



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL

VICTUAL
RETHINKING RISK AND INSURANCE



FOOD AND GROCERY PRODUCT RECALL SURVEY REPORT

VICTUAL & AUSTRALIAN FOOD AND GROCERY COUNCIL

MARCH 2017

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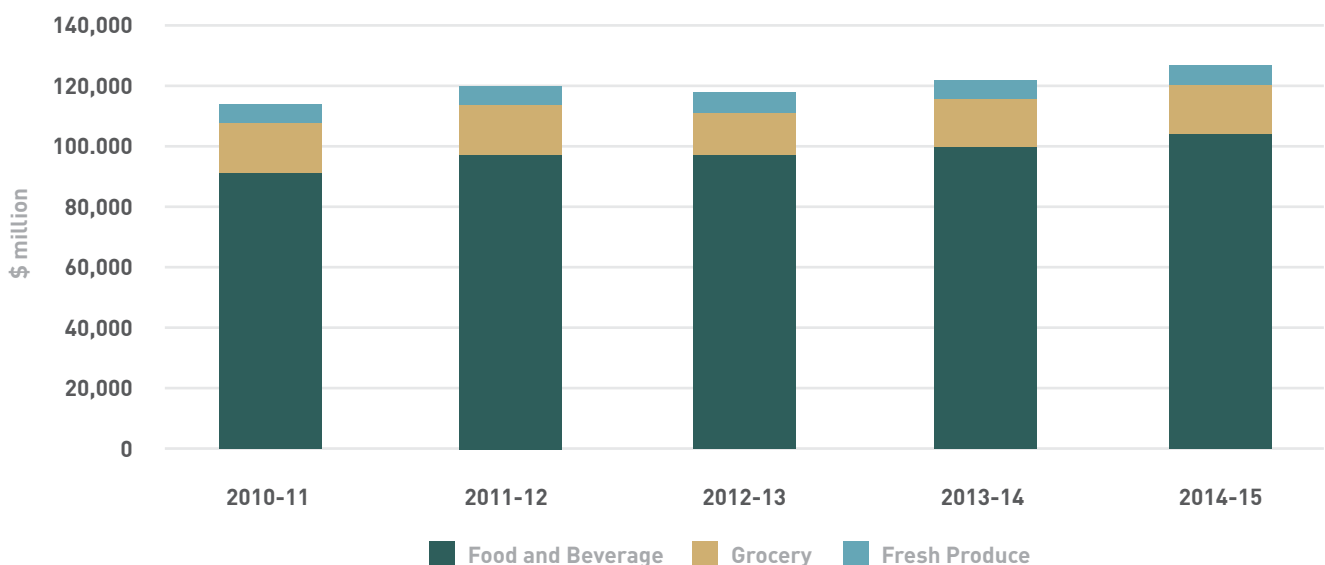
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ABOUT AFGC

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 180 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

Composition of the defined industry's turnover (2014-15)



With an annual turnover in the 2014-15 financial year of \$125.9 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast-moving consumer goods sector is Australia's largest manufacturing industry. Representing 33.3 per cent of total manufacturing turnover, the sector accounts for over one quarter of the total manufacturing industry in Australia.

The diverse and sustainable industry is made up of over 27,745 businesses and accounted for over \$66.6 billion of the nation's international trade in 2015-16. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends \$541.8 million in 2011-12 on research and development.

The food and grocery manufacturing sector employs more than 307,000 Australians, representing about 3 per cent of all employed people in Australia, paying around \$16 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.



ABOUT VICTUAL

The food and beverage industry in Australia is one of the country's most important industries. We have a fantastic reputation globally for our quality and consistency, but how prepared are we to navigate the multitude of risks that the participants in this industry face on a day to day basis. Victual, has become a specialist market leader in the delivery of tailored risk management strategies for the unique risks faced by the food and beverage industry. By focusing attention on this critical business function, we switch the focus from loss prevention to value creation, and in doing so unlock hidden profits from your value chain.



David Goodall and Peter McGee have over 20 year's experience in the insurance and risk industries respectively. They have passionately worked with numerous entities in the food and beverage industry to overcome the risk management challenges and complexities that they face every day to help create real value for those businesses.

Visit the Victual website: <http://www.victual.com.au/> for more information.



FOREWORD AFGC

Food and beverage manufacturers strive to ensure all products meet the highest possible standards. They take all necessary steps to ensure consumer health risks are minimised and all relevant legislation, government and industry guidelines are adhered to.

Product Safety is the number one priority.

Australians enjoy one of the safest food supply chains in the world, but food and beverage companies recognise that steps must be taken to make it even safer. Ensuring the safety of products – and maintaining the confidence of consumers – is the single most important goal of our industry.

Product safety is the foundation of the food, beverage industry.

Manufacturers maintain the absolute highest standards of product safety, working closely with government, regulators and key stakeholders to ensure that ingredients and products, regardless of where they originate, meet these standards.

All food and beverage businesses must be able to quickly remove products from the marketplace to protect consumer health and safety. In the unlikely event that something does go wrong a well-structured and tested product recall and withdrawal plan is an imperative.

To understand the industry level of preparedness and response capability the AFGC, in collaboration with Victual, conducted a survey of member companies. The survey aims to develop a deeper understanding of the processes in place to protect Australian consumers and will act as a catalyst to further improvements.

The following report details the findings of the survey and will act as a catalyst to the development and promotion of comprehensive food safety initiatives for AFGC members.

INTRODUCTION

Product recall is a known exposure for the food, beverage and grocery industry that can have catastrophic consequences for the companies involved if not well handled.

Product quality and safety are the shop window of a brand. Internal manufacturing errors, serious design faults or malicious tampering mean that, instead of highlighting the strength of the company's products to customers, the exact opposite can occur. The consequences to a businesses' profits and balance sheet can be severe, even fatal.

As supply chains get broader and companies are increasing the number of markets they export to, product recalls have become incredibly complex and costly exercises. In addition to the recall expense, there can be business interruption costs, loss of contracts, third-party liability and, of course, reputation damage. Meeting the requirements of multiple regulators can be a major issue, as regulators increasingly monitor what is happening in other countries and if a product is recalled in one territory, companies should expect regulators to react elsewhere.

