

FOODSAFE

An increase in the number of food-borne illnesses creates bigger exposures for the food processing and manufacturing industry

>> BY SUZANNE SHARMA

It was an ordinary day in September 2009 when the employees of homegrown, family-owned Chapman's Ice Cream in Markdale, Ont., headed into work. Within hours, however, the factory would burn to the ground in a fire started by a stray spark from a welder's torch.

The 85,000 square foot building is where Canada's largest independent ice cream manufacturer produced and stored its goods. The company employed 350 people and was the small town's main industry.

Ashley Chapman, the company's vice president, recalls the moment when everything changed for the business his parents established in 1973.

"During the day we kept hoping that we would save some part of the building, but in the end it was a total loss—everything was destroyed," he says. "Halfway through the day, the fire department felt a lot more secure about things, but unfortunately we ran out of water because the municipal system was undersized."

Chapman explains that as the town grew, the municipal water system didn't, and it was never taken into account that a building the size of the Chapman's plant might catch fire.

Luckily there were no injuries, and several months of ice cream lay in storage. The company had expanded gradually so its facilities were spread out rather than contained at the destroyed site, and the owners were in good financial shape.

Also, the company was well insured. It had business interruption insurance, as well as a general liability policy to cover product and contents.

Chapman won't reveal any figures as to the size of loss or claim, but says it is still an ongoing situation and that they're trying to claim 100% of the loss. Claims are spread among nine insurers, and he says their broker has been great in providing advice.

"Getting nine [insurers] to co-ordinate was not exactly easy, but at the same time they're all professionals so we worked through the problems," says Chapman. "[Our broker] helped guide us through the process, especially directly after the fire, with all the procedures as well as the expectations of the insurance companies. [The broker] came in very handy to say the least."

Although the Chapman's brand has been able to literally rise from the ashes, rebuilding and expanding the company to 165,000 square feet just a few blocks from the original site, not all food

manufacturers are as lucky. This is why brokers need to understand the unique risks that come with this industry.

Additionally, Canada has seen the number of food recalls issued by the Canadian Food Inspection Agency (CFIA) increase dramatically over the last two years due to changes in reporting and monitoring systems. CFIA Class I recalls (the most serious) increased from 134 in 2010 to 213 as of November 2011, according to a database on the CFIA website. This further suggests that a broker needs to be well versed in product liability when advising this type of client.

Understanding the Food Chain

One of the most significant issues in the food processing and manufacturing industry today is that the number and severity of food-borne illnesses is rising.

"It was only recently that E. coli 157 was the only injurious E. coli bacteria strain, but now you've got six to seven of them," says John Turner, North American product recall manager at XL Insurance.

Turner also points to the recent situation with cantaloupes in the US that were linked to an outbreak of listeria,

which killed 25 people. Usually, he says, listeria occurs more readily in prepared cheeses and cooked meats. In cantaloupes, listeria was previously unheard of.

"You've really got a moving compass in terms of food science and the evolution of pathogenic strains, which is hard to keep track of," he says.

With this pathogenic evolution also comes an evolution in traceability. According to Turner, health authorities are getting better at tracking sources of illnesses, and an official food-borne outbreak consists of only two or three people who got sick from the same pathogen.

"You have health authorities working with centres of disease control, and they're mapping what these people have eaten, where they've been, everything," he explains. "They whittle it down to the final few suspects and

then regulators go and do some testing, and if they find the source of the pathogen that caused the food-borne illness outbreak, they've got the guilty party."

The media has also played a role in this changing landscape.

According to Diane Cooper, national director manufacturing, wholesale and real estate, Zurich Canada, there is more news coverage of harmful incidences pertaining to food than a decade ago. And if a consumer becomes even slightly ill after consuming something, they can tweet, blog, or post it on their Facebook profile for the world to know immediately.

Also, consumers can more easily obtain information. Cooper points to a US government website (www.saferproducts.gov) where consumers can register product complaints.

"It's not specific to food but is indicative of the kind of information availability that wasn't there even 10 years

ago," says Cooper.

In Canada, the CFIA is creating stricter laws and regulations, and while there isn't a similar Canadian government-run complaint website yet, Cooper predicts it can't be far off.

Globalization is yet another challenge in this industry because organizations are no longer limited to the domestic market. As food processing and manufacturing companies do business in foreign markets, it heightens the risk for food-borne illnesses because different countries have different standards and regulations for food safety.

Brokers must understand what is required in foreign markets for claims handling, risk services, loss prevention and mitigation and taxation, says Cooper.

On the property and business interruption side, rapidly evolving technological equipment is another issue for this specialty market, according to Derrick Hughes, vice president, reinsurance assumed at the Boiler Inspection and Insurance Company of Canada (BI&I).

"Ensuring that contingent plans are in place to mitigate exposures of this sophisticated equipment in the event of a breakdown is of great concern," he says. "With custom-made systems, replacement components need to be sourced, often from a foreign manufacturer, causing exceptionally long delays."

