



# Contaminated products insurance

## Questions & answers

### Why purchase LIU's Contaminated Products Insurance?

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.

Liberty International Underwriter's (LIU's) Contaminated Products Insurance (CPI) policy may offer broader protection than recall expenses cover offered by standard Product Liability insurance policies. In addition, LIU's CPI 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 that a client suffers as a result of a recall incident.

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

	LIU CPI	Standard Product Liability insurance
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	✓	✗

The actual recall costs typically represent a small proportion of the total costs incurred as a result of a recall incident: the expensive items usually include product replacement and the loss of profits.

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

	<b>Proportion of total</b>
Recall costs (including advertising, transport and destruction)	5%
Retailers recall costs	31%
Replacement	21%
Loss of profit	37%
Rehabilitation expense	6%

## What is CPI and what are the insured events?

LIU's CPI policy can provide financial protection to businesses in the food, beverage, pharmaceutical and cosmetic industries in the event of:

- 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
- Rehabilitation expenses
- Extortion costs

## What is a typical loss?

The following scenarios are based on actual product recall events and the costs are illustrative of typical losses associated with contaminated product events. All of these losses could be covered by an LIU CPI policy.

### Scenario 1

An LIU client was an importer and distributor of spring rolls, with an estimated turnover of \$7 million. The spring rolls were manufactured in China and, unbeknown to the client, the supplier in China substituted peanut oil for vegetable oil.

The product (which was not labelled as containing peanuts) was consumed by a person with a peanut allergy who subsequently suffered an allergic reaction.

LIU's Crisis Management consultants assisted the client 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, since they posed a threat of injury if consumed.

The following losses are typical of this type of incident:

Replacement cost	\$141,000
Recall cost	\$55,000
Loss of profit	\$124,000
Rehabilitation expenses	\$20,000

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## Scenario 2

An LIU client was a manufacturer of frozen meals, with an estimated turnover of \$12 million.

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

LIU's Crisis Management consultants assisted the client 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, since they posed a threat of injury if consumed.

The following losses are typical of this type of incident:

Replacement cost	\$800,000
First party recall cost	\$165,500
Third party recall costs	\$200,000

## Scenario 3

An LIU client was a manufacturer of cake mix, with an estimated turnover \$34 million. 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 losses are typical of this type of incident:

Replacement cost	\$187,300
Recall cost:	\$79,000
Advertising	\$88,000
Other (such as testing)	\$30,700

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

In the event of a crisis, it is the client's response in the critical first hours and days that will determine the impact of the crisis on the business. This is when the experience and expertise of LIU's Crisis Management consultants is crucial: they can provide advice and assistance to help deal with the crisis at hand and help protect our clients' brands and business reputation.

To find out more, call LIU's Crisis Management team:

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