

## Claims Scenarios



In the past few years there has been a noticeable increase in product recalls and the media's attention to them across the globe. Whether it is a manufacturer of finished goods or an importer of consumer, commercial or industrial products, the threat of a recall cannot be ignored. Below are some examples of recent product recalls.

### As a Result of Human Error

- A snack food manufacturer's operations include the co-packaging of a name brand cookie. Despite the manufacturer's superior scores from a well-known third-party auditor, human error led to the mislabeling of a batch of the cookies—the batch was not labeled as containing nuts. Mislabeling of an allergen runs the risk of imminent bodily injury, so the company recalled the batch. The insurer paid approximately \$700,000 including the company's recall expenses and loss of income.

### As a Result of Faulty Manufacturing

- A manufacturer and marketer of over-the-counter medication recalled over 500,000 tubes of a topical cream because the tubes were not adequately coated by the tube manufacturer. Without adequate coating, the tubes were porous and permitted air to enter causing the topical cream to become extremely potent. Losses paid by the insurer exceeded \$350,000.

### As a Result of the Threat of Disease

- A fish and food processor expected to spend about \$35 million to cover costs associated with a recall of chili sauce and other products out of a U.S. unit because of a botulism scare. The costs included product recall, destruction, effectiveness checks, quality inspections, consumer reimbursement, professional services, factory shutdown and start-up costs. The company's chief executive anticipated monthly distribution to resume six months after the incident.

### As a Result of Bacteria Contamination

- A food processing and packaging company recalled thousands of jars of peanut butter in more than 60 countries after it was discovered that the peanut butter led to an outbreak of salmonella. As a result of a rainstorm and two instances of faulty sprinklers at one of the company's plants, moisture mixed with dormant salmonella bacteria and came in contact with the peanut butter before it was packaged. The recall cost the company \$66 million and it spent over \$15 million to renovate the plant where the peanut butter was manufactured.

### As a Result of Chemical Contamination

- A manufacturer and supplier of wet pet food recalled 60 million cans after it was revealed that the wheat gluten used in production was tainted with melamine, a nitrogen-rich chemical used in the production of plastic. The melamine was discovered only after hundreds of reports of pets becoming sick or dying after eating the wet pet food were made public. The recall cost the company \$42 million in addition to the \$30 million loss it experienced in sales. Numerous class action lawsuits are now pending in the U.S. and Canada.

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