The risk landscape is constantly changing with, for example, the benefits of social media in marketing products having a dangerous flip side when things go wrong. Consumer safety is growing in importance to governments.

No company can completely eradicate the possibility of a product safety issue. They can, however, reduce the potential impact in a number of ways:

- Businesses need a robust system for monitoring customer complaints, including through social media.
- Small, relatively cheap measures, such as reducing batch quantities and storing batch samples, can reduce recall costs.
- Systems that track components or raw materials through the supply chain can help to pinpoint the source of defects.
- Good communication between suppliers and retailers regarding product and packaging changes can reduce the risk of unpleasant surprises.
- A robust and practised recall and crisis management plan will limit the impact of a recall event.

Throughout the survey, we have considered the potential for a recall to escalate to a crisis. For this purpose, we define them as follows:

- A recall is an action taken to remove from distribution, sale and consumption, food which may pose a health and safety risk to consumers. (reference is FSANZ, Food Industry Recall Protocol)
- Crisis is an abnormal and unstable situation that threatens the organisation's strategic objectives, reputation or viability. (reference is from BS 11200, Crisis Management – Guidance and good practice)

THE RECALL SURVEY

Purpose

In December 2016, Victual and the AFGC collaborated to complete this industry survey into the preparedness of the food and beverage industry for product recall. The online survey was distributed to AFGC members and Victual clients.

The respondents to the survey were from a cross section of organisation size. It appears organisations more likely to respond were those with a greater exposure, i.e. manufacturers, ingredient suppliers and importers/exporters, given their knowledge and preparedness.

Victual will work with the AFGC to further support the survey respondents, and the food and beverage industry, to manage recall events successfully and in doing so, limit the impact of these events on business and the industry.

Survey Focal Points

RESPONDENTS

This section of the survey helped us understand the company profiles and characteristics of each of the respondent businesses.

PREPAREDNESS

This section analyses how prepared and how proactive the survey respondents are when it comes to product recall.

RESPONSE

Response is the activation stage of the Product Recall Plan. This section indicates how their preparedness translates to the survey respondent's ability to activate Recall Plans.

RISK TRANSFER

This section assesses how the survey respondents are using insurance to protect their businesses from this key exposure.

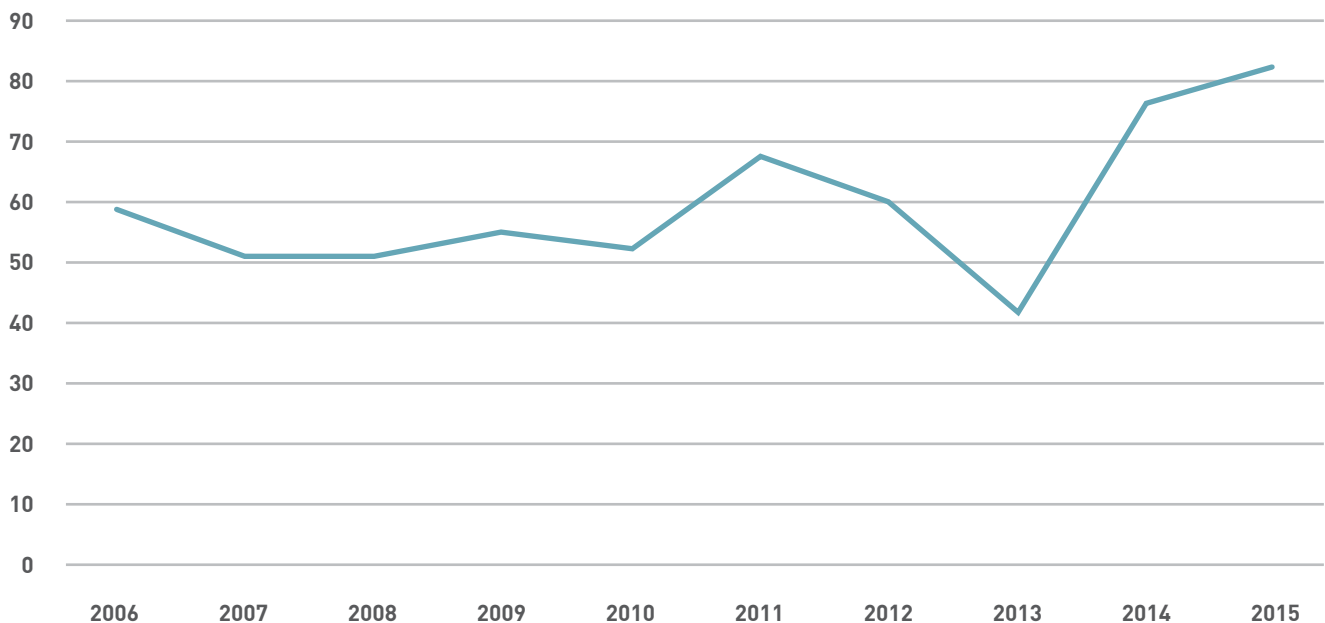
Key Themes

- Organisations are generally well prepared for a recall, but not as well prepared for a crisis.
- Voluntary product withdrawals are much more common than mandatory recalls indicating a proactive response to issues by the survey respondents.
- The survey respondents recognise the need to be able to access subject matter experts to support a successful recall.
- The survey respondents are under insured compared to the exposure faced by product recall.

BACKGROUND

Only a small proportion of the survey respondents have any experience with a live recall event, and those that do have predominately activated company initiated recalls or product withdrawals. Product withdrawals are proactive and, are less likely to escalate into crisis scenarios. Recent high profile recalls that have escalated to the crisis stage have resulted in significant impacts on the businesses and industries affected.

Number of recalls per year (2006-2015)



Overview

Food Standards Australia New Zealand (FSANZ) provide regular updates on reported food related recalls in Australia. Recent trends show an increase in the number of recalls, with 76 and 81 reported in 2014 and 2015 respectively compared to the 10-year average of less than 60 per year.¹

The increase in recent years is largely a result of an increase in recalls due to undeclared allergens. Undeclared allergens accounts for 32% of all recalls and microbial contamination, in particular salmonella and listeria, accounts for 31% of all recalls in recent years.

