

Food Borne Illness Coverage for the Hospitality Industry



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The Department of Agriculture estimates that 76 million Americans become ill each year from eating foods contaminated with bacteria, viruses, and parasites. Although low reporting makes it difficult to truly gauge the number of incidents, it is certain that hospitality businesses are at risk for food contamination claims, which can be financially devastating to a company. Estimates for industry wide financial losses caused by food borne illnesses range from \$7.7 billion to \$23 billion annually. Here in the Pacific Northwest, we have recently seen several high-profile cases of pathogenic and bacterial outbreaks that have resulted in restaurant closures and food product recalls. In some cases, the ultimate outcome was financial insolvency of the company, which could have been averted by adequate insurance coverage.

Hospitality businesses—restaurants, country and sport clubs, resorts, and hotels—have risk exposures not covered in their standard insurance policies. These companies should have a Food Contamination and Product Recall policy that is designed to respond to the unique exposures of businesses involved in food production and sales. It addresses the financial losses associated with an occurrence, including the additional expenses incurred by a company to protect and restore its reputation. The effect on a company's reputation can exacerbate the devastating financial impact of an occurrence and result in substantial expenses for crisis management.

The Food Contamination and Product Recall policy covers losses caused by accidental contamination and malicious tampering of food products. It includes loss of gross revenues and reimbursement for incident expenses, recall costs, brand rehabilitation costs, and crisis management. A Food Contamination and Product Recall policy typically includes coverage for:

- **Pre-incident expenses:** Consultant fees and expenses, including chemical analysis, forensics and/or physical examination, to determine if a loss has occurred.
- **Recall costs:** Costs incurred to inspect, withdraw, destroy, return, or replace a recalled product.

- **Rehabilitation expense:** Reasonable and necessary expenses incurred, usually up to six months, to reestablish insured's products to the reasonably protected level of sales or market share anticipated prior to the incident.
- **Adverse Publicity:** Costs to counter adverse publicity, including "baseless" adverse publicity.
- **Extortion Costs:** Paid in response to a demand made upon the insured under threat to commit a malicious tampering.
- **Consultant and advisor costs:** Fees and costs of security and public relations consultants who assist the insured in the event of an incident.

High profile cases and ongoing media attention to local incidents have resulted in heightened public awareness of food-borne related illnesses. In today's litigious environment, it is critical that your insurance program include proper coverage for Food Contamination and Product Recall in order to protect the financial wellbeing of your firm. While the need for this coverage is clear, it is a challenging one to place. Markets are limited and coverages may vary from one carrier to another. Our Hospitality team of experts will be happy to work with you on this important coverage.

By Gary Grosenick, Principal