



2021 Emerging Trends in Product Recall and Contamination Risk Management

A crisis may be unpredictable, but it should not be unforeseeable

Table of Contents

- 2020 The Year in Review2
- 2020 Recalls and Outbreaks3
- The Pandemic6
- Regulatory Update7
 - U.S. Food & Drug Administration7
 - Fines and Penalties7
 - Consumer Product Safety Commission8
 - National Highway Traffic Safety Administration8
- Product Recall and Contamination Insurance
Market Update10
- Limit and Retention Benchmarking12
- Product Recall Claims Management15
- Product Recall Claims Preparation16
- Conclusion17

Crisis Management

Crisis Management is part of Commercial Risk Solutions, the risk management and insurance brokerage side of Aon. Going beyond traditional risk transfer solutions, our global network of product contamination and recall specialists offers a full range of consultancy services, enabling clients to quantify their risk exposure and make informed decisions on the optimum balance between risk retention, risk management and risk transfer. Our team of specialist brokers, crisis consultants and in-house claims management combines threat assessment, impact analysis and crisis management, and response with individually structured insurance programs. Our unique, consultative approach enables our clients to implement appropriate measures to help achieve their duty of care and better protect their balance sheet, people, brand and reputation.



2020 – The Year in Review

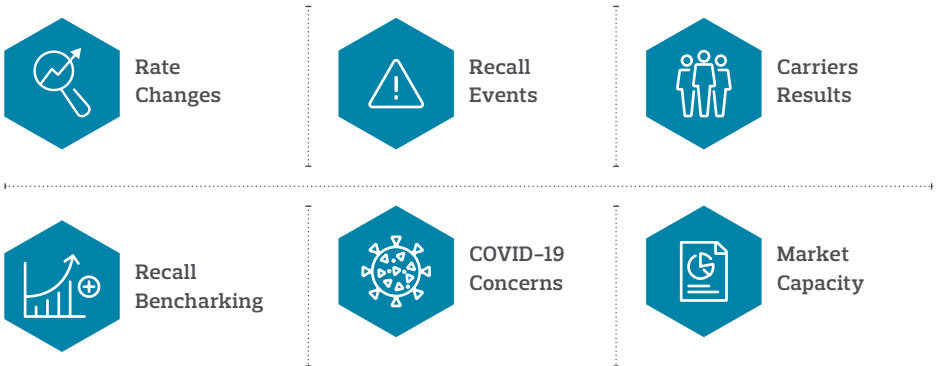
Welcome to the 2021 Emerging Trends in Product Recall and Contamination Risk Management Report. 2020 has certainly been a year like no other and the effects of the pandemic will be felt for many years. How consumers, our clients and their employees, as well as governments and regulators have navigated the pandemic has been impressive in many ways. The insurance market too has been innovative in approaching these new and developing risks.

We’ve seen our clients and the consumer products industry as a whole deal with the economic uncertainties created by the pandemic in different ways. Certain industries, particularly those producing food and drink products, seem to have had a very successful year as consumers were staying home for meals and stocking up on staples. However, these same businesses needed to ensure the safe working environments and proper personal protective equipment availability to ensure the safety of their employees. We’ve also seen firms re-configure their manufacturing set-up to help produce medical equipment, gowns, masks, gloves, hand sanitizers or other essential personal protection equipment creating a whole risk profile that needed to be addressed.

Other industries, most prominently the food service and restaurant industries have suffered significant economic hardships. These hardships brought out innovations including a whole new “pickup/takeout” business, as well as unique methods to maximize outdoor dining opportunities.

Many government regulators, most notably the US Food and Drug Administration (FDA), The Centers for Disease Control (CDC) and the World Health Organization (WHO) have been occupied with vaccine development and medical device approval and procurement. This, together with regulators’ inability to conduct on site inspections due to COVID travel restrictions, has required companies to step up their own self-regulation with increased testing and internal auditing.

This publication seeks to provide readers with updates on the risk management of product recall and contamination risks. It also summarizes some of the significant events during the past twelve months, reviews new rules and regulations, and provides updates on the insurance marketplace including tools available to assist firms in evaluating and mitigating their risk.



2020 Recalls and Outbreaks

Despite a decline in recall statistics across most product categories in 2020, the year began with several high profile and significant recall events. One of those larger events involved the recall of more than 500,000 washing machines in the United Kingdom because of fire risk. A faulty door-locking system in the machines creates a fire risk as a result of overheating, the company said. The recall campaign was initiated in January and the machines involved were on sale for more than five years with up to 519,000 washing machines believed to be affected – about 20% of the total number sold¹.

More than six years after the initial recall of airbags manufactured by Takata, a major auto manufacturer began recalling an additional 7 million pickups and SUV's with airbags made by the same manufacturer. Approximately 63 million Takata air bags have been recalled because these air bags can explode when deployed, causing serious injury or even death.

The year concluded with a significant recall of home security cameras. These security cameras and doorbell cams have become increasingly popular throughout the country since the pandemic began as a means to thwart “porch pirates.” On November 10th, the Consumer Product Safety Commission (CPSC), in conjunction with Health Canada announced the recall of 350,000 Video Doorbells because the battery can overheat when incorrect screws are used for installation. Ring has received 85 incident reports with 23 of those doorbells igniting and causing property damage.²

On the food and beverage side, the Center for Disease Control (CDC) investigated ten multistate food borne outbreaks in 2020, a reduction from the 19 outbreak investigations in 2019 and 24 outbreaks in 2018. CDC has three main roles during investigations of gastrointestinal illnesses involving multiple states that might be related to food or animal contact:

1. **Quickly detect outbreaks** by monitoring nationwide surveillance systems that track diseases.
2. **Gather the evidence** linking the outbreak to a likely food or animal source.
3. **Communicate** to consumers and retailers about the source of the outbreak to prevent additional illnesses.

The outbreaks in 2020 include a diverse range of products ranging from deli meats to onions and peaches. Forty percent of the outbreaks in 2020 were E. coli related, thirty percent were Salmonella related and twenty percent were Listeria related.