However, FSANZ statistics are based on reported recalls, which are mandatory or company initiated recalls due to known food safety issues. Our survey indicates that company initiated (voluntary) recalls are much more common, with 90% of product recalls being company initiated.

Withdrawals are normally associated with a defect that has no food safety implication, for example it could be an underweight product or a taste issue that prompts the

company to withdraw the product to protect the brand and reputation of the business.

However, if not well handled, withdrawals can also escalate and cause brand damage. Understanding the potential for a withdrawal to escalate if not well handled will ensure businesses react quickly and proactively to prevent lasting brand damage.

Observations

Less than a third of organisations who responded have had to implement their recall plan;

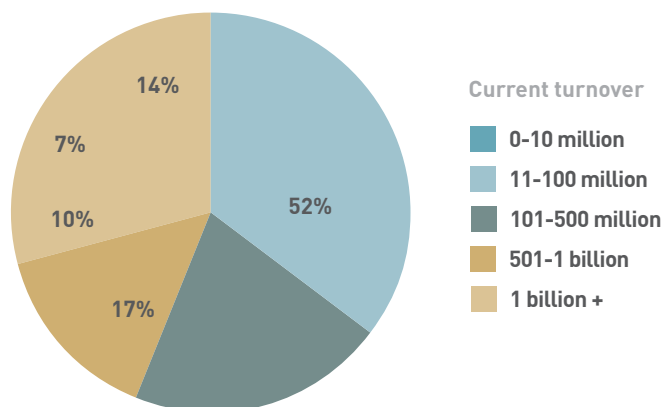
The majority of organisations who activate their recall plan do so voluntarily;

Very few organisations ever experience first-hand a recall event that has escalated to a crisis.

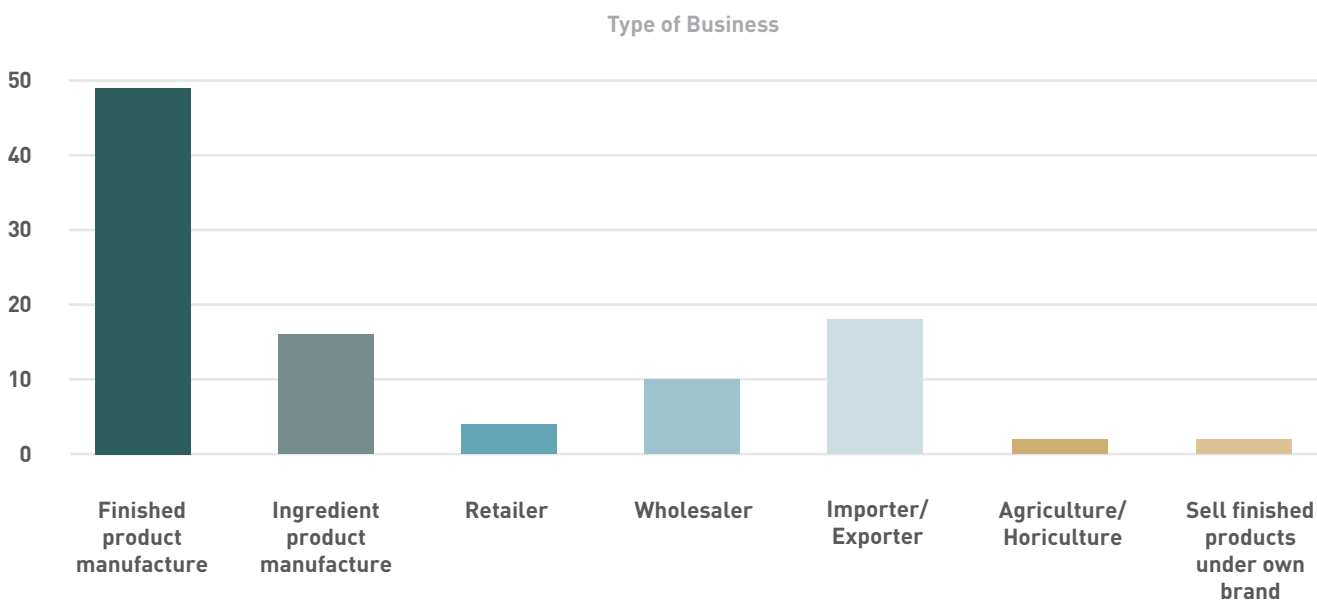
¹ <http://www.foodstandards.gov.au/industry/foodrecalls/recallstats/Pages/default.aspx> (Accessed 8 Dec. 2016).

COMPANY PROFILE AND CHARACTERISTICS

The recall survey consisted of 46 respondents with various sizes in the food, beverages and grocery industry.



Types of business varied, however, 49% of the survey respondents were in the Finished Product Manufacturing part of the industry value chain.



SURVEY RESULTS

PREPAREDNESS

The survey indicated that respondents appear to be relatively well prepared for a recall event. They have plans, which they review and test regularly and they have trained technical people to assist. They are confident in their ability to trace their products.

Overview

Preparing for a recall should entail more than simply populating a recall plan template downloaded from the internet and filing it for future use. The recall plan is a critical tool that needs to be understood by those who will be called upon to use it, regularly reviewed to ensure it is relevant and tested to ensure it is effective.

FSANZ provides guidance via their Food Industry Recall Protocol and associated templates.² These are useful tools to help prepare but should be supported by the necessary training and testing to make sure they will be effective when called upon.

