

# PRODUCT RECALL

## – a very public crisis

Product recalls happen every day, affect companies large and small, and involve products of every imaginable type, from children's toys to food, appliances to furniture, and everything in between.

Since a product defect can happen to any company, it is not so much the fact of the defective product that remains etched in the public memory, but how the company was seen to respond to the crisis. Were they in denial, ignoring the problem, or worse, did they try and hide the problem in the hope that the storm would blow over?

No company relishes the prospect of a potentially expensive product recall, since it could be seen as very public admission of guilt, carrying the threat of legal action. Product recall costs can be considerable, and may include the costs of removing the product from the market place, repairing or possibly replacing shelf stock, loss of sales and profits, as well as the very real costs of a damaged business reputation.

Large companies might have the reserves to ride out a crisis, but for small-to-medium businesses, a product recall might just push them to the wall. Yet a rapid and definitive response by the company can limit damages and help stop them spiralling needlessly out of control.

### Plan ahead

Forward planning is important. Developing a water-tight, practical crisis plan to deal with the unthinkable can help management navigate the first hours, days and weeks of a crisis. A good crisis plan should also provide a blueprint for dealing with the press, a disgruntled supply chain or demanding customers, thereby averting panic and knee-jerk, poorly considered responses.

Insurance is another crucial part of crisis management forward planning. Stand-alone crisis management (product recall and/or contaminated product) cover can be bought in addition to traditional liability insurance. It is also advisable to share feasible crisis scenarios and

the company crisis plan with the insurer **before** a crisis happens, so that they are prepared for potential claims arising.

### Respond rapidly and follow the plan

It's easier to scale back a product recall than to initiate one, and a delay in response can make things worse for a company. If later investigation uncovers the fact that there was a period during which the company failed to recall a product they suspected or knew to be faulty, they can expect trouble in the form of legal action, customer boycott, unwanted media attention or reputational fall-out, or a combination of all these and more. The digital age is brutal, and criticism through social media platforms is the new, very public soapbox for the masses.

### If it can happen to them...

Most product recalls happen without fanfare, but in recent years, a few have endured wide media coverage and public commentary.

## IKEA Malm dressers

Eight children have died since 1989 as a result of injuries from overturned dressers. Although IKEA first recalled the dressers in 2016, and advises customers who retain a recalled dresser to anchor it to the wall, the latest death occurred in May 2017, prompting a [repeat recall](#) of 17.3 million chests and dressers in November 2017.<sup>i</sup>

## Mattel's toy recall

Mattel made [product recall history](#) when, in 2007, it recalled more 430,000 toys made in China after they were found to be coated with lead paint. They followed up with a recall of 18.2 million more toys when their magnets were deemed to be a choking hazard.<sup>ii</sup>

## Takata airbags

Around seven million vehicles worldwide have recently been recalled because of faulty [airbags](#). The problem lies with faulty inflator and propellant devices that, when deployed, may shoot metal fragments into vehicle occupants, causing injury or death. Since Takata announced the fault in 2013, many vehicle brands (including Toyota, Honda, Nissan, Mazda, BMW and General Motors) have joined the recall list, with an estimated 42 million vehicles affected in the US alone.<sup>iii</sup>

## Infant milk formula

As recently as December 2017, a salmonella scandal involving French company Lactalis resulted in the recall of more than 12 million boxes of [powdered baby milk](#) in 83 countries after salmonella was discovered at a factory. Lawsuits have been filed by parents who say their children became unwell after drinking the formula.<sup>iv</sup>

The company has said they believe the contamination was caused by renovation work at their Celia factory in Craon, in north-west France. The French government has warned the company to expect penalties over its handling of the affair. They also threatened to impose sanctions against several major supermarket chains that had continued to sell potentially contaminated product.

## Chocolate, peanut butter and chilli powder

[Cadbury-Schweppes](#) recalled more than a million chocolate bars in a 2006 Salmonella scare in the UK and Ireland.<sup>v</sup> The recall cost the company approximately GBP20 million and was followed by a 14% slump in sales in four weeks.

In 2008 and 2009, a massive [outbreak of salmonella](#) affecting 700 consumers was traced to King Nut creamy peanut butter, forcing a voluntary recall by the Peanut Corporation of America of all peanuts and peanut products.<sup>vi</sup> At the time, it was estimated that more than 2833 products made by other companies, but containing the recalled products, may have been affected.

In the UK, more than 580 products containing chilli powder contaminated with the [carcinogen Sudan 1](#) were recalled in 2005, with UK retailers including Safeway, Morrisons and Iceland and food brand Birds Eye suffering huge losses.<sup>vii</sup>

## ...it can happen to you

It is clear that no genre of product is exempt from defects or contamination which could trigger a recall, and that size, market share or high brand profile offers no protection for companies.

