



Food Production Industry's Unique Exposures to Loss

Special Attention to Insurance Coverage is Required

Food manufacturers require special insurance coverages and are exposed to a variety of potential losses, several of which are unique to the food industry. Virtually all businesses face loss to property by fire, theft, or severe weather, as well as liability from claims by customers or vendors injured on the premises, claims by injured workers, or liability arising out of auto accidents with company vehicles. Food manufacturers, however, simply by virtue of being in the food production business, are more exposed to certain types of losses than other businesses. Here are some of them:

- **Food spoilage/contamination** — Terms such as listeria, salmonella, E.coli and "mad cow disease" are all too familiar to the public and to those in the food industry. Food-borne illness affects approximately 48 million people in the United States (1 in 6) each year. The Centers for Disease Control and Prevention (CDC) estimates that each year in this country 128,000 people are hospitalized and 3,000 die of food-borne diseases.¹ If a food product spoils or becomes contaminated, it cannot be sold to the public. This could result in a significant monetary loss to the manufacturer, including loss of food stock, loss of income, and loss of reputation.
- **Equipment breakdown** — Food manufacturers depend on the reliable operation of their equipment. If a mechanical or electrical breakdown occurs, food processing could come to a halt. Expenses would be incurred to repair or replace the equipment, and loss of income may be incurred as a result of the equipment failure.



- **Loss of business income and extra expense from dependent properties** — Food manufacturers ordinarily are dependent on other businesses for their raw materials and supplies. What happens when a supplier sustains a serious property loss and cannot provide the necessary raw materials to the food manufacturer to produce its products? This is a potential major problem for the manufacturer and can lead to a suspension of operations and loss of income until the supplier's property is repaired. The same scenario could involve a property loss to a customer's facility, creating a loss of income for the manufacturer.

¹ Virginia L. White-Mahaffey, *Coverage Issues Arising From Food Contamination Claims*, March 21, 2014, American Bar Association.

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- **Product recall expenses** — Significant losses could be included in the event a company must recall any of its products due to a known defect or contamination of the product. These expenses may include costs for transportation, destruction, decontamination of plant sites, or storage space. In addition, costs could include notification of customers and advertising measures. Product recalls can be involuntary (required by a regulatory agency) or voluntary (the manufacturer notices a defect that is unlikely to force an involuntary recall).
- **E-Commerce exposures** — Today, most firms, including food manufacturers, have become dependent on computer networks and other forms of electronic equipment for inventory management or to store customer account and product information. This equipment is exposed to power surges, short circuits, and to general electrical disruption that can cause extensive losses. Manufacturers also face exposure to losses stemming from computer hacking and computer viruses. It is important to emphasize, too, that standard commercial property and most multi-peril or package policies contain exclusions for electrical disturbance.

Pay Special Attention to Your Insurance Coverage

The food production industry is a specialized industry with common as well as unique exposures to loss like the examples provided. Consequently, it requires specialized insurance that



meets those exposures. Every company in the food production industry should evaluate the potential for losses that may not be covered by a standard insurance policy.

There are many insurance companies as well as agents and brokers that specialize in providing this type of insurance, including loss prevention services. Food manufacturers should review their insurance with their agent or broker on an annual basis to ensure that they are protected against these loss exposures.