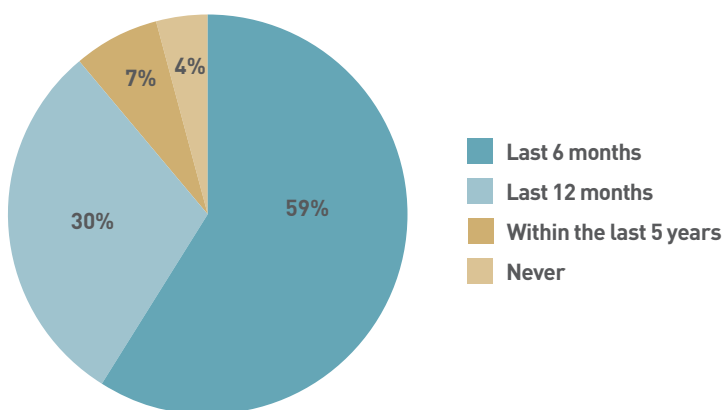
Responses to the survey indicate that the industry understands the importance of preparing effectively for a recall.

Recent high profile incidents have highlighted the differences between recall planning and crisis management. There is a growing understanding of the need to be appropriately prepared for a recall however responses to the survey indicate that the industry may not be as well prepared for a crisis.

Observations

- Respondents are well prepared for a recall.
- Plans are documented, reviewed and tested.
- Crisis preparation is not yet to the level of recall preparation.

100% of respondents said they have a recall in place with 59% of respondents reviewing on a 6-month frequency.



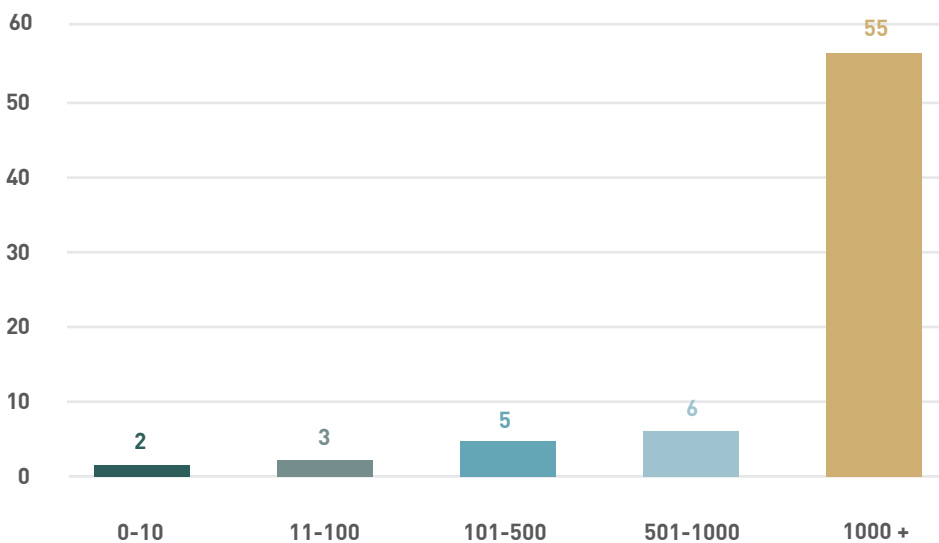
² <http://www.foodstandards.gov.au/industry/foodrecalls/firp/Pages/default.aspx> (Accessed 23 Nov. 2016).

Resources

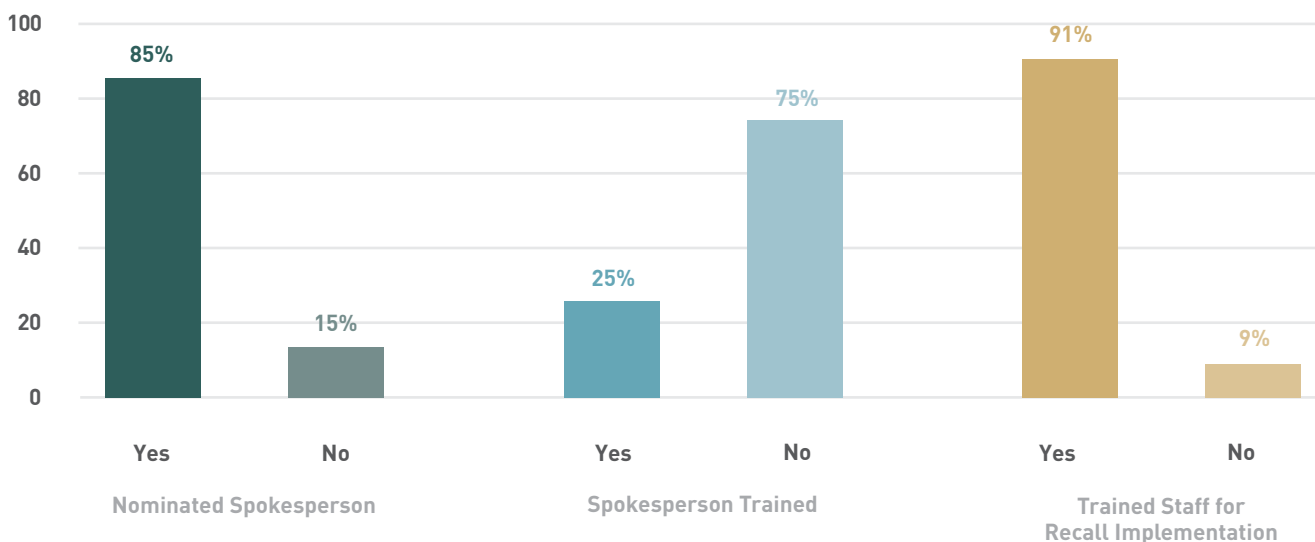
Resources within the business to handle a recall or withdrawal are crucial to a successful outcome. Without resources who are technical or adequately trained in the recall process, the business could potentially struggle in a recall scenario.

Most businesses have a small number of Quality Assurance (QA) staff. Most businesses train their staff for recall implementation. A small portion of respondents don't have QA staff and don't provide training.

