs of proper disposal of “your products,” or products that contain “your products” that cannot be reused, not exceeding “your purchase price” or “your cost to produce the products”
  • Inspection and testing of “your products” to determine whether or not they may be subject to a “product recall”

♦ Additional covered expenses: (provided at an additional 50% of the selected product recall expense limit), which can be allocated at the insured’s discretion, including:
  • Cost to replace product: the cost to produce or acquire a like replacement product, including the cost to return “your product” to the purchaser, not to exceed the cost of goods sold. This also includes the cost of unsold finished stock, but only if the product cannot be repaired, reconditioned, decontaminated or made marketable
  • Customer’s consequential loss of profit: the loss of “profit” incurred by “your direct customers” as a consequence of the “product recall” of “your product” or the “product recall” of the customer’s product because it incorporated “your product”
  • Good faith advertising: those advertising costs paid for the specific purpose of regaining customer approval or faith in “your product”

For more on Selective’s Product Recall, type in “Product Recall” in the search box on eSelect®, or contact your AMS or underwriter.