

Product Recall Insurance: Are you Really Covered?



Welcome to the OnTrak with FSMA Webinar Series

Product Recall Insurance: Are you Really Covered?

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Food-Borne Illness Statistics 2014

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- 48,000,000 people in U.S. (1 in 6)
- 128,000 people hospitalized
- 3,000 people died
- Illnesses include:
 - Campylobacter
 - Listeria
 - Salmonella
 - E. coli
 - Cyclospora
 - Botulism
 - Norovirus



Food-Borne Illness Sources

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- Produce (46% of total)
- Poultry (most deaths)
- Ham
- Turkey
- Beef
- Dairy
- Eggs
- Seafood
- Nuts
- Lettuce
- Spinach
- Cantaloupe
- Onions
- Peppers
- Pistachios
- Peanuts
- Peanut butter



Government's Increased Role

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- Preventive controls
- Inspection and compliance
- Response
- Imported food safety
- Partnerships with other regulatory bodies
- Result = more recalls

FDA FOOD SAFETY
MODERNIZATION ACT



Changes Underway

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- Retailers and wholesalers are transferring financial risk to their suppliers
 - Requiring vendor supply agreements with tight indemnification and hold harmless wording
 - Requiring proof of financial ability to pay costs of potential losses, usually by having insurance protection and naming customer as additional insured
 - Realizing their vendors supply multiple customers which dilutes the amount of insurance available to any single customer



Vendor Supply Agreements – Risk Transfer

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Vendor accepts full responsibility through unlimited liability risk transfer:

“Seller shall reimburse Buyer for all costs and expenses incurred by buyer in recalling product.”



Insurance requirements in vendor supply agreements are being amended to require vendor to have general/product liability, umbrella liability and product recall liability insurance.

Vendors are protecting themselves by using similar risk transfer agreements and insurance requirements with vendors in their supply chain.

The Need For Product Recall Coverage

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- **Satisfy contractual requirements with customers**
- **Increasing product recall frequency and severity**
- **Complex supply chains**
- **Just-in-time manufacturing**
- **Better supply chain traceability and detection**
- **Food Safety Modernization Safety Act (FSMA)**

Meat Recall Loss Event

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- Manufacturer of meat products did not buy product recall liability insurance. Their contaminated meat made people sick. The company issued a major recall in more than 25 states.
- The company exhausted all financial resources and were forced to seek outside investment to stay in business.



Dairy Recall Loss Event

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- Manufacturer of dairy products did not buy product recall insurance. They recalled all products after discovering listeria contamination at multiple manufacturing locations. They destroyed the contaminated products and were out of production for more than six months while they cleaned the plants to eliminate the source of contamination.
- The company exhausted all financial resources and had to seek help from new equity investors to stay in business.



Fruit Processing Recall Loss Event

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- A century-old fruit processing cooperative filed for Chapter 11 bankruptcy following a contaminated product recall. The direct costs associated with the recall and the interruption to its business resulted in a loss of \$21 million.
- At bankruptcy, the company had \$69.6 million in assets vs. \$73.4 million in debt but was unable to service debt or repay creditors. The co-op ceased operations resulting in 610 employees losing their jobs and 140 members of the fruit co-op to lose a customer.



Nut Recall Loss Event

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- A producer of organic peanut butter, closed its doors and filed for Chapter 7 bankruptcy following a Salmonella outbreak. The product recall included more than 100 nut and peanut products distributed across the country.
- The Food and Drug Administration (FDA) used its newly authorized power under the FSMA to shut down the company's operations. The subsequent bankruptcy is widely attributed to this mandated shutdown. According to the bankruptcy filings, the company had between \$10 and \$50 million in assets and between \$50 and \$100 million in liabilities. They had not purchased adequate insurance limits in relation to the scope of their operations.

What Does Product Recall Insurance Cover?