Average Number of QA Staff Turnover (\$ million)



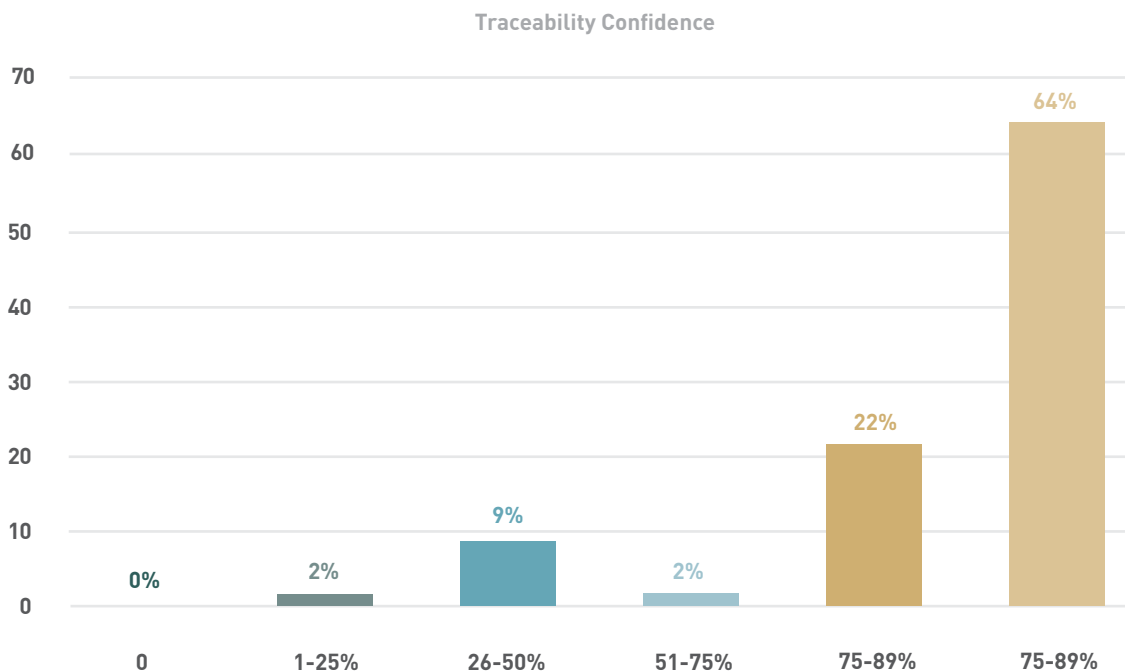
85% of businesses that responded have a nominated spokesperson, however 25% of these businesses have trained that spokesperson for the activation stage of a Product Recall.



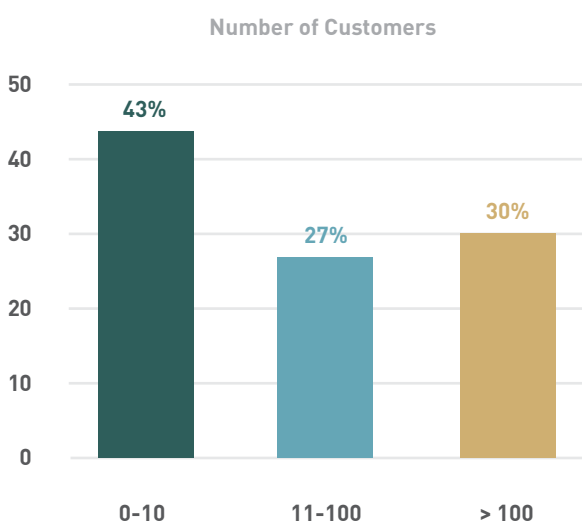
Traceability

Traceability processes are essential for a successful recall. Your ability to recover unsafe products can protect your consumers from anything that can be harmful to them. Unsafe products require robust traceability processes.

The industry has a high level of confidence on traceability. 86% of respondents suggesting a confidence level greater than 75%.



There is a broad spread in the number of customers amongst survey respondents.

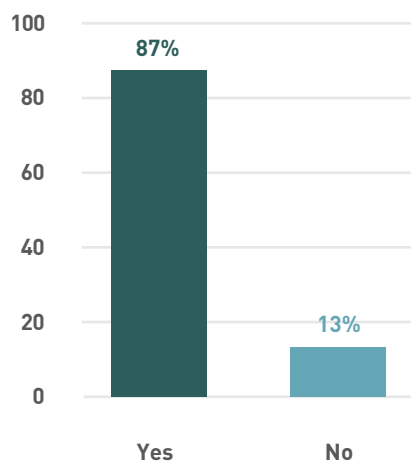


Mock Recall

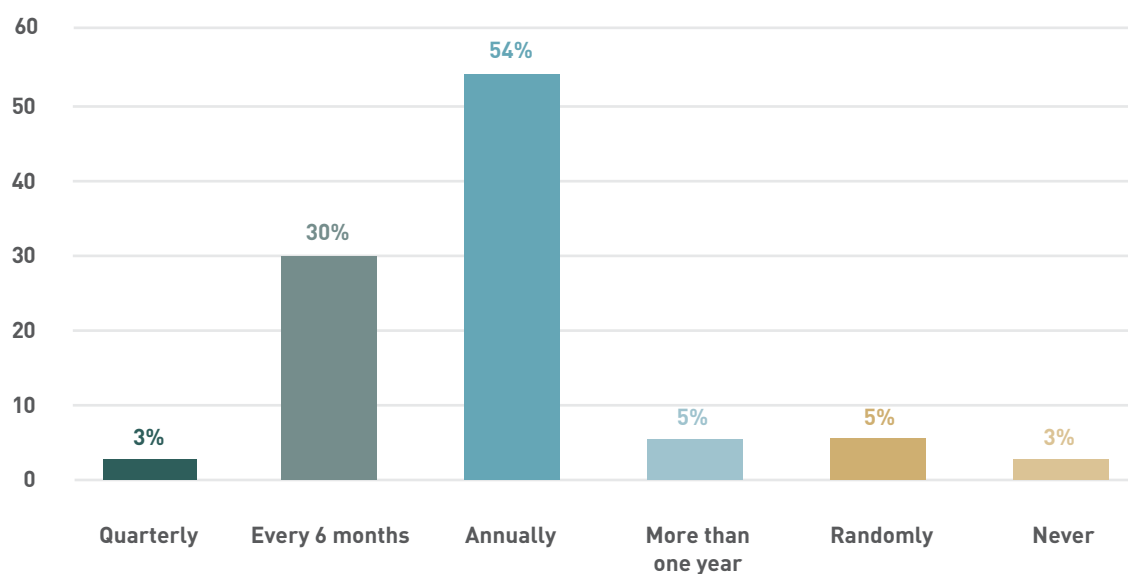
Mock recalls are essential in testing the recall plan that the business has in place. It is crucial for each person to understand their role and responsibility when it comes to a recall. Mock recall can prepare the business for when an actual recall or withdrawal occurs.

