

Contaminated Products Insurance Questions & Answers



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Is Product Recall covered under a Public & Products Liability policy?

The financial impact of a product recall can be highly damaging. In many cases product recall expenses are excluded under standard Product Liability Insurance policies and therefore little, if any, cover is provided for a client's loss.

LIU's Contaminated Products Insurance policy may offer broader protection than recall expenses cover offered by standard Product Liability Insurance policies. In addition, LIU's Contaminated Products Insurance policy can be varied to meet the specific needs of an organisation, including additional cover and limits to match exposures.

Recall expenses offered by standard Product Liability Insurance policies often cover a very small proportion of the actual recall costs a client suffers arising from a recall incident.

The substantial differences between the coverage provided by a standard Product Liability Insurance policy with recall expenses cover and LIU's Contaminated Products Insurance policy are outlined below:

Cover	LIU's Contaminated Products Insurance	Recall Expenses offered by a standard Product Liability Insurance policy
Recall Costs	✓	✓
Third Party Recall Costs	✓	✗
Replacement Costs	✓	✗
Rehabilitation Expenses	✓	✗
Business Interruption	✓	✗
Pre Recall Costs	✓	✗
Consultant and Advisor Costs	✓	✗
Product Extortion Costs	✓	✗
Statutory Fines and Penalties	✓	✗

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The actual recall costs of an incident are most often the smallest costs incurred as a result of a recall incident. The expensive items usually include replacing the product and loss of profits.

The table below sets out the typical split of losses that we see in a recall incident:

Covered Losses	% of cost
Recall Costs (including advertising, transport and destruction)	5%
Retailers Recall Costs	31%
Replacement	21%
Loss of Profit	37%
Rehabilitation Expense	6%

What is Contaminated Products Insurance?

In the event of : 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
- Adverse Publicity
- Government Recall
- Intentionally Impaired Ingredients

What losses are covered?

- Business Interruption
- Replacement Costs
- Recall Costs
- Third Party Recall Costs
- Consultant and Advisor Costs
- Rehabilitation Expenses
- Extortion Costs

What are some typical claims examples?

The following case examples are based on a real Product Recall event.

Scenario 1

An LIU Insured was an importer and distributor of spring rolls, with an estimated turnover of \$ 7m. The spring rolls were manufactured in China and the supplier in China substituted what was meant to be vegetable oil with peanut oil.

The product (which was not labelled as containing peanuts, as our Insured was unaware this had been included) was consumed by a person with a peanut allergy and they subsequently suffered an allergic reaction.

LIU's Crisis Management Consultants assisted our Insured in determining the cause of the suspected contamination. Once the contamination was identified, it was agreed that the products needed to be recalled 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:	\$ 141,000
Recall Cost:	\$ 55,000
Loss of profit:	\$ 124,000
Rehabilitation Expense:	\$ 20,000

Scenario 2

An LIU Insured was a manufacturer of frozen meals, with an estimated turnover \$ 12m

The product was subject to a contamination by various foreign matter, including metal objects and plastic gloves. Approx. 25 lines were affected.

LIU's Crisis Management Consultants assisted our Insured in determining the cause of the suspected contamination. Once a contamination was identified, it was agreed that the products needed to be recalled 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:	\$ 800,000
First Party Recall Cost:	\$ 165,500
Third Party Recall Costs:	\$ 200,000

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.

Scenario 3

An LIU Insured was a manufacturer of cake mix, with an estimated turnover \$ 34m. The product contained imported Cocoa Powder which had been contaminated by sesame seeds.

The product, which was not labelled as containing sesame seeds, was consumed by a person with a nut allergy, and that person subsequently had an adverse reaction.

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

Replacement Cost:	\$ 187,300
Recall Cost:	\$ 79,000
Advertising:	\$ 88,000
Other (testing etc.)	\$ 30,700

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.

Want to Know More?

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