



## Why Consider Product Recall Insurance Q&A



**Liberty**  
International  
Underwriters

### Why Consider Product Recall Insurance Q&A

#### **Is Product Recall covered under a standard Public and Products Liability policy?**

In most cases Product Recall is excluded under Public and Products Liability policies. If some limited cover is provided via recall expense cover, the coverage limit provided is normally very small compared to the overall exposure.

As Public and Products Liability policies do not cover the client's own losses, there is no cover for replacement of the product, additional expenses to re-establish sales or loss of profits as a result of an insured event.

#### **What do I do if I have a contractual obligation to purchase product recall insurance?**

If you have a requirement by your distributors, retailers or wholesalers to hold product recall insurance we can provide coverage for the third party recall expense and loss of profits that these parties may incur as a result of an insured event.

#### **What are the changes by the Australian Competition and Consumer Commission (ACCC) regarding the recall systems in Australia?**

The Australian Consumer Law (ACL) introduced the new law relating to consumer product safety and in particular a mandatory reporting regime that requires suppliers to report consumer product recall incidents where death or serious injury or illness has resulted.

Mandatory reporting was introduced by the Australian Consumer Law (ACL) on 1 January 2011.

Suppliers are now required to submit a report within two days of becoming aware of a reportable incident.

As a result of the law suppliers need to be reviewing their current recall strategy and their recall policies and procedures.

The information in this document is presented by Liberty International Underwriters (a trading name of Liberty Mutual Insurance Company ABN 61 086 083 605 Incorporated in Massachusetts, U.S.A. The liability of members is limited). The claims examples are intended to illustrate broadly some, but not all, of the kinds of product recall exposures a business can face. How Liberty's policy responds to any circumstance will depend on the particular facts. Refer to the policy wording for the complete terms and conditions. The information about the policy coverage and consumer recall law and processes is general comment only on the subject matter, and should not be relied upon as advice or any definitive statement of law or the principles of insurance in any jurisdiction. This information is accurate as at 16 June 2011.

**What is Contaminated Products Insurance?**

In the event of an Accidental Contamination, Malicious Product Tamper or Product Extortion the LIU Contaminated Products Insurance policy can provide financial protection to businesses in the food, beverage, pharmaceutical and cosmetic industries.

**What are the Insured Events?**

- Accidental Contamination
- Malicious Product Tampering
- Product Extortion
- Government Recall
- Alleged Contamination
- Intentionally Impaired Ingredient
- Adverse Publicity

**What losses are covered?**

- Business Interruption
- Replacement Costs
- Recall Costs
- Third Party Recall Costs
- Consultants & Advisor Costs
- Rehabilitation Expenses
- Extortion Costs
- Statutory Fines & Penalties

**What is your target market?**

Businesses of all sizes who are involved in growing, manufacturing, importing, exporting, wholesaling, distributing and retailing food, beverage, cosmetics and pharmaceutical products.

**What is your minimum premium?**

Minimum premiums start at A\$ 4,000

**How large is a typical claim?**

Product recalls are not the most common of claims but the financial impact can be severe. Below are some actual examples of the potential impact of an incident:

<u>Product</u>	<u>Client's turnover</u>	<u>Size of claim</u>
Pre- prepared meals	A\$ 12m	A\$ 1.4m
Beverage	A\$ 9m	A\$ 1m
Snack Food	A\$ 6m	A\$ 250k
Dessert	A\$ 1.5m	A\$ 100k

### **Do you have any case studies of actual contamination incidents?**

The following case example is based on a real Product Recall event.

A manufacturer of chilled foods was contacted by their retailer customer, who advised several customer complaints had been reported of possible contamination of the dessert products.

As the manufacturer was a small company with a turnover of only several million dollars, the contamination incident had the potential to cause a large loss to its bottom line

LIU's Crisis Management consultants assisted the manufacturer in determining the cause of the suspected contamination. Once a contamination was identified, it was agreed that the products needed to be withdrawn from sale as they posed a threat of injury if consumed.

The following kinds and magnitudes of losses are typical of this type of incident:

Replacement Cost:	A\$ 53,500
Recall Cost:	A\$ 40,000
Loss of Profit:	A\$ 10,000
Transport Cost:	A\$ 5,000

Each case depends on its own facts, and this case example is provided only as an illustration of typical claim circumstances. These are all kinds of losses which could be covered by an LIU Contaminated Products Insurance policy.

### **How does LIU assist when a client has a recall?**

In the time of a crisis, the expertise of LIU's international Crisis Management consultants can help protect your clients' brands and business reputation. It is often how a client reacts in the critical first days, or even hours, of a crisis that can determine how severe a crisis will become. This is when the experience and expertise of our Crisis Management consultants is most useful, as they can provide advice and assistance to help deal with the crisis at hand.

To find out more call Liberty's Crisis Management Team:

Donna Niblock

Michael Lincoln

Tel: +61 3 9619 9832

Tel: +61 2 8298 5958

Or visit our website [www.liuaustralia.com.au](http://www.liuaustralia.com.au)