87% of participants conducted a mock recall at least once per year to test their plan.

Mock Recalls to Test



Mock Recall Frequency



RESPONSE

Overview

There is significant guidance documentation on the technical response to a recall. The FSANZ Food Recall Protocol will step you through the required actions and provides the templates required to navigate. However, the survey confirmed that organisations understand the need for specialist resources in recall scenarios. The types of services can vary, but the majority of respondents could see the need for specialist services such as:

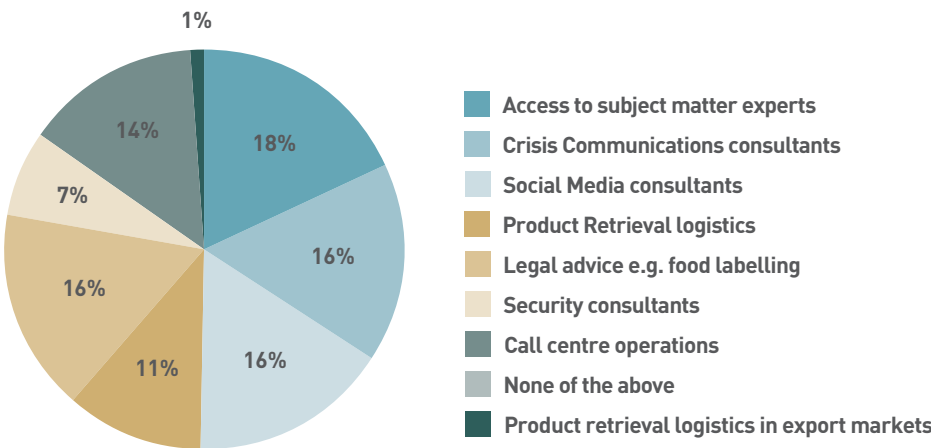
- Subject matter experts to assist with specific food safety related issues;
- Crisis communication specialists;
- Social media specialists;
- Product retrieval logistics support;
- Legal advice;
- Call centre operations.

Recent high profile case studies of crisis scenarios (not just recall related crisis) demonstrate how critical the spokesperson is in minimising the impact of a crisis.

Observations

- Food businesses recognise the need for specialist advice and support in a recall scenario.
- A third of all businesses have either no nominated spokesperson or have not trained their spokesperson.

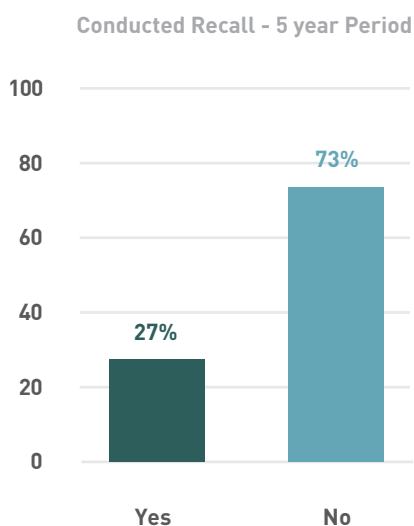
Resources Required for Recall Response



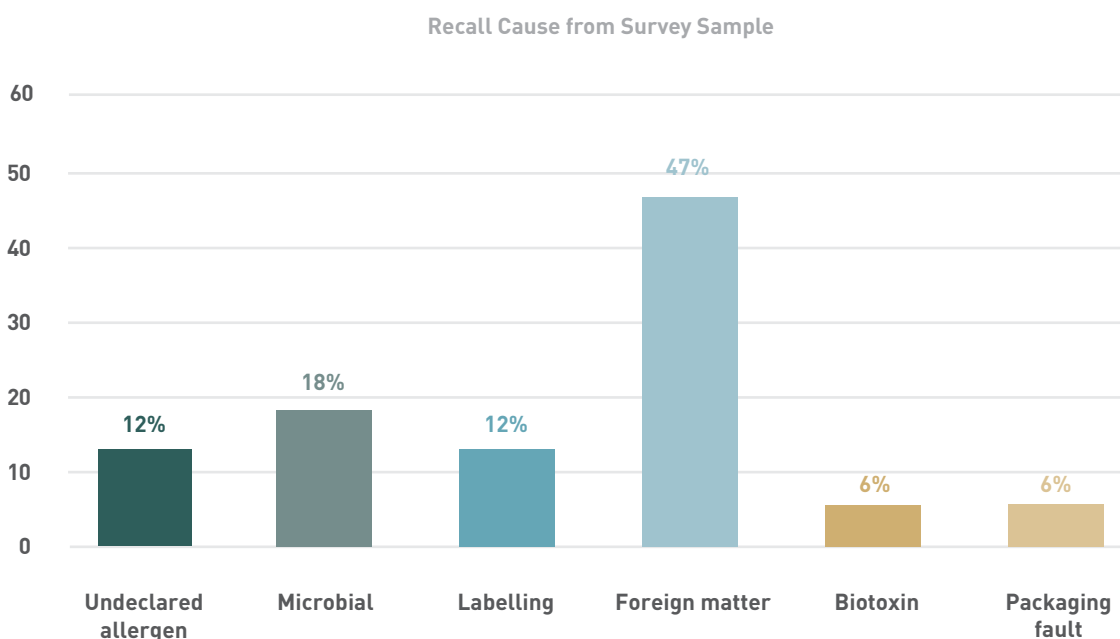
Activation

This section of the survey considered the experience survey respondents had had in relation to recall.

