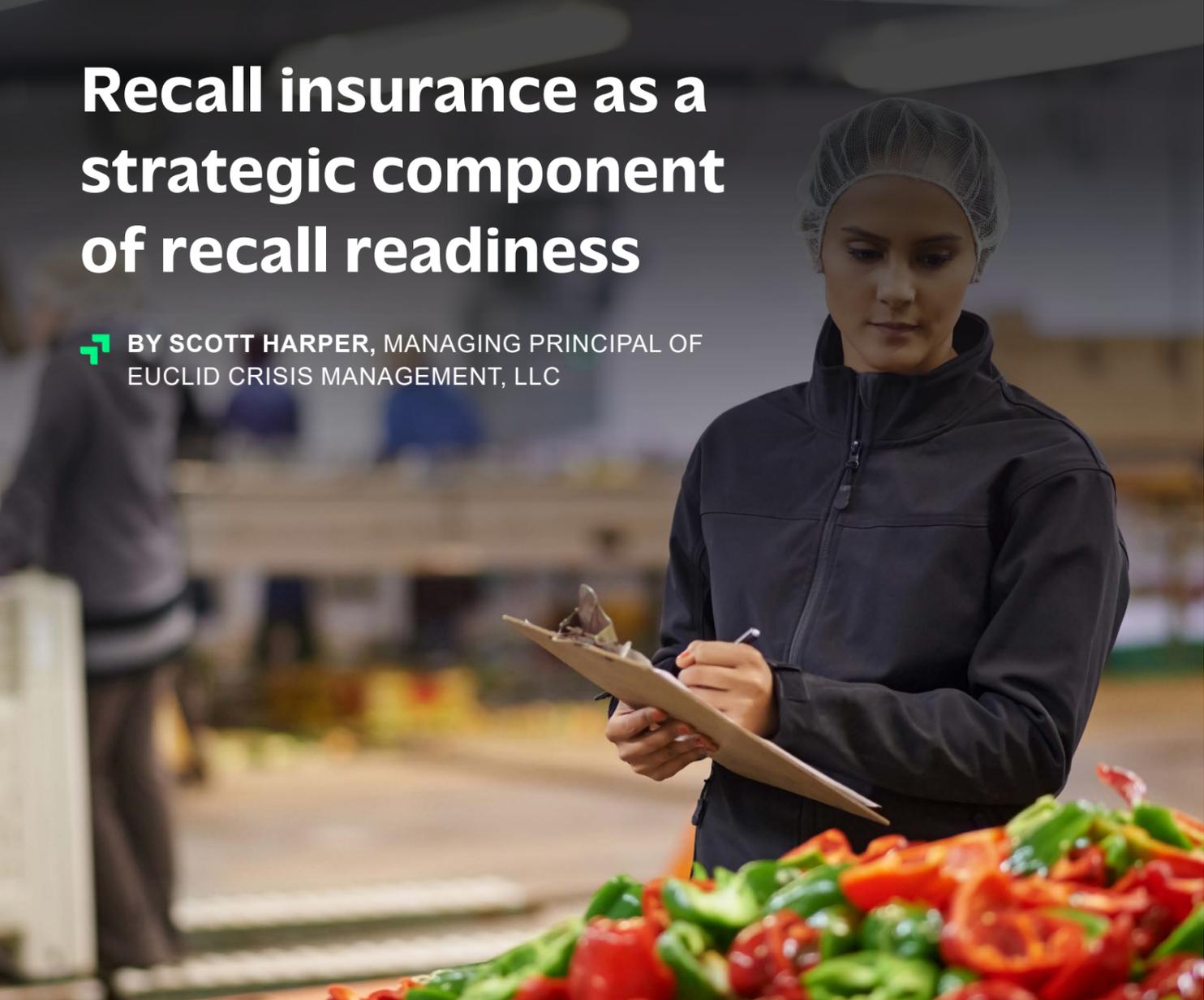


Recall insurance as a strategic component of recall readiness

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Product recalls no longer happen occasionally. They're the new normal for industries, including the food and drink sector. As business operations evolve and government oversight intensifies, accountability is expanding for everyone involved in the supply chain.

Triggered by contamination, defects, mislabeling, adverse publicity, or government involvement, recalls need instant, concerted action. Yet, many companies either choose not to buy recall insurance or see it only as a backup measure to be utilized after losses are sustained. That thinking is changing as more companies recognize recall insurance as a proactive tool for preparedness, protection, and resilience.

Recall insurance fills the gap left by traditional coverage

Recall insurance is designed to specifically address exposures that fall outside the scope of traditional liability and property insurance. Liability insurance—either general liability or products liability—typically responds to third-party claims for bodily injury or property damage caused by a company's products or operations. This differs from property insurance, which covers physical damage to the insured's own property from perils like fire or theft. Neither liability nor property insurance policies are built to handle the financial and operational fallout from a product recall, including the costs related to the actual products and brands involved.

