

# Crisis Control Newsletter



Crisis Control Newsletter from RQA, Inc.—A Catlin Preferred Provider to Foodservice, Food Processing and Consumer Products Industries

March 2011  
Volume U0311 Issue 1

## **Product Recall Insurance—Where's the Risk?**

Product recall insurance policies have traditionally addressed first party exposures while limiting third party coverage to the direct expense incurred to physically affect the recall. The peanut recalls of 2009 and more recently the HVP recalls of 2010 demonstrate that damage can be far greater than recall expenses alone. The recall insurance marketplace, recognizing this limitation, has recently begun offering various elements of broadened third party coverage.

### **First Party Risks – Branded Products**

First party risks are typically those risks and losses that a company might directly incur. These exposures can be broadly categorized as direct costs associated with the recall of the product including; notification costs, shipping, warehousing, employee overtime, testing and similar extraordinary costs incurred to affect the physical act of the recall. The replacement value of the recalled product, as well as destruction costs, are other examples of direct costs. Generally, these types of direct costs are quantifiable and may be confined to a batch, lot or production run.

A far more volatile aspect of risk lies with the first party business interruption and extra expense exposures faced due to a reduction in consumer confidence. Certain influences largely outside of a company's control can cause devastating long term damage. Factors such as who was injured (was it a child?), what type of injuries occurred (death?), how wide spread any damage or illness may have been and even whether or not it was a "slow" news day, will all play a significant roll in determining damage done.

The long term affects of a damaged reputation can have long term affects on profits. Those effects will be felt until the recalling company is able to demonstrate not only that the situation has been resolved and the affected products have been removed from store shelves, but also that the company has addressed the root cause of the recall.

### **But what happens when the loss is caused by contract manufacturer or supplier?**

Third party risks are those exposures that are faced as a result of liability to others. Typically, these liability losses are as a result of property damage or for injuries and are covered under product liability policies. However, product liability policy routinely exclude consequential losses and damages related to recall expenses and other financial damages including third party loss of profits and brand rehabilitation damage.

The third party exposure to product recalls can be more difficult to quantify. In addition to recall expenses, they can include a customer's loss of profits and extra expenses incurred not only to the affected product, but also to other products your customer may sell. Companies providing component parts or ingredients, as well as contract manufacturers have the greatest exposure to third party recall losses. The contamination of an ingredient, however small or insignificant, will affect the entire product, rendering it useless.

Whether addressing these exposures through insurance, self insurance or supplier contracts, it is important to recognize where your exposures are and where they are coming from. The market now has several new and unique ways to protect your company for damage caused by others or for that matter, the damage you may cause to others.

By: *Bernie Steves*

## **Risk Management**

When a company's recall strategy fails or is not executed effectively and efficiently, the loss to a company can be devastating. Not only are the financial losses substantial but also the effects of loss in customer and consumer confidence can significantly damage the financial well being of the brand and the company for years to come. The longevity and livelihood of the company can be seriously jeopardized if a company does not have an effective recall plan or follow good manufacturing practices. Every company should have a well-documented and practiced recall plan.

When a recall draws media attention, the company will have to be prepared to face a battery of challenging questions. Timely and accurate communication is essential. It is important that everyone understands the potential danger and the measures the company is taking to minimize or eliminate the danger.

A trained spokesperson will need to be sure to address the issues with sincerity and genuine empathy and still maintain a level of professionalism that doesn't appear to be cold or uncaring. All employees should be made aware that any media questions should be directed to the company spokesperson. A public relations firm and crisis management consultants can assist a company during a recall to ensure that all critical steps are taken so that the company's brands and image are protected.

Product recalls are and will continue to be a growing threat to both short- and long-term profitability to companies in a wide range of industries. Properly analyzing the exposure is the first step in preparing an effective response which includes developing the appropriate insurance program response, as well as minimizing long-term damage through pre-incident planning. It is also important to ascertain if a company's suppliers have insurance to cover recall incidents.

The product recall insurance marketplace is a specialized market dominated by a handful of insurers. Aligning the insured with the proper coverage, preparedness and crisis support is key in how well a company weathers a recall storm.


**Food and Drug Administration Recalls (www.fda.gov)**

**Product:** Salmon  
**Incident:** Possible Health Risk—*Listeria Monocytogenes*

A Miami, FL firm has issued a voluntary recall of Scotch Reserve Whiskey & Honey Smoked Scottish Salmon in 4 oz packs due to potential contamination with *Listeria Monocytogenes*. The problem was discovered after routine sampling by the Florida Department of Agriculture and Consumer Services. A 4 oz package tested positive out of 3 packages sampled. The 600 lbs of product subject to recall were distributed and sold only in stores located in FL, NC, SC, TN, GA, VA, KY, AL, IN, IL, OH, LA, MC, AR, WI, MS, PA, MA, CT, NY. *Listeria monocytogenes* is an organism that can cause serious and sometimes fatal infections in young children, frail or elderly people, and others with weakened immune systems. Healthy persons may suffer only short term symptoms such as high fever, severe headaches, stiffness, nausea, abdominal pain and diarrhea. Consumers should not consume this product and should return it to the retailer for a refund. Consumers with questions should contact the company directly.