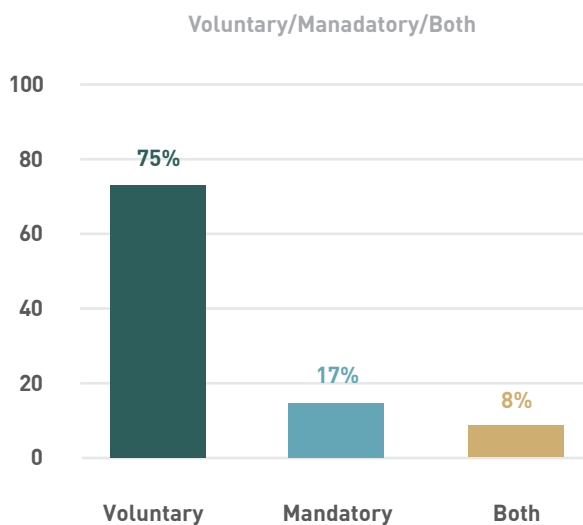
The survey tells us that respondents are generally well planned for recall and fortunately only 27% of the respondents had to activate their recall plan. Keeping the recall plan up to date and current is essential as you never know when you and your business may need to activate a recall or a withdrawal.



The cause of recall from our limited sample of survey respondents is obviously different to the FSANZ statistics (refer page 7), which reports all recalls. FSANZ statistics tell us that undeclared allergens and microbial contamination are the most common causes whilst our survey respondents experience has been dominated by foreign matter incidents.

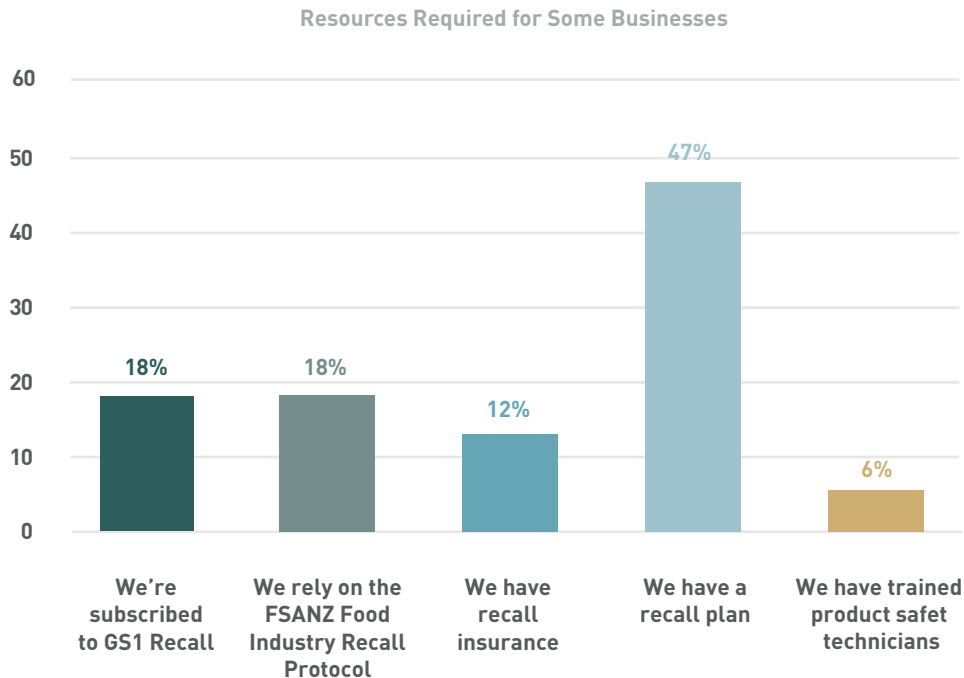


75% of respondents who had activated their recall plan had a voluntary (company initiated) recall. 17% had a mandatory recall and with 8% having both.



GS1

18% of respondents stated that they have a GS1 Recall subscription. Online Recall software that ensure recall communications are tracked and recorded.



RISK TRANSFER

An essential component of protecting an organisation's balance sheet is the transfer of the risk of a product recall escalating in to a crisis through the purchase of insurance. An insurance policy is complex, but it is a critical contract that needs to be understood, so that it responds in the way you expect it to. For example, understanding the difference between a stand-alone contaminated products insurance policy and a product recall extension under Public & Products Liability policies is essential to ensure that you are not exposed to some of the major costs relating to a recall, such as:

- Logistics. Tracing and returning the defective products.
- Repair or destruction and replacement. Costs can mount, exponentially, if many territories are involved.
- Third-party expenses, for example to remove the affected products from their shelves and lose business.
- Laboratory and other investigation costs.
- Legal and other professional advice.
- Business interruption. If a plant or production line must be closed for weeks or even months while the problem is corrected, the loss of revenue can be the largest single element of the cost.
- Cleansing of contaminated premises or redesign and re-engineering.
- Extra expenses during the recall, such as temporary staff and consumer help lines.
- Brand restoration and rehabilitation. Advertising and other promotional costs can be high, depending on the severity of the problem and extent of distribution.

	Recall Express in a Product Liability Policy	Product Recall Policy
Accidental Contamination	✓	✓
Malicious Tampering	✗	✓
Product Extortion	✗	✓
Government Recall	✗	✓
Advertising, Transport and Destruction	✓	✓
Consultant and Advisor Costs	✗	✓
Defence Costs	✗	✓
Replacement Costs	✗	✓
Retailer Recall Costs	✗	✓
Rehabilitation Expenses	✗	✓
Third Party Financial Loss (via endorsement)	✗	✓

Observations

- 81% of organisations purchase product recall insurance, however 1/3 of that insurance is purchased as an extension of their public and products liability coverage.
- 19% of organisations do not purchase product recall insurance at all.
- Research estimates that the average global direct cost of a product recall is US\$10m.³
- 63% of survey respondents purchase less than \$10M in product recall insurance.