2020 began with the CDC announcing an outbreak of *Listeria monocytogenes* with four hospitalizations and one death in Texas. Epidemiologic and laboratory evidence indicated that bulk hardboiled eggs were a likely source of this outbreak. Based on whole-genome sequencing, the *Listeria monocytogenes* found in environmental samples collected at the firm's processing facility during FDA inspections conducted in February and December of 2019 are a genetic match to the outbreak strain. Retail products were sold under more than 30 brand names and include pillow pack, pouch pack, frozen diced, and protein kit egg products. Food service products include eggs sold in large pails. Eight people infected with the outbreak strain of *Listeria monocytogenes* were reported from five states with five hospitalizations and one death. As of early March, the outbreak was believed to be over.³

Field grown fruits, vegetables and berries continued to be susceptible to food borne illness outbreaks and 2020 continued this trend. Salads continued to be the source of numerous outbreaks, but unlike past years, romaine lettuce was not the culprit. An outbreak of cyclospora infections was linked to bagged salad products over the Summer of 2020. *Cyclospora* is generally transmitted when infected feces contaminate food or water. The epidemiologic and traceback information collected by federal and state investigators indicated that a likely cause of this outbreak is product made at the production facility in Streamwood, Illinois. As of September 23, 2020, a total of 701 people with laboratory confirmed *Cyclospora* infections associated with this outbreak were reported from 14 states.⁴

Another outbreak of note also occurred during the summer and involved onions linked to Salmonella Newport contamination. [Epidemiologic and traceback evidence](#) showed that red onions from Thomson International Inc. were the likely source of this outbreak. Other onion types (such as white, yellow, or sweet yellow) were also likely to be contaminated

because the onions were grown and harvested together. A total of 1,127 people infected with the outbreak strain of *Salmonella* Newport were reported from 48 states.⁵

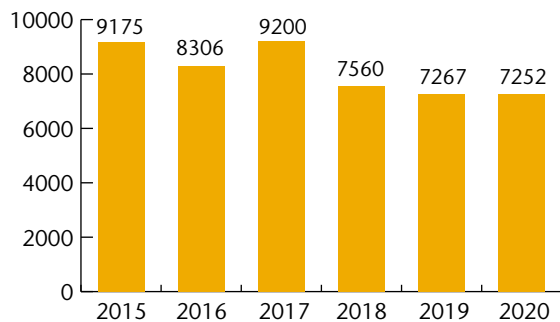


FDA recall events remained static in 2020 with a total of 2,654 recall events reported

against a total of 2601 in 2019. Of the recall events reported, almost 40% were related to medical devices. Food and cosmetic recall events only accounted for 20% of all events. Recalled products dropped slightly from 2019 with a total of 7252 against 7894 in 2019. Food recalled products dropped significantly from 2046 to 1536 for 2020. This is down significantly from a high of 3609 in 2017, a reduction of more than 50%.

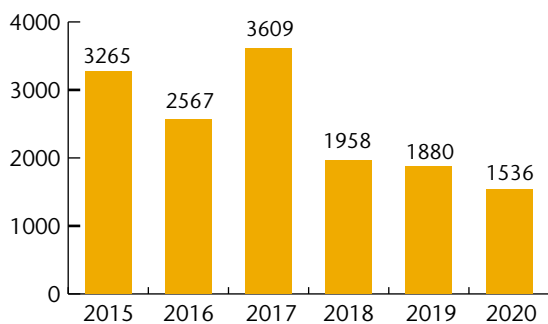
Overall, the number of FDA recalled products were relatively static year over year. However, in taking a closer look, FDA food and cosmetic recalled products were down almost 20% from 2019. The increase in the overall number of products recalled is due to increases in both medical devices and veterinary products.

FDA Recalled Products (All Products)



source: www.datadashboard.fda.gov

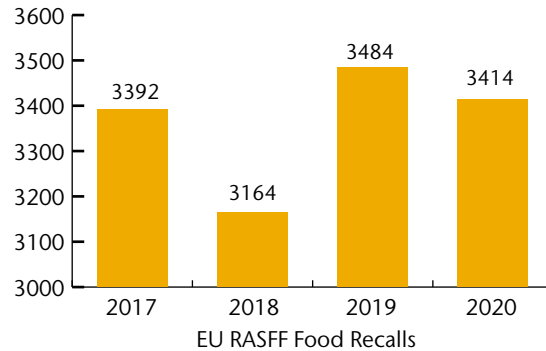
FDA Recalled Food and Cosmetic Products



source: www.datadashboard.fda.gov

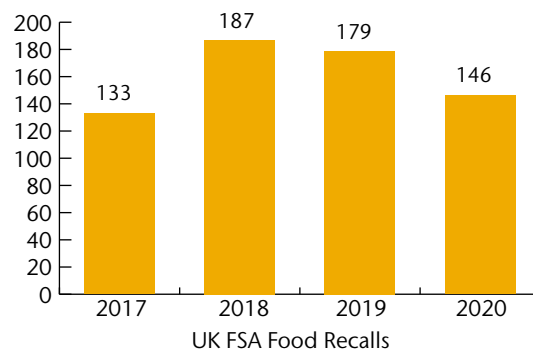
In the European Union and the United Kingdom food recalls were both slightly lower in 2020 than in the previous year.

European Union Food Recalls



Source: www.ec.europa.eu

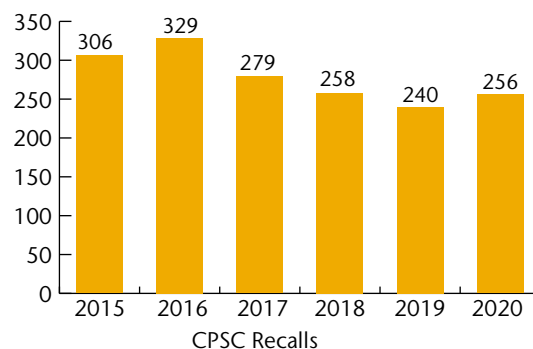
United Kingdom Food Recalls



Source: <https://www.food.gov.uk/news-alerts/search/alerts>

Non-food consumer product recalls increased only slightly year over year in the U.S., although the past three years have been fairly constant. Interestingly, the pace of recalls has decreased each of the last four years under the Trump administration. Generally, regulatory agencies in charge of product safety are less “political” than other governmental agencies. How this changes under the new administration remains to be seen, but certain schools of thought believe that with the change in administration, we may well see an increase in recalls across all product categories.

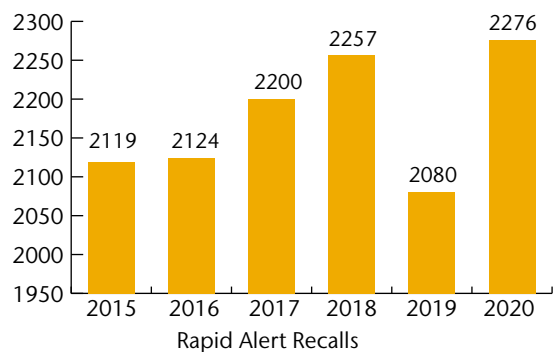
Consumer Products



Source: www.saferproducts.gov

The European Union's Rapid Alert System showed a fairly significant increase in recalls year over year with the majority of recalls involving children products and toys, as well as automotive products. Important to note is that the EU Rapid Alert System measures not only consumer products, but also motor vehicles and cosmetics, but excludes consumable products.

