

## **The ReposiTrak Advantage Track and Trace**

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When a company is notified that its product will be recalled, the survival clock starts ticking. In order to survive a crisis management recall event, the company must act fast to keep customers' trust, to continue to fulfill contracts and to save its reputation. Additionally, the company must immediately determine whether it can maintain financial stability in the face of quickly mounting losses. Engaging ReposiTrak will greatly enhance the financial stability of a company when it is most needed.

After handling hundreds of recall claims under contaminated product insurance (CPI) and product recall insurance (PRI) policies and working with forensic accountants in order to quantify the amount of loss actually covered by insurance, we have a better understanding of the costs and expenses involved with product recalls. No two recalls are the same and the same recall will impact affected companies in different ways. Nevertheless, certain trends have emerged. Understanding these trends will allow companies to prepare for and survive a recall.

Inventory, Customer Credits and Recall Costs are three of the largest recall loss items suffered by companies. Combined, they are the largest percentage of recall loss (nearly 50%) and eclipse Business Interruption losses. Unfortunately, these three loss categories also represent a substantial portion of uncovered loss under CPI/PRI. The sole basis for this frustrating friction point is simple, a company's inability to track and trace its products and supply chain. CPI/PRI covers losses that result directly from a covered Insured Event. If a company is unable to support its claim by directly linking its related costs and expenses to the Insured Event and resulting recall, it will not be reimbursed under a CPI/PRI policy. And, as such loss amounts are generally not covered under general liability or property policies, a significant portion of a company's loss remains uncovered. In this instance, a company's bottom line suffers a significant yet avoidable shock.

Our involvement with a recent claim illustrates the impact to any company, which lacks the capability to properly track and trace its products. A company purchased a CPI policy with a \$2M Accidental Contamination limit. The Insured Event involved a contaminated food product, which triggered the CPI policy's Accidental Contamination coverage. During the review and analysis of the related costs and expenses, the company provided spreadsheets supporting nearly \$1.1M in related Customer Credits for product shipped and either returned by the customer for disposal or destroyed by the customer. Unfortunately, based on a review of the information provided in support of the spreadsheets, the forensic accountants found that the company was unable to properly verify its claim that the returned or destroyed product was affected by the Insured Event recall. Under these circumstances, the insurer's forensic accountants were only able to confirm an amount of \$187,000. The result: this company was unable to recover nearly \$1M in potentially covered losses because it lacked the ability to track and trace its products. While illustrative, these results are not uncommon.

The basis for a company's inability to support its claim are varied: customers may have returned/destroyed product not included within the recall; the product returned/destroyed included expired product; or the returned/destroyed product included product not selling well. Additionally, the forensic accountants found that credit amounts exceeded the amounts of product purchased by customers. In all such instances, the amounts at issue are not covered under CPI/PRI, solely because the company could not properly track and trace its products.

Survivability of a recall is critical, otherwise the event becomes catastrophic and the business is lost. Every dollar counts as the recall-related costs and expenses mount. The inability to gain covered costs and expenses could be the critical difference in whether a company survives a crisis. ReposiTrak's Track & Trace component will allow the company to maximize the amount gained under a CPI/PRI policy and enhance the company's financial stability in a crucial moment.

ReposiTrak can effectively and efficiently help a company survive a crisis recall event.