

Automotive recall

Recalling an automotive product costs more than five times the original distribution

Recent automotive product recalls have involved unit numbers in the millions, creating an unprecedented impact on manufacturers, suppliers and consumers. Recalling an automotive product costs more than five times the original distribution, making this a potentially debilitating financial loss for automotive parts manufacturers.

Product recalls have spurred automotive manufacturers to demand that suppliers reimburse costs associated with any recall caused by a supplier's defective product. Given the size and scale of the automotive industry and related recalls, these suppliers are facing significant financial and operational risk. To compound these risks, product liability policies specifically exclude losses resulting from product recalls. Automotive product recall exposures have been particularly difficult for underwriters to assess due to the potentially costly notification and repair expense limiting the number of carriers willing to underwrite this exposure.

The Aon solution

Aon recall specialists can negotiate coverage for both US and non-US manufacturers, distributors and importers with limits in excess of US\$100,000,000.

Each programme can include coverage for both first and third party exposures including Impaired Property. Third Party Product Recall Liability also includes coverage for the costs to refund, repair or replace the recalled product. For component part manufacturers and or distributors whose products are either manufactured or go into vehicles which are used outside the US, coverage can be broadened to include Product Guarantee and Financial Loss. Although the market for automotive product recall remains somewhat limited, we have seen a softening of the market and pricing. Minimum premiums down to US\$25,000 are now available with minimum retentions down to US\$50,000.

Target risks

- Automotive component part manufacturers (including safety critical parts)
- Can include non-automotive parts
- Can consider single contracts where Recall coverage is a contractual requirement
- Any revenue size can be considered

Markets

- | | |
|-------------------------|------------|
| ■ Lloyd's Catlin | ■ Swiss Re |
| ■ QBE | ■ Brit |
| ■ Crum & Forster | ■ Arch |
| ■ XL Insurance / Dublin | ■ Canopi |
| ■ Max Bermuda / Dublin | |

Available limits

- More than US\$100,000,000 any one Covered Incident and in the Aggregate

Deductibles

- Minimum deductible - US\$50,000
- Minimum deductible for the risk will increase based on estimated revenues

Minimum premium

- US\$25,000
- Worldwide territory

Coverage (can include the following):

- Product Recall Expense - First Party Product Recall Expense (including replace, repair, refund coverage, transportation and recovery costs, warehousing and additional staffing costs, removal and de-installation costs, disposal, recall notices and communication)
- Product Recall Expense Liability - Third Party Product Recall Expense that you become legally obligated to pay
- Impaired Property Expense - Impaired Property Expense that you become legally obligated to pay
- Product Guarantee coverage (Non-US) - Coverage for recalls of products which fail to perform the function for which they were manufactured
- Financial Loss (Non-US) - Financial Loss which is incurred by you or third parties as a result of products which fail to perform the function for which they were manufactured
- Also available on a case by case basis:
 - Customer Loss of Profits
 - Extra Expense
 - Rehabilitation

Submission requirements:

- Completed Aon Automotive Recall Application
- Quality Manuals
- Product Recall Plans
- Recall History

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