EU Rapid Alert Recalls (includes automotive)



source: www.ec.europa.eu

The Pandemic

Although much is still unknown about COVID-19, regulators and food safety authorities around the world have offered advice to industry and consumers on food safety and the transmission of the Coronavirus. While experts' understanding and knowledge of COVID-19 has continued to evolve and expand, most experts and regulators agree that there is no evidence that the coronavirus can be transmitted through food. Despite this

generally agreed position, some countries have sought to restrict global imports. China temporarily suspended some chicken and pork imports from the U.S. and Germany because of the high number of infections in those processing facilities. However, the majority of import and export controls have involved medical devices and personal protective equipment.⁶

COVID-19 and Food



"There is no evidence that people can contract COVID-19 from food or from food packaging. The U.S. food safety system, overseen by our agencies, is the global leader in ensuring the safety of our food products, including product for export."

A joint statement by U.S. Secretary of Agriculture **Sonny Perdue** and FDA Commissioner **Stephen M. Hahn, M.D.**, issued relative to food exports and COVID-19 transmission.

<https://www.usda.gov/media/press-releases/2020/06/24/joint-statement-usda-and-fda-food-export-restrictions-pertaining>

As a result of the pandemic, some regulatory activities were completely shut down or significantly reduced. Due to travel restrictions, on-site inspections and safety audits were suspended. This has required many firms to self-audit or move to virtual audits and inspections. To assist the food industry in navigating necessary changes to operations related to COVID-19, the Centers for Disease Control and Prevention (CDC), the Food and Drug Administration (FDA) and the U.S. Occupational Safety and Health Administration (OSHA), issued guidance for manufacturing facilities, including food facilities, specific to controlling the spread of COVID-19 between workers including the **"Employee Health and Food Safety Checklist for Human and Animal Food Operations During the COVID-19 Pandemic."**⁷

Two of the country's leading universities in the study of agri-food safety, Michigan State University and North Carolina State University, have also offered advice and resources to manufacturers, processors, restaurants and retailers on COVID-19 and food safety. These institutions provide specific advice to grocery stores, farm stands, food banks, takeout restaurants, food processors and retailers, as well as consumers.^{8,9}

There were relatively few pandemic related recalls in 2020, however one serious recall involving hand

sanitizers caused significant concern. The FDA recalled over 100 hand sanitizer products over the Summer of 2020 and published a "do not use list" of the dangerous products. FDA Commissioner Stephen M. Hahn, M.D. stated "We remain extremely concerned about the potential serious risks of alcohol-based hand sanitizers containing methanol. Producing, importing and distributing toxic hand sanitizers poses a serious threat to the public and will not be tolerated. The FDA will take additional action as necessary and will continue to provide the latest information on this issue for the health and safety of consumers." The agency issued a further warning in July about an increasing number of adverse events, including blindness, cardiac effects, effects on the central nervous system, and hospitalizations and death, primarily reported to poison control centers and state departments of health.¹⁰

An additional recall of concern related to the pandemic involved Russian ventilators. A Russian manufacturer of ventilators involved in two deadly fires at hospitals treating virus patients recalled the devices for checks. Doctors said the Aventa-M ventilators made by the company sparked a fire at a hospital in St. Petersburg that killed five people on May 12th, three days after one person died in a blaze at a Moscow hospital.¹¹

Regulatory Update



The U.S. Food and Drug Administration oversees about 80% of all food and beverage products in the United States. Stephen Hahn became FDA Commissioner in December 2019, only a few weeks before the coronavirus pandemic was declared. The FDA's workload increased significantly as a result of the pandemic and created significant demands on the agency.

Nevertheless, the FDA continued to focus on its mission of safeguarding the nation's food supply, while simultaneously working to address food supply and employee safety issues related to the pandemic. The agency has also sought new ways to optimize inspection-related activities and explored how to best use new technologies and tools during the pandemic.

In July, the FDA released the *New Era of Smarter Food Safety Blueprint*, which outlines the steps the agency will take over the next decade to create a more digital, traceable and safer food system.

A NEW ERA OF FOOD SAFETY

The New Era of Smarter Food Safety Blueprint is centered around four core elements:

1. Tech-enabled Traceability
2. Smarter Tools and Approaches for Prevention and Outbreak Response
3. New Business Models and Retail Modernization
4. Food Safety Culture

The FDA also released the 2020 Leafy Greens STEC Action plan to outline a collaborative, action-oriented approach to enhancing the safety of leafy greens and help prevent the recurring nature of outbreaks of Shiga-toxin producing *E. coli*.



The remaining 20% of food products are regulated by the United States Department of Agriculture who for its part released their Road Map to Reducing Salmonella. The USDA's

Office of Food Safety (OFS) and Food Safety and Inspection Service (FSIS) released a plan to decrease *Salmonella*, one of the leading causes of foodborne illnesses. The Roadmap to

Reducing Salmonella: Driving Change through Science-Based Policy outlines programs and policies that are science-based, data-driven, and promote innovation to reduce Salmonella in meat, poultry, and egg products. "This roadmap represents FSIS' commitment to lead with science and data in all that we do. It puts us on a course to aggressively target Salmonella and other foodborne pathogens," said USDA's Under Secretary for Food Safety Dr. Mindy Brashears. "I look forward to continued partnership with the food safety community in driving a science based approach to protecting public health."¹²

Regulatory Fines and Penalties

Several companies agreed to pay large fines in 2020 related to criminal charges for food borne illness outbreaks. Chipotle agreed to pay \$25 million, the largest food safety fine ever, to settle criminal charges related to the food-borne illness outbreaks that sickened more than 1,100 people between 2015 and 2018. According to U.S. Attorney Nick Hanna for the Central District of California, "Chipotle failed to ensure that its employees both understood and complied with its food safety protocols, resulting in hundreds of customers across the country getting sick." Since the original outbreak, Chipotle has spent millions of dollars to upgrade its food safety procedures. Kerry Bridge, Vice President at Chipotle states on their website "Chipotle has developed and implemented very progress methods for food safety over the last few years and, as become a leader in the industry."¹³

Blue Bell Creameries, a Texas-based ice cream manufacturer, also agreed to pay \$19.35 million and plead guilty to charges that it shipped contaminated products in a 2015 listeriosis outbreak. The Justice Department alleged Blue Bell distributed ice cream that was made under insanitary conditions and contaminated with *Listeria monocytogenes*, a potentially life-threatening pathogen. As part of its plea agreement, Blue Bell agreed to plead guilty to two misdemeanor counts of distributing adulterated ice cream products and pay \$17.25 million. It also agreed to pay another \$2.1 million to resolve civil claims regarding ice cream made under insanitary conditions and sold to federal facilities in violation of the False Claims Act. Blue Bell in a statement said the plea deal involves events five years ago before it shut down and revamped its facilities. It said it was determined today to "make the safest, most delicious ice cream available." "We apologize to everyone who was impacted, including our customers, our employees and the communities where we live and work," the company said.¹⁴