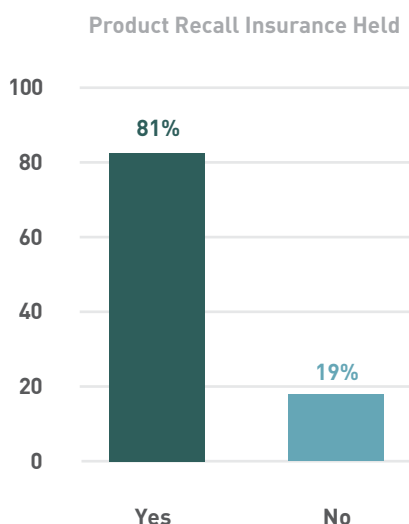
Contractual arrangements that allow retailers to reclaim their costs from suppliers or manufacturers are common. In practice, shifting the risk to a financially weaker partner does not necessarily reduce the exposure if the supplier does not have adequate insurance protection in place, as highlighted by 36% of organisations purchasing product recall extensions under their public & products liability policies. The table above provides a summary of the differences between a full product recall insurance policy and an extension to the public and product liability policy.

³ <http://www.foodsafety magazine.com/signature-series/recall-the-food-industrys-biggest-threat-to-profitability/> (Accessed 1 Mar. 2017).

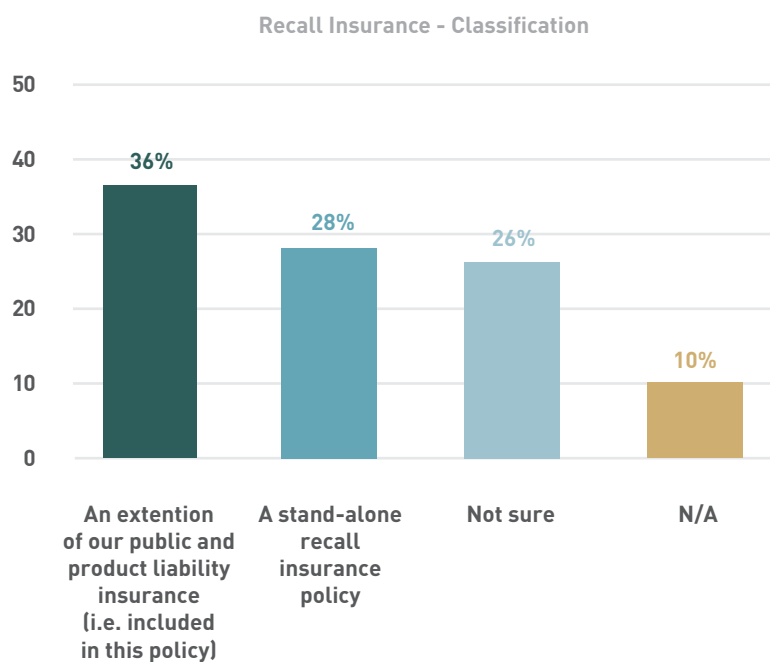
Insurance

Contaminated product insurance was designed to protect organisations against the financial loss caused by a product contamination whether accidental or malicious. This means that impact of a product recall on your balance sheet can be minimised.

When you consider the costs of a recall, it is interesting to note that 19% of organisations retain the risk on their balance sheet.

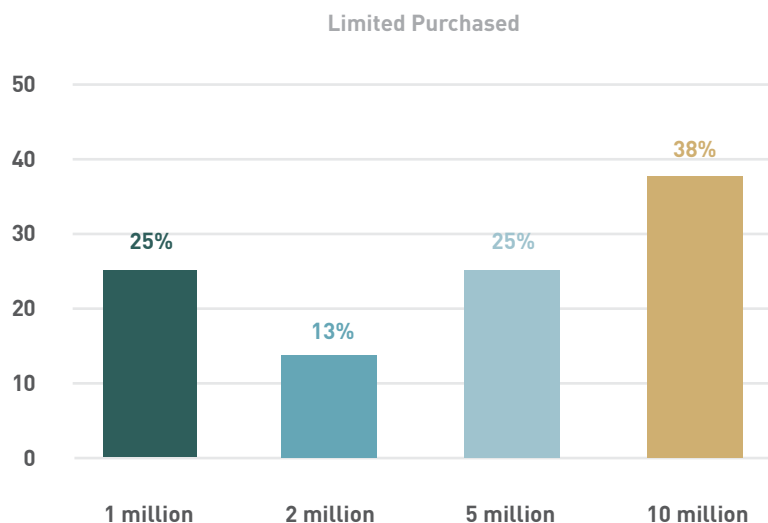


Product liability insurance is not a substitute for contaminated products coverage. Product liability insurance only comes into play if the product has entered the supply chain and causes physical damage or bodily injury. Various extensions are available to this coverage, but they only cover direct recall expenses. Contaminated products insurance protects the company's revenue, balance sheet and contracts with customers, and therefore provides support to the company's reputation and its brand.





As highlighted already there are many direct costs that are incurred when a recall occurs. Studies report that the average global cost of a recall is US \$10 million.⁴ It is interesting to note that 62% of respondents purchase significantly less than this amount. So, do organisations really understand the potential exposure and have they assessed the impact it could have on the balance sheet and its stakeholders.



⁴ <http://www.foodsafetymagazine.com/signature-series/recall-the-food-industrys-biggest-threat-to-profitability/> (Accessed 1 Mar. 2017).

NEXT STEPS

The survey received 46 responses. The data collected from the survey respondents has demonstrated the importance of being proactive and prepared for a recall or withdrawal situation. Being proactive can help ensure the safety of the company's customers and the reputation of the brand.

The survey tells us most organisation have a plan, but not as many are prepared for the potential for a recall to escalate into a crisis. The survey respondents acknowledged a need for access to specialist resources and regular testing of the plan. It is also apparent that the industry does not carry the level of insurance likely required to cover the costs of a recall.

What are your next steps?

How confident are you that your organisation can trace your products in a product recall situation, recover them before any injury occurs to customers and in turn protects your brand and reputation.

Understanding the process within your business and resources to confidently respond to a recall will be paramount to protect your business longevity.

"Virtual Recall Management Process"



How can we help?

Victual will work with the AFGC to provide guides to members to support the management of this key risk control process. Stay tuned to the AFGC website: <http://www.afgc.org.au> for more updates.





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