Product recall

The optional insurance which is becoming an essential for all of your manufacturing clients
Webinar objectives

1. What product recall insurance is
2. Food and beverage industry – size and trends
3. Recent recall events
4. Regulatory updates
5. Frequency of recalls
6. Pressures facing manufacturers
7. Claim case study
Introduction to product recall

1. What product recall Insurance is:
   • It’s **protection** for manufacturing business against the very real risk of having to recall their products
   • It **covers the cost** of recovering the products as well as the cost to **repair or replace** them
   • It covers insured’s **customers’ costs** as well
   • It protects the insured’s bottom line by **covering lost profit**
   • It **pays for advertising** to get the sales back up to pre-loss levels

Product and public liability policies don’t provide this cover!
My liability insurance will cover me

This is not the case – and this is a mistake which could cost clients heavily.

Liability policies tend to either exclude product recall entirely or provide very narrow coverage for a small limit. In our view, the coverage provided under any other policy for recall/contamination events, if any, is negligible. If you have a client in the supply chain of a product, recall/contamination insurance is very often a key gap in their insurance protection.
The food and beverage industry

1. Size and scope of the industry:
   - Food and beverage manufacturing companies in the UK contribute £21.9bn to the UK economy every year
   - It accounts for 16% of total UK manufacturing turnover – making it the largest sector
   - 96% of the businesses within the industry are micro to medium sized
   - Food and drink manufacturers are spread throughout the UK – no regional bias

Very large number of potential clients, spread throughout the UK
The food and beverage industry

2. Growing pressure to purchase recall insurance:
   - EU food alerts went up 270% from 2012 to 2017
   - Raw material traceability - over half of the raw material used in UK manufacture is imported
   - Decreasing consumer tolerance to allergens, coupled with zero tolerance regulation
   - Increasing trend of supermarkets mandating that suppliers have recall insurance

Large projected growth in the recall insurance market
The food and beverage industry

3. Supermarkets beginning to realise importance of recall insurance
   - An emerging trend of suppliers being required to carry recall insurance in order to trade with major retail clients
   - Regardless of length of trading relationship or contract value
   - Possible recall insurance will become quasi-mandatory in future
   - Suppliers to retailers likely to require their own suppliers to do the same (pass it on!)
   - Good time to get ahead of the curve
Recent recall issues

The Good Food Chain: Firm in listeria probe goes into liquidation

Food allergies: Natasha's Law welcomed by parents

Danger tumble dryers: I'm sorry, says Whirlpool executive
We have never had a recall

It is understandable that companies who have never experienced the huge stress and financial impact of a recall are reluctant to buy a new insurance which covers that loss. The important thing to bear in mind is that recalls happen all the time and that most of the companies involved will have never had a recall before. Many of our first time buyers of recall insurance are seeking it because they have recently had their first loss – the fact that they are now buying the insurance suggests they wished it had been in place before their first loss.
Our quality is top notch, it won’t happen to us!

- Unfortunately product issues occur in any company, even where the management have great experience in quality assurance. There are so many potential hazards for product contaminations or defects to occur that there really is no way to ensure 100% avoidance.
- All manufacturers have suppliers, perhaps hundreds, and each of their suppliers will also have its own supply chain. There is no way to oversee this entire network effectively – each company must rely on its suppliers. We see time and again that the supply chain causes product issues even where the company’s controls and processes are best practice.
- You can have all the technology and quality procedures in place, but there is no accounting for
  - chance
  - human error
- Don’t forget those external exposures, out of your control; regulatory action and negative media!
Invasive regulation

Food Standards Agency (FSA):

- Seeking to become more sophisticated
- Growing public awareness of food safety issues
- Likely to be more pro-active
- Moving towards US model – invasive, low tolerance regulations
  - There are two recalls every three days in the US
Non-food regulation

Office for product safety and standards

- New government body created in January 2018
- Authority extends to non-food consumer goods, but not vehicles, medicines or medical devices
- Aiming to improve safety of goods and efficiency of recalls
- Has its work cut out – will take time to get up and running!
Frequency of issues in the UK

- Average of 160 food and beverage recalls notices each year in the UK
- There have been 121 so far in 2019
- Each notice can include several product lines - could be one or eleven products
- Over 3 recall notices per week - not a remote risk for manufacturers, a very real risk

Data sourced from FSA website, Feb 2018
Impact upon cash flow

Manufacturers live hand to mouth
- Operate throughout the year, often seasonally
- Need a steady cash flow to keep up the purchasing of ingredients/materials
- Any period with extra expense and less revenue can threaten the viability of the business
- The larger the crisis, the bigger the loss of profit
Introduction to product recall

Product recall insurance is too expensive

To paraphrase from a famous brand of beer: “reassuringly so”. As insurers, we would like to sell as many product recall policies as possible and the easiest way to do this would be to lower the premiums. However, because recall events occur very frequently and because those events tend to have a large financial impact, product recall insurance is far more risky than other forms of insurance and therefore we must charge more!

