



Crisis Management Department

American Home Assurance Company

(New Zealand Branch)

Incorporated with Limited Liability in USA

A Member of American International Group, Inc.

Website: <http://www.aig.co.nz>

Product Tampering – A Case Study.

Food, beverage, cosmetics and pharmaceutical products are all susceptible to contamination, both accidental and by deliberate interference through malice or for political or financial gain. Such incidents are increasingly common and when they occur attract media interest. Potentially this can have a disastrous impact on the public's confidence in the affected company and their products (including both affected and unaffected products).

Considerable costs can be incurred in both recalling and replacing the affected product and in rebuilding public confidence.

The following scenario relates to a product recall undertaken by a company as a result of a malicious product tamper. The losses sustained by the company were in this case covered by a Contamination Product Insurance (CPI) policy the insured company held with American Home Assurance Company, a member company of American International Group, Inc.

The insured was a manufacturer and distributor of a food product in New Zealand with a turnover of approximately \$212,000,000.00. The Insured received three separate notifications from consumers that glass had been found in the product in question. The insured investigated each incident to exclude the possibility of consumer contamination. Suspicion then focused on the possibility of malicious tamper by an employee. This suspicion arose as there was absolutely no glass on the production line, the jars were plastic and at the time the contaminated product was processed, there had been a company announcement that the insured was selling two lines of product to a third party.

The announcement had caused some concern amongst the employees. Quality control, production safety screening and lack of incidence since 1994, lent credence to the view the reported incidents could have only been a deliberate contamination within the manufacturing plant.

The insured lost a total of 46 production days and product was recalled from warehouses and retail stores across New Zealand.

A break down of the loss follows (dollar values rounded to the nearest '000):

Replacement of product (before sale to consumers)	\$ 781,000.00
Replacement of product (after sale to consumers)	\$ 103,000.00
Freight and destruction costs	\$ 36,000.00
Public relations, advertising, call centre	\$ 243,000.00
Security Expenses	\$ 111,000.00
Gross Profit	\$ 167,000.00
Extra expenses	\$ 16,000.00
Consultants	\$ 26,000.00
<u>Total losses</u>	<u>\$1,483,000.00</u>

Contaminated Products Insurance (CPI) provides cover for recall costs, loss of gross profit and extra expense, consultants, extortion monies, rehabilitation costs and replacement of product. Insured events include accidental contamination, malicious product tamper and product extortion.

There are important differences between the CPI coverage provided to the insured in the above case study and the coverage provided under a typical product recall policy. Historically, product recall coverage has been provided as an endorsement to a client's liability program. Some of the key differences between the coverage provided under these policies are as follows:

- The insured's CPI policy covered all of the above mentioned losses;
- Product recall endorsements typically **do not cover** malicious product tamper and product extortion, just accidental contamination. Even when covering the accidental contamination these endorsements are usually restricted to recall costs and consultant's costs only.

With the alarming growth in product recalls (* food and consumer goods year to date – see <http://www.consumer.org.nz> or <http://www.recalls.gov.au>) the severity of losses such as the case study referred to above, and a history of uninsured losses, there has never been a better time to discuss the coverage provided by Contaminated Products Insurance and First Party Recall (non topical or ingestible products) with your clients and our Crisis Management Division.

To obtain any further information on the insurance products available or to arrange a 1.5 QPIB hour product training seminar, please contact:

Storm Schroder
Manager – Crisis Management
AIG New Zealand

T: (09) 355 3158
F: (09) 355 3135
M: 021 773 577
Email: storm.schroder@aig.com

Coverage is underwritten by American Home Assurance Company (New Zealand Branch) trading as AIG New Zealand. The Crisis Management Division provides Contaminated Products Insurance and First Party Recall Insurance. The description of coverage contained in this document is a summary only. The claim scenario and the product recall outlined is given as a brief example and is not intended to be a representation that a similar fact situation may or may not be covered under any policy. These descriptions should not be relied upon to justify coverage in any situation or to predict the outcome of any actual claim, as all claims are evaluated on the facts and circumstances of the particular claim and subject to the terms, conditions and exclusions of the specific policy issued.

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