A final case of note involved a sheep farmer in the United Kingdom who was found guilty of two counts of contaminating food and three counts of blackmail for demanding extortion money. The case involved a plot to extort £1.4 million in cryptocurrency from a large supermarket chain in the United Kingdom. The accused was said to have laced baby food with metal threatening to only reveal which stores had been planted with the tampering baby food if the extortion demand were met. These threats led to a nationwide recall of baby food in the United Kingdom.¹⁵

Consumer Products Safety Commission (CPSC)

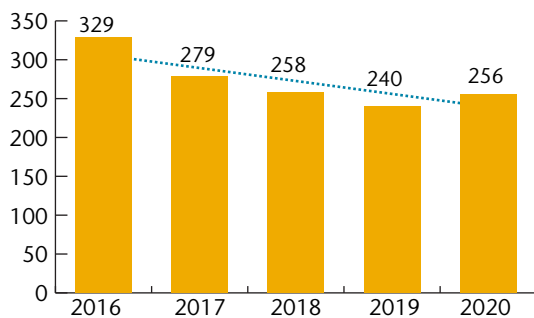


The United States Consumer Product Safety Commission is an independent agency and seeks to promote the safety of consumer products by addressing “unreasonable risks” of injury; developing uniform safety

standards; and conducting research into product-related illness and injury. Robert S. Adler has served as a Commissioner at the U. S. Consumer Product Safety Commission (CPSC) since August 18, 2009. He was re-nominated by President Obama on May 14, 2014 and confirmed by the Senate on December 2, 2014. His term runs through October 2021. He was named Acting Chairman of the agency on October 1, 2019.

CPSC announced recalls reversed a four year trend of fewer recalls increasing slightly in 2020 to 256.

CPSC Recalls



Sports and recreation products, toys and children products, electronics, as well as appliances and furniture are areas of focus for the CPSC.

National Highway Traffic Safety Administration (NHTSA)



The automotive industry has seen a year of increasing recall activity, rising completion rates and new recall risks in a year of unprecedented uncertainty.

Stout’s 2020 Automotive Defect and Recall Report was released in the Fall of 2020 and builds on the original research that Stout began in 2013. As in years past, Stout has compiled and analyzed data from a vast array of sources, including the National Highway Traffic Safety Administration (NHTSA), several international databases, financial reports, and other sources.

Some key findings from this year’s report include:

- A record number of light vehicle recall campaigns in 2019 (317 campaigns – an average of 26 per month), involving more than 28 million vehicles
- Nearly a 50% increase in the number of recall campaigns that affected more than 100,000 vehicles
- Continued improvement in industry completion percentages with overall median completion percentages approaching 90%
- A record-setting 15 million vehicles recalled for electronic component defects
- More than 50% of recalls involved electronic component defects related to software-based defects, the greatest proportion of any year studied to date
- New insights related to the industry’s only analysis of recall remedy repair times and vehicle emissions defects
- Greater uncertainties for future recalls as a result of the economic, safety, and manufacturing impact associated with the COVID-19 pandemic¹⁶

On average, only about 60% of recalled vehicles are repaired and one in four vehicles in the US has an unrepaired recall. Improving recall completion rates has been a key priority of NHTSA for the past several years. In a further effort to increase recall completion rates, NHTSA announced the launch of a redesigned mobile app for automotive safety and recalls helping keep consumers aware of the latest information about recalls. The free app allows user to check safety and recall information on vehicles, car seats, equipment or tires on their smartphone. The SaferCar app allows users to store their vehicle information into the app and receive the latest information about recalls and get their repairs scheduled quickly. With the SaferCar app, regulators are hoping to increase the recall completion percentages.¹⁷

Automotive Component Groups Most Affected



Service Brakes
4.7M vehicles affected



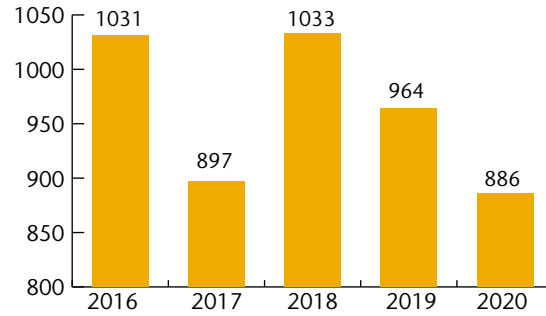
Exterior Lighting
2.5M vehicles affected



Powertrain
2.67M vehicles affected

U.S. automotive recall statistics for 2020 show a reduction in the number of recall campaigns over the prior year. According to Stout, the most recent year of automotive statistics showed declining new vehicle sales, but an increase in recall activity. The actual number of vehicles recalled in 2019 (excluding Takata) was 28 million.

Auto Recalls (Vehicle/Equipment/Child seats/Tire)



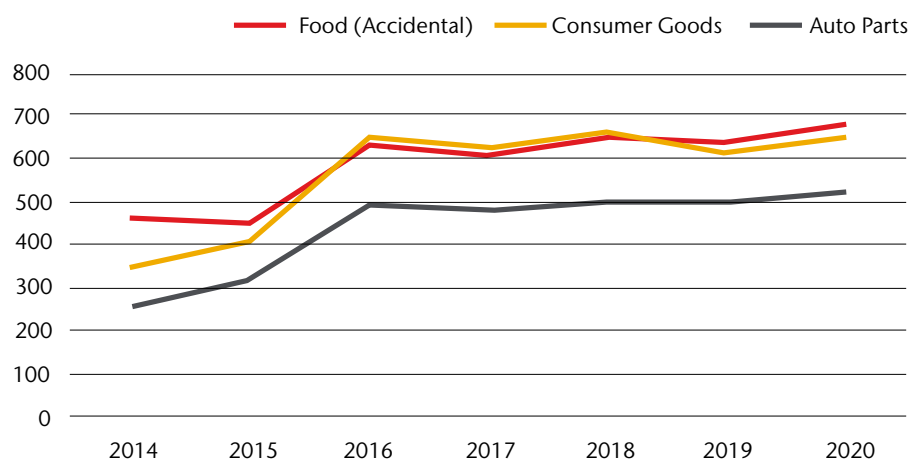
Source: www.safercar.gov

Product Recall and Contamination Insurance Market Update

Product recall market capacity has remained relatively consistent over the past several years. Consumable products and consumer goods continue to be favored product categories over automotive component risks based on total market capacity. It is important to note that our review of market capacity compares the aggregate of the maximum capacity offered by each carrier within a

particular product category. Underwriters seldom deploy their maximum capacity on any one risk. Based on our experience, we would estimate that the maximum capacity available for any one risk would be one half of the market aggregate, depending on the specific risk. We placed policies with 29 different carriers in 2020.

