

# Product recall insurance demand spikes

A single product recall can cost a business north of R500m. Without adequate cover, this is the kind of figure that can send a business to bankruptcy.



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"South African companies, particularly those in the manufacture of consumables, are fast warming up to the need for comprehensive cover as potential recall of products from the shelves can send a business into serious financial distress," says Catia Folgore, senior underwriter at specialist niche insurer iTOO Special Risks.

Folgore says the changing operating environment in South Africa, including the introduction of Consumer Protection Act, has increased the need for better quality products as well as cover for potential product defects.

"In a sense the threshold to trigger a product recall from the shelves has come down significantly because the cost of a faulty product can easily shut down a business given the loss of revenue and brand reputation," adds Folgore.

According to Folgore, a product recall insurance policy would typically cover loss of revenue due to business disruption, liability to affected stakeholders, the entire recall process as well as costs to the retailer for keeping empty shelves.

## Under the radar

Recall policies are triggered by the detection of a health risk and potential bodily harm posed by the continued distribution of a product. "In some instances, relevant government departments or their agencies can mandate a product recall in the interest of public health and safety," explains Folgore.

Folgore says the product recalls reported in the media represents a fraction of the total product recalls that happen in any given year.

“The majority of product recalls happen under the radar, but we know that businesses are beginning to take the need for product recall insurance seriously as our numbers show a considerable increase in request to underwrite such policies,” says Folgore.

Furthermore, Folgore says market forces are also putting pressure on businesses, making product recall a “must-have” rather than a desirable addition to risk management.

“There are suppliers who will not do business with a particular entity unless they can demonstrate that they have insurance for this particular exposure,” notes Folgore.

## **Special set of skills**

She says the complexities involved in underwriting a product recall policy requires a special set of skills as various factors need to be taken into account in competitively pricing the risk.

“iTOO Special Risks is really one company in a very small pool of underwriters with the special knowledge and expertise required to execute such niche, complex and financially delicate policies,” says Folgore.

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