



Malicious product tampering and product extortion insurance

Malicious product tampering (MPT) and product extortion (PE) are perhaps the most financially damaging incidents a company can face. Few crimes are as easy to commit, as potentially dangerous to public safety, and as capable of causing significant commercial damage.

The extent of the damage caused by an actual or threatened malicious product tampering incident depends as much on the company's response to the incident as on the severity of the threat. Some degree of business disruption is inevitable, but if the immediate response is slow, inadequate or inappropriate, the problem may escalate and cost the company more to contain.

Liberty International Underwriters' (LIU's) Malicious Product Tamper Insurance policy covers the client against the financial loss associated with a malicious product tamper or product extortion event, including:

- recall costs
- product replacement costs
- loss of gross profit
- rehabilitation expenses
- product extortion monies
- consultants' and advisors' costs

Early response is critical in the event of an MPT or PE incident, and LIU's experienced crisis consultants are on hand 24/7 to assist and advise the client from the outset.

MPT and PE examples

The following well-known MPT and PE events illustrate the many and varied exposures faced by business of all types, and the importance of robust insurance protection.

Tylenol

In possibly the most infamous case of product contamination ever reported, in 1982, Johnson & Johnson's headache remedy Tylenol was deliberately laced with cyanide in the USA. Seven people died as a result of taking the contaminated capsules.ⁱ

Although the Tylenol product recall was handled successfully, the Tylenol incident cost the company more than US\$100 million post tax.ⁱ It is generally accepted that the 1982 Tylenol crisis propelled the crime of product tampering into the international area, the motives of the perpetrators being as varied as the MPT acts themselves.

Unfortunately, despite the introduction of tamper-evident packaging after the Tylenol case, several more deaths occurred in 1986 due to the consumption of cyanide-laden analgesic products.ⁱⁱ

Sizzler

When food at two Sizzler outlets in Queensland was found to be contaminated with rat poison in 2006, a woman was arrested and charged with two counts of contaminated food and four counts of an act intending to cause grievous bodily harm.ⁱⁱⁱ

All of Sizzlers' 28 restaurants nationwide were closed for between seven to 10 days in response to this breach in security, and cost the company millions of dollars in lost revenue.ⁱⁱⁱ

Panadol

In a two-million dollar extortion attempt against Smith Kline Beecham and Herron (the makers of Panadol), the extortionist threatened to lace the painkiller medication with strychnine if the companies refused to pay.^{iv}

The extortion resulted in the recall of various lines of Panadol product, and the recall costs were estimated to be about AU\$72 million. Police arrested and charged with extortion a man who fell ill with his wife after swallowing the contaminated products.^{iv}

Arnott's

In 1997, an extortionist threatened to contaminate Arnott's biscuits in Queensland and New South Wales (NSW) unless a prisoner, held in a Queensland jail, was released. Arnott's triggered a massive product recall and launched a massive publicity campaign, publishing the extortionist's demands in the media.^v

The recall alone cost the company approximately AU\$10 million.^v

Mars and Snickers

In 2005, tens of thousands of Snickers and Mars chocolate bars were withdrawn from sale in NSW after the manufacturer, MasterFoods, received a letter threatening to poison members of the public. The letter warned that up to seven Snickers and Mars bars in the Sydney metropolitan area had been contaminated. The letter followed two similar threats sent to MasterFoods a few months earlier.^{vi}

Police determined that the perpetrator was not trying to extort money from the company; instead, a third party was the target. MasterFoods cooperated with the police and used crisis and media management techniques to communicate the risks and keep the target public informed of developments throughout the seven-week recall campaign.^{vi}

Why choose LIU?

The LIU Crisis Management team is experienced in handling complex risk exposures and is able to craft tailored wordings to suit our clients' specific needs. Our crisis response consultants have 20 years' of experience in the food industry and are only a phone call away, and our claims team has been efficiently handling recall claims since 2009.

ⁱ Rehak, J and International Herald Tribune, *Tylenol made a hero of Johnson & Johnson*, (23 March, 2002), The New York Times, <<http://www.nytimes.com/2002/03/23/your-money/tylenol-made-a-hero-of-johnson-johnson-the-recall-that-started.html>>.

ⁱⁱ Schmidt, W, *Cyanide is found in a Tylenol pill*, (February 1986), The New York Times, <<http://www.nytimes.com/1986/02/28/us/cyanide-is-found-in-a-tylenol-pill.html>>.

ⁱⁱⁱThe Age, *Woman charged over Sizzler rat poison scare*, (2 March 2006), The Age, <<http://www.theage.com.au/news/national/woman-charged-over-sizzler-rat-poison-scare/2006/03/02/1141191757166.html>>.

^{iv} Schmetzer, U, *Suspect Jailed in Case of Tainted Painkillers, Extortion in Australia*, (22 December 2000), The Chicago Tribune, <http://articles.chicagotribune.com/2000-12-22/news/0012220243_1_extortion-plot-smithkline-beecham-poisoned>.

^v English, H, *Arnott's Doesn't Crumble Under Pressure*, (5 August 1997), The Ethics Centre, <<http://www.ethics.org.au/on-ethics/blog/august-1997/arnott-s-doesn-t-crumble-under-pressure>>.

^{vi}The Sydney Morning Herald, *Threat sparks Mars, Snickers bar recall*, (1 July 2005), The Sydney Morning Herald, <<http://www.smh.com.au/news/national/threat-sparks-mars-and-snickers-bar-recall/2005/07/01/119724802668.html>>.

Want to know more? Contact one of our specialist underwriters or visit www.liuaustralia.com.au

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