The Liberty International Underwriters (LIU) Crisis Management team has two decades of experience in helping companies prepare for their real-world crisis exposures. We are able to craft wordings to suit individual client needs, and we are able to make decisions rapidly and decisively – very important when things take a turn for the worst.

LIU's PRplus product is designed specifically to insure against the costs of recalling commercial and domestic durable products, and offers broader cover than the traditional extension to a general liability policy. Covered losses include recall costs (incurred by both retailer and customer); refund, replacement and repair costs; loss of profits; and consultant and advisor costs. Typical products include toys and bicycles; electronics and white goods; power tools; home and office furniture; pool supplies; and clothing.

LIU's Contaminated Products policy can also be tailored to suit clients' unique needs. Its broad wording includes cover for alleged and accidental contamination; malicious product tampering; product extortion; government recall; and adverse publicity. Covered losses include retailer and customer recall costs; refund and replacement costs; loss of profits; and consultant and advisor costs. Target markets include food, beverage, pharmaceutical and cosmetics companies.

All LIU Crisis Management clients have access to a 24/7, 365 days-a-year Crisis Response Management hotline. The hotline is staffed by multilingual specialist crisis response staff who can advise and assist them through an emergency crisis. Within an hour of their call to the hotline, LIU clients can expect to be contacted by a trained crisis response consultant, who

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will discuss the strategy for managing the early stages of the crisis.

As a service to brokers and our clients, LIU regularly publishes a product recall monitor that gives details – product, location and cause – of the latest [product recalls in Australia](#) and [Asia](#).

## More about LIU

LIU is part of the specialty risks division of global Liberty Mutual Insurance – a Fortune 100 company with an S&P rating of 'A' (strong) – established over a century ago in Boston.

LIU Asia Pacific employs more than 300 staff in offices across Australia, as well as in Singapore, Hong Kong, and Kuala Lumpur, and offers core products in Casualty, Professional & Financial Risks, Marine, Energy, Property, Construction, Surety, Environmental Liability, Accident & Health, and Crisis Management insurance.

To find out more about LIU Crisis Management solutions, or to contact one of our experienced crisis management underwriters, visit <http://www.liuaustralia.com.au/products/crisis-management-solutions>, <http://www.liusingapore.com.sg/products/crisis-management-solutions/>, <http://www.liuhongkong.com.hk/products/crisis-management-solutions/> or <http://www.liumalaysia.com.my/products/crisis-management-solutions/> today.

<sup>i</sup> News Corp Australia, IKEA recalls 17 million chests after eight children die from falling furniture (22 November 2017) News.com.au <<http://www.news.com.au/lifestyle/home/interiors/ikea-recalls-17-million-chests-after-eight-children-die-from-falling-furniture/news-story/c32b437219155b7c906c0fd050b178e99>>.

<sup>ii</sup> Story, L and Barboza, D, Mattel Recalls 19 Million Toys Sent From China (15 August 2007) The New York Times <<http://www.nytimes.com/2007/08/15/business/worldbusiness/15imports.html>>.

<sup>iii</sup> Atiyeh, C and Blackwell, R, Massive Takata Airbag Recall: Everything You Need to Know, Including Full List of Affected Vehicles (18 January 2018) Car and Driver <<https://blog.caranddriver.com/massive-takata-airbag-recall-everything-you-need-to-know-including-full-list-of-affected-vehicles/>>.

<sup>iv</sup> Willsher, K, Lactalis to withdraw 12m boxes of baby milk in salmonella scandal (15 January 2018) The Guardian <<https://www.theguardian.com/world/2018/jan/14/lactalis-baby-milk-salmonella-scandal-affects-83-countries-ceo-says>>.

<sup>v</sup> Walsh, F, Salmonella outbreak costs Cadbury GBP20m (3 August 2006) The Guardian <<https://www.theguardian.com/business/2006/aug/03/food.foodanddrink>>.

<sup>vi</sup> Centers of Disease Control and Prevention, Multistate Outbreak of Salmonella Typhimurium Infections Linked to Peanut Butter, 2008-2009 (FINAL UPDATE) (11 May 2009) CDC <<https://www.cdc.gov/salmonella/2009/peanut-butter-2008-2009.html>>.

<sup>vii</sup> William Reed Business Media Ltd, Sudan 1 recall peaked? (10 March 2005) FoodNavigator.com <<https://www.foodnavigator.com/Article/2005/03/10/Sudan-1-recall-peaked>>.