Some liability carriers may offer limited recall or withdrawal expense endorsements, but these are generally narrow in scope, with modest limits and restrictive triggers. They are not a substitute for a dedicated recall policy. Their primary purpose is to provide minimal coverage for recall-related expenses that could help mitigate potential bodily injury claims under the liability policy, should contaminated products remain in the marketplace.

Recall insurance complements liability insurance by offering more comprehensive first-party coverage, including reimbursing the insured for their own losses stemming from a recall or contamination event. Unlike liability insurance, which addresses third-party claims for bodily injury or property damage, recall insurance protects the insured's balance sheet, helping the business maintain operations.

Another key distinction is that recall insurance can be triggered by the potential for harm, not just actual damage. Coverage may apply even if no one has been injured and no property has been damaged. In fact, certain events can trigger coverage even when the product itself is not contaminated. A liability or property policy is not intended to respond to any of these scenarios.

Furthermore, recall insurance can include a breadth of coverage enhancements that traditional liability or property policies exclude, including recall expenses, business interruption, product replacement or destruction, brand rehabilitation, crisis management, public relations, and third-party economic losses.

Coverage for pre-incident loss mitigation

The primary function of product recall insurance is to assist a company through navigating its recall scenario and reimbursing it for covered losses once the dust settles. However, this type of policy also has the unique ability to spring into action even before a recall takes place.

Most product recall insurance providers recognize the value of early intervention and allocate a portion of the policy premium toward proactive, pre-incident loss mitigation. Insurers know that companies with established recall plans and tested protocols are better equipped to contain losses when an event occurs. This may be particularly relevant to the food sector as new regulations around controlling Listeria and other rules are put into place.

A well-prepared company is not only more resilient but it also represents a lower risk for providers, which can lead to more favorable underwriting terms. Conversely, when a company is unprepared for a recall, losses can escalate quickly and there may not be clear direction on how to bounce back. With a solid plan in place, companies are far more likely to minimize their losses and recover quickly.

Access to expert consultants without the overhead

Perhaps the most underappreciated benefit of recall insurance is access to a network of expert consultants—specialists that few companies have in-house. Recall insurers provide access to counselors in crisis management, product recall, regulatory coordination, public relations, and consumer communications. These professionals stand ready to leap in the moment a recall is suspected, guiding the insured through each step of the event.

It may be costly, time-consuming, and overwhelming to engage these experts individually—especially in the middle of a crisis. A recall policy removes that strain by providing immediate access to vetted professionals who understand the regulatory landscape and how to handle high-stakes events. In addition, the policy covers the cost of their expertise. Having this knowledge available can decrease response times dramatically, improve communication with regulators and customers, and help contain reputational damage.

Recall insurance is not just about financial reimbursement. It's about having the right team in place when it matters most.

Why you need recall insurance

It is a common question: “If another company caused the recall, shouldn’t they be responsible for reimbursing me?” In theory, yes. But in practice, relying on another party to cover your losses is risky.

Even if a third party—such as a supplier, co-packer, or distributor—is clearly at fault, there is no guarantee that they will be able or willing to make you whole. They may not carry adequate insurance and could be underinsured or even insolvent. If they are based overseas, pursuing recovery could be slow, expensive, or legally complicated. And if multiple companies are affected, you may find yourself waiting in line with others, hoping for partial reimbursement.

That is why having your own recall insurance is essential. It’s designed to respond to your losses, regardless of who caused the event and without waiting for someone else to take responsibility.

Customers are now requiring recall insurance

As product recall insurance becomes more widely understood and adopted, major retailers will routinely require their suppliers to carry recall insurance as part of their contractual agreements. This may become even more standard as large food recalls become increasingly common. The U.S. Department of Agriculture continues to break records for the size of its recalls.

For now, this practice of mandatory coverage remains largely confined to large retail chains, leaving a gap in risk management for many other small and medium-sized enterprises. Any company that relies on supplied goods—whether ingredients, packaging, or components—should strongly consider mandating recall insurance for its suppliers.

The rationale is straightforward. If a supplier provides a contaminated or defective product, having recall insurance in place ensures they have the financial resources to cover the resulting losses. This not only protects the buyer from direct financial exposure but also helps preserve brand reputation and operational continuity.

Incorporating recall insurance requirements into supplier contracts is a proactive step toward building a more resilient supply chain. It helps shift a portion of the financial risk back to the source of the issue and reinforces accountability across the production ecosystem.

On the other hand, for smaller companies or emerging brands looking to get products into larger supply chains, proactively carrying recall insurance can serve as a strategic differentiator. It signals strong risk management practices and may make the business a more attractive partner to industry leaders.

Turning risk into readiness

In today’s environment, food and drink companies that view recall insurance as a strategic risk management tool are best positioned to respond expeditiously, protect their brand, and quickly rebound. Far more than a financial backstop, recall insurance delivers operational support, technical guidance, and early planning tools that can make the difference between a controlled response and a costly crisis.

Adding recall insurance is a prudent business strategy for any type of company—from supplier or manufacturer to brand owner or retailer. It is essential to long-term viability and success in an increasingly accountable marketplace.

The views expressed in this article are those of the author and do not necessarily reflect the opinions of Sedgwick.

