

Product recalls can be costly, but many businesses do not buy coverage

By Erin Ayers, Advisen

From vehicles to mobile phones to nut butter, product recalls have the potential to seriously affect businesses' bottom lines, but many organizations don't realize the need for product recall insurance, according to Florian Beerli, senior vice president at Chubb.

"There's a lack of education and understanding of what the coverage does cover," Beerli said in a recent interview with Advisen. Some manufacturers may feel they have coverage for costs related to recalling and replacing products along with financial loss through their product liability coverage. This common mistake leaves businesses open to increased risk, according to Beerli.

"They underestimate the cost," he said. "A recall can put a company out of business. It becomes a risk management tool."

Looking at the rate of product recalls from 2010 to 2015, the overall number of recalls has declined from 427 in 2010 to 410 in 2015 with the Consumer Product Safety Commission (CPSC) and from 3,700 in 2010 to 2,789 in 2015 with the Food and Drug Administration (FDA). However, regulatory inquiries and warning letters from the FDA have increased, as have the letters of advice from the CPSC.

"You have the good years and bad, and you always have some spikes. I think 2016 is going to look similar to 2010 in that recalls have gone up again," said Beerli.

And 410 recalls in 2015 still represents more than one recall a day – many simply don't receive media attention to alert businesses to the risks of product recalls.

A small number of US manufacturers buy product recall insurance, Beerli said. Historically, food and beverage companies most frequently purchase – a look at the FDA's tally for 2016 shows the clear need for those manufacturers to be prepared for unexpected problems.

Other organizations buy coverage as a contractual obligation to business partners, Beerli said. However, that strategy could leave companies without coverage across their entire product line if they only focus on one contract.

High-profile product recalls tend to prompt a rise in interest in product recall coverage, and the potential crossover with cyber risk has created additional concerns for manufacturers.

"Can a cyberattack result in a recall? Yes, it can," said Beerli. The risk depends on the industry and he advised organizations to consider product recall, cyber coverage, and technology errors and omissions.

"If you have all three policies, you really cover the whole nine yards," he said. The key is for organizations to truly understand their first-party exposure, insure against loss and act quickly to avoid loss. Product recall coverage, which can be quite broad, could prevent further complications.

"It's the first line of defense. The faster you react, you may minimize or even eliminate a liability loss," said Beerli.

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