**Product:** Strawberry Banana Smoothies  
**Incident:** Possible Health Risk—*Undeclared Allergen*

A Orrville, OH company is voluntarily recalling a specific lot of strawberry banana smoothies because it contain peanuts, an undeclared allergen. The potential issue was discovered by the manufacturer while conducting flavor comparisons between lot numbers of smoothies. The company is removing this lot of product from the market out of an abundance of caution. People who have allergies to peanuts run the risk of serious or life-threatening allergic reaction if they consume this product. The company is notifying customers of the voluntary recall by phone and in writing. Consumers who have purchased this product should return the container to the place of purchase for a refund. There have not been any reports of allergic reactions or illnesses associated with this product. Consumers with further questions should contact the company or visit their website for further details.


**United States Department of Agriculture Recalls (www.usda.gov)**

**Product:** Ground Beef Products  
**Incident:** Possible Health Risk—*E. Coli O157:H7*

A Pico Rivera, CA establishment is recalling approximately 3,170 pounds of fresh ground beef patties and other bulk packages of ground beef products that may be contaminated with *E. coli* O157:H7. FSIS inspection personnel were made aware of the problem when contacted by another federal regulated establishment who believed they had received suspect product. The products were produced on January 31, 2011 and were distributed to restaurants throughout southern California. FSIS and the establishment are concerned that some product may be frozen and in restaurant freezers. *E. coli* O157:H7 is a potentially deadly bacterium that can cause bloody diarrhea, dehydration, and in the most severe cases, kidney failure. Anyone concerned about an illness should contact a physician. Consumers and media with questions regarding this recall should contact the company.

**Product:** Barbecue Pork Products  
**Incident:** Possible Health Risk—*Undeclared Allergen*

A Guntersville, AL establishment is recalling approximately 4,680 pounds of barbecue pork products because they contain an undeclared allergen, whey. Whey is a known allergen, which is not declared on the label. The barbecue pork products were packaged in 5-lb. vacuum sealed packages between November 30, 2010 through February 8, 2011. They were then shipped to wholesalers that distributed to restaurants in AL, GA, MS, and TN. The problem was discovered by FSIS during a routine inspection, and may have occurred because of a change in ingredients at the establishment. There have not been any reports of adverse reactions due to consumption of these products. Individuals concerned about an allergic reaction should contact a physician. Consumers and media with questions about the recall should contact the company's owner.


**Consumer Product Safety Commission Recalls (www.cpsc.gov)**

**Product:** Vacuum Cleaner  
**Incident:** Hazard—*Fire and Shock*

A Glenwillow, OH importer is voluntarily recalling about 142,000 vacuums manufactured in China. The vacuum is silver and black in color and comes with a power nozzle. The recalled products were sold at mass merchandisers, department stores and independent vacuum retailers nationwide and online from March 2003 to December 2008. The power cord between the power nozzle and the wand connector can short-circuit posing fire and shock hazards to consumers. This condition can occur even if the vacuum has been turned off but left plugged in. The company has received 69 reports of overheating or electrical malfunction, including one report of fire and smoke damage, and two reports of carpet damage. There has been one report of a minor injury. Consumers should immediately stop using the recalled vacuum cleaners and contact the company for a free repair. Consumers should contact the company for more information.

**Product:** Baby Monitors with Cords  
**Incident:** Hazard—*Strangulation*

A Woonsocket, RI company in cooperation with the CPSC is recalling approximately 1.7 million video baby monitors with electrical cords manufactured in China. The monitors were sold nationwide in over 40 different models. The cords on these monitors can present a strangulation hazard to infants and toddlers if placed too close to a crib. Because of this strangulation risk, these and other corded cameras should never be placed within 3 feet of a crib. Over the past year the CPSC and the firm have received reports of two strangulation deaths of infants with the electrical cords of these video baby monitors. There has also been a near strangulation incident in which the child was freed without serious injury. The company has initiated a campaign to provide new on-product labels for electric cords and instructions to consumers with the recalled video monitors distributed between Jan 2003 and Feb 2011.

**Crisis Control is a newsletter jointly published by RQA, Inc. & Catlin Group.**

For more information about these topics and more, please contact:

**Carol Kozlowski, CPIM**  
 Manager of Crisis Management, RQA, Inc.  
 Phone: 708-364-7060, x129  
 Email: c.kozlowski@rqa-inc.com



www.rqa-inc.com

**London, UK:**  
**Neil Evans:** neil.evans@catlin.com  
**David Burke:** david.burke@catlin.com  
**Stuart Allen:** stuart.allen@catlin.com  
**Ian Bailey:** ian.bailey@catlin.com  
**Email:** CrisisManagement@catlin.com  
**Atlanta, US:**  
**Jamie Hall:** jamie.hall@catlin.com

**CATLIN**

www.catlin.com