Product Recall Basics

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PRODUCT RECALLS can occur in any industry, ranging from a manufacturing defect to food contamination. They can be devastating to the company's bottom line as well as public image. Many smaller companies have been bankrupted due to product recalls. Product recall insurance is an important tool that can help a company alleviate the sometimes substantial costs of customer notification, return shipments, repairs and replacements. Educating clients on the impact of product recalls, and the coverage available, is another sign of the true insurance professional.

At best, a product recall can be embarrassing and expensive. At worst, it can lead to bankruptcy, as has been the case for many smaller companies. When a product is recalled, the manufacturer must pay to notify customers, reimburse return shipping costs, destroy or repair/replace the affected product. While the product may be fixed, the company's reputation may not be so easy to restore.

In 2015, Blue Bell, one of the most popular ice cream companies in the United States, recalled all of their products made at all of their facilities due to potential listeria contamination, costing the company an estimated $200 million. The company laid off over 1400 employees, and reduced the number of products and states they are available in. It is believed that the listeria contamination was known as early as 2010, but the company was slow to respond. The Texas state health department imposed $850,000 in fines, and the Federal Department of Justice put the company under investigation. A second listeria recall occurred in 2016.

The global economy may increase the potential for product mishaps. Overseas manufacturing may have less stringent safety and quality controls than plants in the United States. For example, in 2007 Mattel recalled nearly 1 million Chinese-made toys that were made with lead paint, even though the use of lead paint had previously been banned in the United States.

As far as actual numbers, one of the largest recalls to date involves Takata airbags. Over 100 million vehicles and 24 different manufacturers were affected. In 2009, Toyota had a problem with pedals that got stuck, and cars that accelerated dramatically. The recall involved over 9 million vehicles and resulted in more than $1 billion in fines. General Motors has had a multitude of costly recalls.

An example of a product recall done correctly was Johnson & Johnson's Tylenol recall in 1982. Seven people in the Chicago area died after ingesting cyanide-laced Tylenol. At the time, Tylenol was the leading over-the-counter pain medication in the United States. Even though the poisoning was due to tampering and not the fault of the company, J&J put public safety ahead of profits, and recalled all 31 million bottles. This cost the company over $100 million. They developed new tamper-resistant packaging, and offered free replacement of the safer tablet form to consumers. At first, many did not think J&J would ever recover. However, due to their proactive handling of the crisis, the company was once again the most popular over-the-counter medicine within a year (www.pbs.org).

Six federal government agencies control the product recall process, including The Food and Drug Administration (FDA) (www.fda.gov) , Consumer Product Safety Commission(CPSC) and National Highway Transportation Safety Association (NHTSA)(www.nhtsa.gov). The CPSC website includes a handbook outlining a company's responsibilities when conducting recalls under the Consumer Products Safety Act, including the Fast Track Program which helps companies recall products quickly (www.cpsc.org). The various websites include lists of re-

calls as well as other useful information for companies and consumers.

Companies who wish to avoid the impact of product recalls should establish quality control, including inspection of component materials as well as the finished products. Review of applicable government standards, promulgated by such organizations as The American National Standards Institute is also important. Exact specifications should be communicated to suppliers, using formal written agreements. Establishment and regular testing of the company's product recall system will help in the event of an actual product recall (www.enterpreneur.com) .

Product recall insurance can include both first party and third party coverages. First party coverage addresses the actual costs to recall, repair and/or replace the affected products. Third party coverage is for damages or injuries sustained by customers (citadelus.com).

Prompt and efficient handling of a product recall can mean the difference between a company's continued operations or bankruptcy. Product recall insurance is one way to deal with a problem. Helping clients understand their exposure to product recall and ways to minimize the impact, including the benefits of product recall insurance, is another value-added service of the professional insurance agent.

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