

The cost to retailers and suppliers of product recalls

Analysis by Lockton's Food & Beverage team suggests that insurers received claims worth £40m in the first half of 2015.

Last year the Food Standards Agency investigated 1,645 incidents across the UK, the highest number for two years. This may surprise some, given the horsemeat scandal of 2013.

Our analysis of data shows that globally, insurers received claims worth almost £40m from January to June this year relating to product recalls. Here at Lockton, we are seeing increases in food claims in particular, with some individual claims running into millions of pounds.

All suppliers should be insured against the costs of locating and destroying contaminated products as well as repaying affected consumers. However, many retailers are now requiring suppliers to cover a myriad of other costs, including charges for supermarkets' loss of profits, charges for premises investigations and administration fees. The risks that product recalls pose to retailers' and suppliers' finances and reputations make substantial cover essential.

We worked with one supplier who was forced to reimburse a large fast-food restaurant brand's total losses, including marketing campaigns, after a special ingredient was suddenly recalled. The customer had created a marketing campaign around that ingredient and as it had to be abandoned, demanded full reimbursement of the costs. We argued successfully to the insurer that their short-term loss would be in the client's long-term interest: this was a sensible strategy to keep in place its contract with an important customer.

As one of the leading advisors on food production insurance, Lockton is perfectly placed to advise both retailers and suppliers on exactly what their current insurance would cover - and importantly what it won't. Working with a range of international clients at all stages of today's complex supply chain makes us the perfect choice to handle your business's insurance requirements.



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