Global Recall Market Capacity




Market Capacity Increases

Capacity increased slightly during 2020, although carriers continue to cautiously deploy their capacity. At one time, in the not too distant past, lead layers of US\$25 million or more were not uncommon. In today's market, seldom do we see leads carriers offering more than US \$10 million. Many of these same carriers are offering excess capacity on layers provided they have some ventilation between layers.

U.S. Domestic Carriers

Several changes occurred in the domestic product recall market in 2020 starting with Starr Crisis Management announcing that as of January 1st, they will no longer accept U.S. risks through Starr London. Starr U.S. Crisis Management continue to underwrite risks through surplus lines licensed brokers in the U.S. with Canadian based risks being underwritten by Starr Canada. Although aggregate capacity remains unchanged, this change required some restructuring of programs or layers placed in the London market.

Allianz Global Corporate Specialty (AGCS) exited the US Product Recall and Product Contamination Insurance market

and consolidate their recall portfolio into their London underwriting center. This action followed a strategic business review to boost profitability and efficiency. This notice was specific to U.S. product recall and product contamination policies and does not apply to Allianz policies placed into Allianz' London Underwriting Center.

Allianz's exit from the domestic recall market came on the heels of their two senior U.S. based underwriters announcing their resignation and launching of a new recall facility with Axon Underwriting. Axon began underwriting recall and contamination risks on June 1st with a capacity of \$10 million and utilizing Nationwide paper (AM Best A+). The team utilizes RQA, Inc. as their response and pre-incident preparedness consultant. Axon will initially focus on food and beverage and consumer products companies, as well as the restaurant and food service industries. In a related note, Allianz Global Corporate & Specialty agreed to sell renewal rights to a portion of their product recall portfolio to Axon Underwriting Services LLC.

Another new market, Beazley, entered the U.S. product recall and contamination during the summer of 2020. Several senior underwriters from Chubb launched the new product recall facility. Beazley Product Recall will be available to U.S.-domiciled companies and cover a range of risks from small to large, focusing on risks of up to \$100 million in revenue. Policies are issued through Beazley's Syndicate 2623/623 at Lloyd's. Chubb continues in the market as well.

Talbot (Validus) and AIG jointly announced that Talbot will begin managing the underwriting for product recall and contamination for the combined group effective in August of 2020. Previously, Lexington Insurance Company managed this function for AIG in the US. With the acquisition of Validus Specialty Underwriting Services in 2018 by AIG, the group gained additional underwriting expertise in product recall and product contamination insurance that they hope to leverage and further grow this specialty line of business. What does this mean for AIG policyholders? Most importantly, at renewal, insureds will move to Lloyd's of London Syndicate 1183 paper (non-admitted). Policy forms will change to Talbot standards, although Talbot will continue to have the ability to provide coverage on manuscript policy wordings or to following other market wording. Talbot maintains recall underwriting teams in both the U.S. and London. This is a somewhat historic change in that AIG was the first domestic carrier offering product recall and contamination insurance having developed the market in 1986.

The year 2020 ended with Crum & Forster (C&F) acquiring the renewal rights of Aspen's U.S. food and beverage product recall insurance portfolio. In addition, the underwriting team servicing this portfolio joined Crum & Forster. Founded in 1822, Crum & Forster is one of the oldest U.S. insurance companies. Crum & Forster has specialized in this class since 2010 and offers recall insurance across food and beverage, consumer good and automotive products. Aspen launched their recall facility in 2016 and focused exclusively on food and beverage product risks.

Lloyd's and London Carriers

The London market continues to be a key market for product recall and contamination placements globally, providing underwriting expertise, flexible wordings and critical capacity on product recall and contamination placements aimed at the food/drink industry, automotive industry and consumer goods industry.

Dominant Lloyd's Syndicates underwriting product recall and contamination insurance include AXA XL, Hiscox, Talbot, MS Amlin and Apollo syndicates. Global insurers also offering London access points include Allianz Global Corporate and Specialty; HDI Global Specialty, and Swiss Re.

Additional London capacity is available through several Managing General Underwriters (MGU's). CFC and Perigon are two of the leading product recall MGU's in London. Lloyd's Broker Alwen Hough Johnson opened their Global Product Recall facility in 2020. Each MGU brings unique capacity to the market through their binder market relationships.

The Aon Client Treaty continues to be a valuable addition to London market capacity for Aon's product recall clients. This unique facility provides pre-secured capacity with A+-rated Lloyd's security and its specialist underwriting capabilities to Aon clients globally.

Some of the challenges to hit the London Market in 2020, leading into 2021, include the UK leaving the European Union resulting in each Syndicate setting up a Lloyd's Brussels capacity stamp that is reinsured back into the Lloyd's of London Syndicate. It is fair to say there has been some teething issues with the Brussels regulator, however, this is now operating very well.

In the height of the pandemic, several markets introduced COVID or pandemic exclusions to their policies. While the product recall and contamination market was not immune to this development, on the whole, most insurers were not requiring these exclusions on automotive and non-food risks with most Insurers insisting on adding them to restaurant contamination placements and on food service-related food risks. There were no major losses to the product contamination/recall market from COVID except on the restaurant contamination business that included an element of pandemic cover which was generally sub limited under the policy.

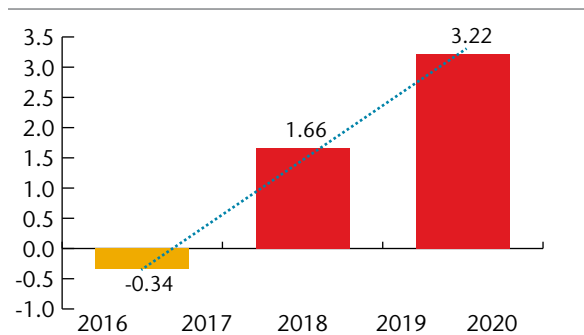
Cyber Clauses which have been phased in over the past two years in the Lloyd's of London market became mandatory in 2021. This cyber clarification is now mandatory on all Lloyd's programs as directed by the Prudential Regulatory Authority and requires syndicates to identify, quantify and manage exposure to cyber. Working together with the Lloyd's Market Association (LMA), syndicates have developed standardized cyber affirmative and cyber exclusion wordings.