Also, determining what backup plans the insured may have in sourcing a critical piece of equipment that has suffered a breakdown is key. Standby replacement parts, production lines with available capacity, or friendly competitors to finish the production run are some of the plans that underwriters like to see in place when assessing a risk, advises Hughes.



Photo: Getty Images

Insurance Ingredients

Pricing for coverages primarily depends on how individual food processing and manufacturing companies manage food safety, supply chain and quality control, explains Turner.

“[Underwriters] aren’t scared off by high-risk products if we think companies are handling those risks very well,” says Turner. “Pricing is also variable depending on how risky the product itself inherently is and how those risks are managed by a potential buyer.”

Product recall is a necessary coverage in this class of business, and there are three key areas that it protects against, according to Turner. These include: accidental contamination (the most common), e.g., unintentionally mislabelling a product that results in illness; malicious contamination, e.g., a disgruntled former employee that tampers with the product; and product extortion, e.g., a terrorist group that threatens to damage the reputation of a company unless it meets their demands.

This niche market is also exposed to unique and sometimes large, complex claims. Laura Moses, executive vice president and COO at Totten Insurance Group says she’s experienced client claims due to water damage, sewer backup, and power failures.

“If something gets tainted, then everything around it has to go,” says Moses. “There’s no salvage when it comes to food—it’s an entire loss.”

In one case, her client had a freezer that stored thousands of dollars worth of cold cut meats. The freezer stopped working and no one noticed. The entire contents of the freezer were destroyed, resulting in a \$10,000 insured loss.

Hughes agrees with Moses, stating these types of claims occur often, and in fact about 30% of the claims that equipment breakdown insurers receive involve refrigeration equipment. These direct damage losses also result in losses due to spoilage, and ultimately business interruption.

For spoilage coverage, brokers must understand what product is at risk and ensure that adequate values are required, avoiding any co-insurance penalty, he says. Typically, spoilage values are subject to 80% co-insurance.

BROKER INSIGHT

Q&A with Lloyd Sadd’s Chris Huebner, vice president, sales and development, and Tanya Ung, manufacturing leader

Q. What are some of the challenges involved with placing this product?

The primary challenge is related to individual business operations. Every business has different risks and exposures. Some classes of business, such as meat processing, are more difficult to place from a product liability perspective. Other businesses have challenges related to fire exposures, unprotected risks and significant boiler exposures. From an insurer perspective, every insurance company has different industry-specific endorsements, which provide protection for issues related to consequential loss, product recall and spoilage. Basic coverage is relatively easy to place, but clients should look at other specialty insurance products, such as product recall coverage. It is fairly costly, and smaller manufacturers don’t want to bear the cost of the insurance, but we wish more companies would purchase it.

Q. Provide an example of a claims situation and how it was resolved.

One client had product recall in Canada and the US. It cost around \$600,000 to recall and dispose of the product. Fortunately, this was a large, sophisticated business and coverage was in place to pay for the loss. Another client accidentally dropped a plastic glove into their bread-mixing machine. It wasn’t discovered until someone purchased the product, discovered plastic pieces inside one of the loaves, and contacted the store. Retail contracts push the responsibility for recalls to their suppliers. When these types of situations occur the manufacturer ends up bearing the majority of the costs, which includes the product recall and restocking fees.

This is an example of why product-recall coverage is important for most companies.

“All of the varieties of food that we consume have varying shelf life before they spoil if not refrigerated,” says Hughes.

For example, blueberries spoil faster than strawberries, apples last longer than pears and frozen chicken fingers last longer than refrigerated seafood, he says. This is why brokers must have a unique understanding of what the insured’s plans are for mitigating refrigeration equipment failures.

Another refrigeration concern is that of ammonia contamination, explains Hughes. Ammonia is an inexpensive and relatively safe refrigerant, thus, it is utilized in larger cold storage facilities.

“Brokers are aware of the values of product that may be in cold storage or in process, but fail to remember that if ammonia is the cause of contamination, rather than a product spoiling from a lack of refrigeration, the loss can be immediate and, depending on packaging, significant,” says Hughes.

An example of this type of loss is if an ammonia pipe ruptures, releas-

ing ammonia over stored products in a cooler waiting for shipment. Once ammonia is released into the environment, the provincial ministry of the environment is often contacted to assess the situation. The MoE can declare that any product that has been contaminated is no longer suitable for human consumption. Even if the contents of a packaged product are uncontaminated by the ammonium hydroxide gas that forms when ammonia comes in contact with water molecules in the air, the caustic nature of the resulting compound can damage the packaging and make the product unfit for sale. Thus, if ammonia is used in refrigeration, then brokers should ensure the ammonia limit is the same as the requested spoilage limit, advises Hughes.

Brokers are also advised to understand the product, including its nutritional claims and who the end consumer is. The insurance needs of a client manufacturing popcorn for a movie theatre or baby food for a retail outlet are very different, warns Cooper. **TB**