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- Accidental Product Contamination & Mislabeling
- Malicious Product Tampering
- Product Extortion Demand



Insure Product Recall Expenses

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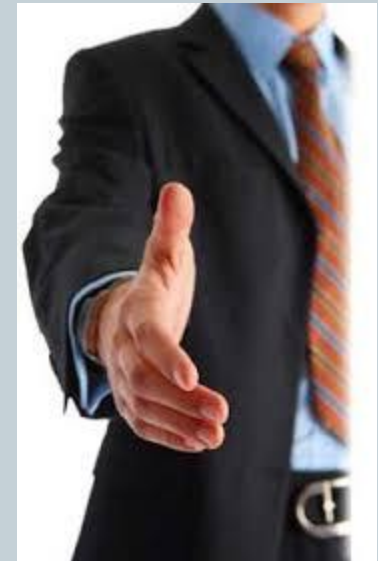
- Determining Cause
- Analysis
- Lab Testing
- Crisis Consultants
- Media Costs
- Loss of Gross Income
- Cleaning Costs
- Rehabilitation Costs
- Disposal Costs
- Slotting Fees
- Transportation Costs
- Storage Costs
- Replacement Costs
- Redistribution Costs
- Staff Overtime Costs
- Customer Loss of Income



Product Recall Coverage Extensions

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- Accidental Contamination
- Malicious Contamination
- Product Extortion
- Rehabilitation Expenses
- Recall Expenses
- Extra Expense
- Gross Profit Loss
- (Crisis Response) Investigation Expense
- Adverse Publicity
- Governmental Recall
- Third Party Recall Liability



Product Recall Coverage Triggers

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- **Proof the insured product was contaminated and could result in bodily injury or property damage within the time period stated in the policy.**
- **Timely notice to insurers of suspected loss is CRITICAL to protecting the insured's rights under the policy.**



Questions?

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Industry Standard Food Safety Platform



ReposiTrak

Trusted Brand Protection

Co-founders



Two Components



**Compliance
Management**

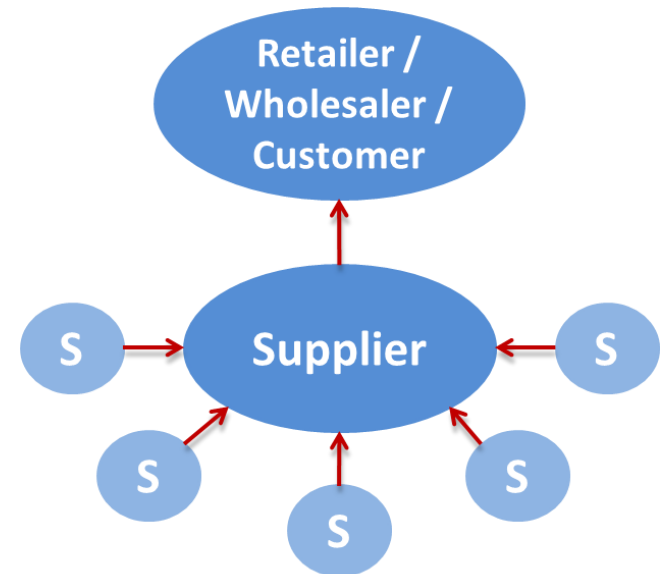


Track & Trace

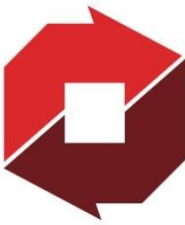


1-Stop System for All Compliance Records

- Supplier & corporate records
- Dashboards and automated, proactive exception-based alerts
- Incredibly flexible
 - Choose/create supplier classifications
 - Customize document requirements
- A rapidly growing community



For your entire supply chain



Our Active Approach? A Dedicated Team



- We provide a dedicated staff
- We clean AND build your supplier contact list as part of ReposiTrak's implementation
- We reach out to every supplier and follow up until implementation is complete
- We ACTIVELY follow up with suppliers to correct non-compliance

70%

**Average decline in
Non-Compliance
among new users
on ReposiTrak**