Rates

Rates continued to tick up for 2020 with the median rate increase for all renewals at 3.22%. This compares to a median rate increase of 1.66% in 2019. However, in taking a deeper look at these rate increases, most increases have been targeted at middle market size companies and non-food products. The median rate increase for food and beverage products was unchanged over 2019.

MEDIAN RATE INCREASE 2018-2020 – PRODUCT RECALL AND CONTAMINATION RENEWALS

Median Rate Change 2018-2020



The median rate increase for companies with revenues of \$250 million and \$1 billion was 15.05% and the median rate increase for non-food product risks was 7.83%. Please note, we utilize the median rather than the average for rate calculations as this removes the volatility created by outliers who may have had an exceptionally high or low rate change (the rate may have been significantly influenced due to a claim or a significant change in exposure). The median of a sequence can be less affected by outliers than the average.

0% Median rate increase for food & beverage products

7.83% Median rate increase for non-food products

15.05% Median rate increase for middle market accounts

We do anticipate that 2021 rate increases should begin to moderate overall as available capacity and loss trends appear to be more favorable than in 2020. However, as our 2020 data suggests, both non-food and middle market risks will bear the brunt of any rate increases in 2021.

Limit and Retention Benchmarking

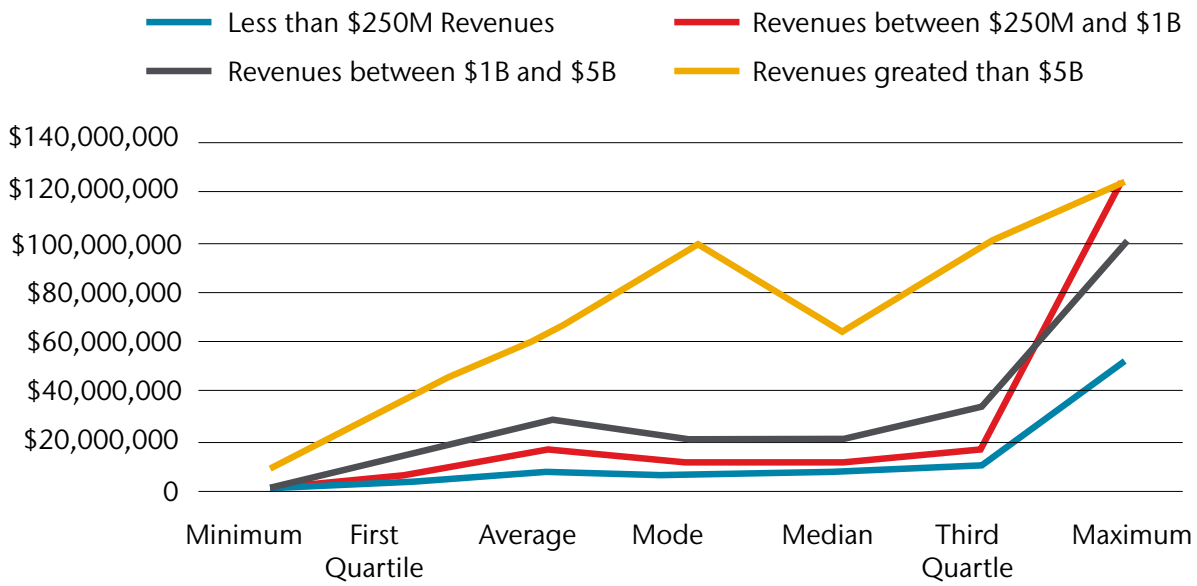
Aon's Crisis Management Practice maintains a proprietary database of purchasing trends. Reviewing historical purchasing trends is one method to consider in determining a program's optimal structure. Historical data can also assist in analyzing trends to plan for changes in pricing and risk retention, driven by the appetite of the insurance marketplace.

With these insights, our brokers are positioned to partner with insureds to have fact-based underwriter discussions, anticipate current and trending risks, and achieve best-in-class placement results. Our recommendations are backed by facts.

The data below is provided in a summary format; however, client-specific reviews based on exposures and product type are available. The charts below demonstrate the various limits and retention broken out by client revenues. In comparison to prior years, we are seeing clients taking both higher limits and retentions across the board. The mode represents the most commonly purchased limit or retention within the revenue band while the median represents the midpoint of all clients within the revenue band.

The average limits purchased in 2020 for all our renewals dropped by 7.2% which is mostly likely due to the economic uncertainty created by the pandemic. As companies recover during 2021, we anticipate an increase in the average limit purchased. The chart below provides the range of limits purchased across our portfolio based on client revenue size.

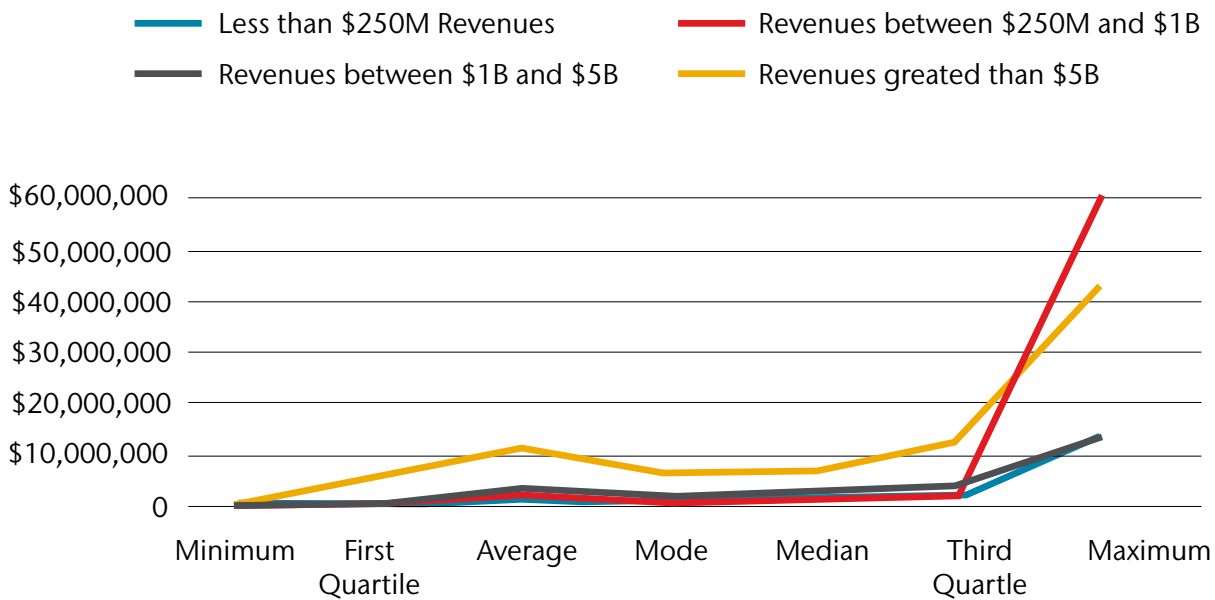
Limit Profiles - 2021 All Products



The average retention purchased in 2020 for all our renewals increased by 1.64%. which is mostly likely due to the economic uncertainty created by the pandemic and premium savings associated taken by clients for higher retentions. The increase in retention was consistent across all product categories, however,

smaller companies with revenues of less than \$250 million experienced an almost doubling of the retention increase at an average of 3.92%. The chart below provides the range of retention purchased across our portfolio based on client revenue size.