Between 2011 and 2016 for food and beverage recall insurance at Lloyd’s, the London-based international insurance market, for every £100 insurers charged in premium (net of broker commission) they paid £99.50 in claims. With these numbers, it is easy to explain why recall insurance is relatively expensive! In 2016, Lloyd’s insurers actually had a loss ratio (incurred claims as a % of premium) of 160%! It is a product which covers a very real and expensive risk.

We attach at GBP 5,000 for a minimum of GBP5,000 per £1m of cover.
Surely my recall costs won’t be that high?

It may be true that the first party costs of issuing notices, transporting, storing and the destroying or disposing of affected products may be within a company’s ability to pay.

What is often not considered are the large costs associated with replacement of product, cleaning or fixing equipment/facilities, the expert advice of consultants and most importantly loss of sales.

If there is a problem with the facility and it cannot operate for a few days, that is a serious cash flow issue. These costs frequently far exceed those which are thought of the costs of ‘recalling’ products and are often not considered when companies evaluate the risks of recall/contaminations and the financial impact thereof.
Supply chain vulnerability

- Every product you see incorporates numerous upstream manufacturers’ products as ingredients or components;

- Could range from five (eg. Nakd bar):
  - Date supplier
  - Cashew supplier
  - Almond supplier
  - Flavouring supplier
  - Packaging supplier

- To thousands: (eg. Audi A4, iPhone)
Our suppliers will pick up our recall costs

This is not a credible argument for any company selling any product; even distribution companies or those which have 100% of their products manufactured by a third party under a contract manufacturing agreement.

No company should simply rely on their suppliers to cover the costs of recalling their products. The five main reasons are:

1. The supplier may refuse to pay some or all of the costs incurred (for example, they may refuse to pay for loss of sales, brand rehabilitation and third party costs)
2. The supplier may not have enough money to pay these costs
3. In some states, a supplier contaminating your product is a thought of as a purely economic loss and recovery of these costs against the supplier is barred by the economic loss doctrine - true story
4. Often the supplier will dispute that they are responsible for the recall
5. The contract with the supplier may limit their liability to your client

We frequently see suppliers raising the above arguments during a recall event, sometimes all five at the same time!
Stock surprise
Soup manufacturer falls fowl in stock shock
Who we want to insure

We have a broad appetite for the following industries:

• Bottling / Packaging risks
• Co-manufacturer
• Vineyards / Microbreweries
• Restaurants
• Food & Beverage
• Automotive component manufacturers (Tier 1 / Tier 2)
• Consumer Products / Manufactured Products
• Non-Invasive Medical Devices

Certain industry sectors are less favourable though:

• Finished product vs base ingredient
• Infant related goods
• OEM’s (i.e. Audi)
• Construction materials
• Marine / Aviation application
CFC service

Our stats:

• Last month we responded to 90% of enquiries within the first 24 hours
• CFC handles all document production, so you don’t have to!
• Concise wordings with a lack of jargon and legal terms
• We hate to say ‘no’ and try to be as flexible as possible, you will always get feedback.
Points to take away:

All manufacturers have a product recall risk, which is typically not insured!

• It isn’t covered by their liability insurance

• The actual recall costs are a small % of the overall loss. **Loss of sales is the biggest driver of any recall claim**

• Suppliers can’t be relied on to pick up the costs, why would a manufacturer choose to rely on someone else’s balance sheet having sufficient funds to pick up a loss?

• This cover is no longer the unaffordable coverage. What business will insure every aspect of their exposures, from employee to plant, but leave out the actual product which drives both their income and profit?

• Human error and external factors means that no matter how good a company is at product quality, they simply cannot avoid all risk.

• Risk management isn’t about being reactive, it is about being proactive. Buying an insurance policy for an possible recall event is a smart move.
How to contact us

We are here for enquiries, real leads and general questions!

• Think of us for case studies, stats and articles, anything that aides you in getting your client to understand their recall risk
• Send submissions to us productrecall@cfcunderwriting.com or crisismanagement@cfcunderwriting.com
• You don’t need complete recall applications! We are used to giving brokers rough indications, so send us what you have an we will work with it.
• Find out more www.cfcunderwriting.com/products/class/product-recall/

Other resources:
• Broker briefing http://eepurl.com/dGvhHD
• LinkedIn profiles – view full team on our CFC website page
Thanks for your time!