Retention Profiles - 2021 All Products



When determining the appropriate limit and retention, the peer benchmarking data provided above is but one tool to consider. One of the biggest factors in determining the size of a claim is the ability of the insured to be able to regain the consumer's confidence that their products are safe. Until such time as this occurs, the business interruption and extra expense losses can be staggering.

An additional tool that we make available to our clients to help gauge the appropriate limit and retention is through Aon Risk/View. This tool allows us to provide and review targeted limit and retention data specific to the client's product category and revenue size. We are then able to provide a more detailed evaluation and recommendation specific to our client's exposures.

“Risk/View allows us to provide actionable insights to you; through placement benchmarking, an assessment of market trends, a view of insurer capabilities, performance and financial security, and much more.”



Group and Peer Benchmarking - Sophisticated group and peer benchmarking solutions help us to identify gaps and opportunities by analyzing the buying behaviors of similar companies, by product, limit, deductible, industry or geography.



Insurer Performance - Aon's proprietary analytical insights highlight competitive insurers based on their recent quoting behaviors and appetite. Based on a client's insurer selection priorities, Aon's proprietary data and methodologies will help identify insurers that may be a good fit based on their financials, behaviors, and performance.



Market and Pricing Trends - We monitor market trends around the globe by capturing risk data across thousands of placements each month. Our advice regarding optimal broking and placement strategies is based on insights from this data.

Product Recall Claims Management

Product Recall and Contamination insurance policies present unique claims challenges. At their most basic, these types of policies are a hybrid between property and liability policies. Essentially, a liability type of event that has or would cause bodily injury or property damage and results in a recall triggers the policy. However, insured losses tend to more closely follow property losses including recall, replacement, business interruption and extra expenses. Sublimits for government recall, adverse publicity and impaired property extensions may also come into play. Complicating the matter further is the issue of “other

insurance” policies that may contribute or partially contribute to the loss.

If a contamination or recall policy’s other insurance clause states that it is excess to other valid and collectible insurance, the insurer may request other policies. An insurer should not be requesting these policies as a pretext to deny coverage; rather, it asks for those policies to determine whether any other insurance, such as CGL or property, may contribute financially to the loss. We have outlined below examples where there may be overlapping insurance coverage.

Other Insurance Policies



When an insured faces a situation where there might be more than one insurer or insurance policy on a risk, it is very important to understand the other insurance clauses. An important thing to remember is that other insurance clauses are a means whereby insurers try to allocate liability and expense by and between

themselves. However, these provisions should not impact or negate an insured’s right to policy benefits, and in no event should an insurer’s potential rights against another insurer under another insurance clause be allowed to be put before your rights.

Product Recall Claims Preparation

Professional claims preparation and consulting throughout the process will help to expedite the recovery process. How a claim is prepared and presented is key in achieving a fast and favorable recovery so focus can be directed to getting your business back on track. This process requires defined objectives, a comprehensive strategy, timelines, documentation, and most importantly, a dedicated team

that executes the plan. Insurers often engage experts to assess the magnitude of the claim on their behalf, such as independent adjusters and insurance claim auditors. Without a dedicated team leading the claim efforts during what is often a period of high stress and great uncertainty, the claims process can easily go off the track.



The application of sublimits and coverage provisions makes it important to have an experienced claims professional help to segregate costs appropriately to promote maximum recovery, and to ensure that all loss components are identified and included in the claim. Proper categorization is a significant issue we see with our product recall clients.

Arguably, the most subjective part of a recall claim is the process of quantifying loss of profits. Leveraging detailed analysis of pertinent financial statements, forensic accountants will use proven analytic methodologies to calculate and document the loss. Preparing detailed loss reports and ensuring key facts are clearly communicated to the adjusters will help clarify and minimize discrepancies.

Conclusion

Despite a challenging year, the global product recall and contamination insurance marketplace remains vibrant. Coverage continues to evolve as new exposures including COVID-19 and Cyber become better understood in the context of product safety and potential recall events. The number of carriers and capacity has increased steadily over the past several years both of which indicate a stable insurance market.

It is important to note, as we do each year in this report, that good risk management of exposures surrounding product safety and recalls cannot be addressed by risk transfer alone. A properly prepared firm needs to have well thought out plans to minimize the frequency of events in the form of quality control, testing procedures, audit and vendor management. Equally importantly, the prepared firm will have formal

response plans for traceability, product retrieval and crisis communications plans to mitigate any losses and quickly reestablish consumer confidence in the safety of your product. Both preparedness and response plans need to be regularly tested through mock recalls and continuously adjusted for best practices and lessons learned. Together with a risk transfer program that appropriately address unique exposures, limits and retentions, those pre-incident and response plans will address the risk of recalls in a holistic manner.

All descriptions, summaries or highlights of coverage are for general informational purposes only and do not amend, alter or modify the actual terms or conditions of any insurance policy. Coverage is governed only by the terms and conditions of the relevant policy.

Aon Product Recall Global Team



About the Author

Bernie Steves is the Managing Director and National Practice Leader of the Crisis Management Practice based in Denver, CO. Bernie is recognized as one of the country's leading product recall, contamination, and food borne illness insurance specialists. His Emerging Trends in Product Recall & Contamination Risk Management has been published annually for ten years and is viewed as the industry's authoritative source for risk management information related to product recall.

With more than thirty years' experience in this specialty risk management class, Bernie works with some of the largest global companies to address product recall, contamination, and food borne illness exposures. Bernie's background includes years of experience from both the underwriting and specialty broking disciplines having specialized in this field since 1987.

He is a frequent author and speaker on the topics of product contamination and recall insurance. Bernie is a graduate of the University of Arizona and holds a Master's Degree in International Management from the American Graduate School of International Management (Thunderbird). He completed his International HACCP Certification from North Carolina State University.

Bernie is a licensed insurance producer and a licensed surplus lines insurance producer and a 2016 and 2021 Risk & Insurance® Power Broker® award recipient.



Sources

1. <https://www.gov.uk/government/news/whirlpool-to-recall-a-further-55000-washing-machines>
2. <https://www.cpsc.gov/Recalls/2020/ring-recalls-videodoorbells-2nd-generation-due-to-firehazard>
3. <https://www.cdc.gov/listeria/outbreaks/eggs-12-19/index.html#:~:text=CDC%2C%20several%20states%2C%20and%20the,Almark%20Foods%20of%20Gainesville%2C%20Georgia.&text=Do%20not%20eat%2C%20sell%2C%20or,recalled%20hard%2Dboiled%20egg%20products.>
4. <https://www.cdc.gov/parasites/cyclosporiasis/outbreaks/2020/index.html>
5. <https://www.cdc.gov/salmonella/newport-07-20/index.html>
6. <https://www.reuters.com/article/health-coronavirus-china-meatpacking/china-suspends-pork-imports-from-german-plant-after-coronavirus-cases-idINKBN23P2YX>
7. <https://www.fda.gov/food/food-safety-during-emergencies/employee-health-and-food-safety-checklist-human-and-animal-food-operations-during-covid-19-pandemic>
8. https://www.canr.msu.edu/agrifood_safety/index
9. <https://foodsafety.ces.ncsu.edu/covid-19-resources/>
10. <https://www.fda.gov/news-events/press-announcements/covid-19-update-fda-warns-consumers-about-hand-sanitizer-packaged-food-and-drink-containers>
11. <https://www.reuters.com/article/us-health-coronavirus-russia-ventilator/russian-factory-recalls-ventilator-model-linked-to-hospital-fires-idUSKBN23H0UX>
12. <https://www.fsis.usda.gov/wps/wcm/connect/388d5b27-b821-42ba-a717-526f3bc68b4a/FSISRoadmaptoReducingSalmonella.pdf?MOD=AJPERES>
13. <https://www.marketwatch.com/story/chipotle-to-pay-largest-ever-food-safety-fine-25-million-for-illnessoutbreak-that-sickened-1100-2020-04-21> and <https://www.chipotle.com/foodsafety>
14. <https://www.insurancejournal.com/news/southcentral/2020/05/04/567392.htm>
15. <https://www.independent.co.uk/news/uk/crime/sheep-farmer-tesco-baby-food-metal-bitcoin-cryptocurrency-rochdale-salmonella-a9665771.html>
16. <https://www.stout.com/en/insights/report/2020-automotive-defect-and-recallreport>
17. <https://www.nhtsa.gov/press-releases/safecar-app>

COVID 19 / CORONA VIRUS RESOURCES

(Visit these Coronavirus specific sites regularly for the latest news and advice.)

World Health Organization:

<https://www.who.int/news-room/q-a-detail/q-a-coronaviruses>
Center for Disease Control and Prevention:
<https://www.cdc.gov/coronavirus/2019-ncov/faq.html>

US Food & Drug Administration:

<https://www.fda.gov/food/food-safety-during-emergencies/food-safety-and-coronavirus-disease-2019-covid-19>

Food Standards Agency (UK):

<https://www.gov.uk/government/publications/covid-19-guidance-for-food-businesses/guidance-for-food-businesses-on-coronavirus-covid-19>

European Food Safety Authority:

<https://www.efsa.europa.eu/en/news/novel-coronavirus-where-find-information>

Food Standards Australia New Zealand:

<https://www.foodstandards.gov.au/consumer/safety/Pages/NOVELCORONAVIRUS-AND-FOOD-SAFETY.aspx>

Contacts

If you have questions about your coverage or you are interested in seeking coverage, please contact your Aon broker.

For additional information:

BROKING

Denver
Bernhard Steves
(312) 381-4945
bernie.steves@aon.com

Chicago
Mary Duhig
(312) 381-4503
mary.duhig@aon.com

Marty Detmer
(312) 381-5114
marty.detmer4@aon.com

Jennifer Peters
(312)381-2022
jennifer.peters@aon.com

New York
Jean McDermott-Lucey
(212) 441-1314
jean.mcdermott-lucey@aon.com

Jonathan McMahon
(212)441-1650
Jonathan.mcmahon@aon.com

Natalia Tobajas
(212)441-1006
natalia.tobajas@aon.com

Phoenix
Curtis Ingram
(415) 486-7655
curtis.ingram@aon.com

London
Kary Yates
+44 (0) 20 7086 4411
kary.yates@aon.co.uk

Hal Shaw
+44 (0) 20 7086 4623
hal.shaw@aon.co.uk

Nick Jacobs
+44 (0) 20 7086 6219
nick.jacobs1@aon.co.uk

Matthew Mills
+44 (0) 20 7086 1841
Matthew.mills6@aon.com

Bermuda
Chris Heinicke
(441) 278-1222
seamus.durkin@aon.com

Seamus Durkin
(441) 278-1222
seamus.durkin@aon.com

Singapore
Heath Jose
+61 2 9253 8299
heath.jose@aon.com

Sydney
George Dunn
+61 2 9253 7107
george.dunn@aon.com

CLAIMS

Claims Advocacy/Legal
Margo Scher
(312)381-4655
Margo.Scher@aon.com

Mark Fox
+44 (0) 20 7086 3595
mark.fox@aon.co.uk

Mark Robertson
+44 (0) 12 4570 2312
Mark.robertson@aon.co.uk

Claims Preparation and Forensic Accounting
Todd Gillman
(312)381-5958
Tood.Gillman@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Copyright 2021 Aon plc

Disclaimer: *This document has been provided as an informational resource for Aon clients and business partners. It is intended to provide general guidance on potential exposures and is not intended to provide medical advice or address medical concerns or specific risk circumstances. Due to the dynamic nature of infectious diseases, Aon cannot be held liable for the guidance provided. We strongly encourage visitors to seek additional safety, medical and epidemiologic information from credible sources such as the Centers for Disease Control and Prevention and World Health Organization. As regards insurance coverage questions, whether coverage applies, or a policy will respond, to any risk or circumstance is subject to the specific terms and conditions of the policies and contracts at issue and underwriter determination.*

While care has been taken in the production of this document and the information contained within it has been obtained from sources that Aon believes to be reliable, Aon does not warrant, represent or guarantee the accuracy, adequacy, completeness or fitness for any purpose of the report or any part of it and can accept no liability for any loss incurred in anyway by any person who may rely on it. Any recipient shall be responsible for the use to which it puts this document. This document has been compiled using information available to us up to its date of publication.

All descriptions, summaries or highlights of coverage are for general informational purposes only and do not amend, alter or modify the actual terms or conditions of any insurance policy. Coverage is governed only by the terms and conditions of the relevant policy.

