



US Food & Beverage Recall Landscape Update

A Mid-2018 Update

Size and scope of the industry:

1. There are roughly **25,000** food and beverage manufacturers in the USA;
2. The combined revenue of these firms was **\$760bn** in 2016;
3. Despite growing consolidation, the majority of these businesses (>90%) will be **SMEs**; and
4. Food and drink manufacturers are **spread throughout** the US in line with population centres.

Very large number of potential clients, spread throughout the USA

The dreaded Millennials:

1. **Largest**, most diverse living generation;
2. Spend **less time** prepping and eating food - preference for RTE;
3. However, want their food to be **fresher** and of **higher quality**; and
4. This is **forcing** the food industry to change.

Less consumer tolerance for food quality/safety issues

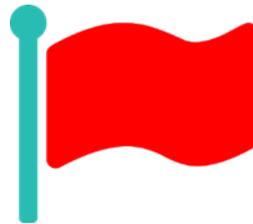
Growing pressure to purchase recall insurance:

1. There were **two recalls** every **three days** last year in the US;
2. Food and drink manufacturers increasingly the target of **frivolous lawsuits**;
3. Decreasing consumer tolerance to allergens coupled with **zero tolerance** regulation;
4. Increasing trend of supermarkets **mandating** that suppliers have recall insurance.

Large projected growth in recall insurance market

Supermarkets beginning to realise importance of recall insurance:

1. A emerging trend of suppliers being required to carry recall insurance in order to trade with major retail clients;
2. Regardless of length of trading relationship and contract value;
3. Probable recall insurance will become quasi-mandatory in future;
4. Suppliers to retailers likely to require their own suppliers to do the same (pass it on!);
5. Good time to get ahead of the curve.



Food & Drug Administration (FDA):

1. Been taking a lot of heat over the efficiency with which it carries out a recall;
2. Is looking to speed up the process by which consumers are informed of where they may have purchased affected product;
3. Going to start naming grocery stores, convenience stores and club stores;
4. Probably not going to endear the supplier to the retailer customer!

The Rise of the Outbreaks:

1. When two or more people suffer the same illness from the same foodstuff (or where this is suspected), it is automatically designated an 'outbreak';
2. These are high publicity events which draw a lot of attention from media/news services;
3. Very embarrassing for manufacturers; and
4. There have been 15 this year.

The Rise of the Outbreaks:

1. Kellogg's Honey Smacks cereal;
2. Manufactured by a third party for Kellogg's;
3. 130 people have become ill since March 2018, 36 States affected;
4. People still getting ill - CDC again warned the public to discard any cereal still on hand.



The Rise of the Outbreaks:

1. Romaine lettuce issue;
2. Linked to Yuma growing region in Arizona;
3. 210 illnesses, 95 hospitalisations and 5 deaths;
4. Not traced to a single grower, processor or distributor.



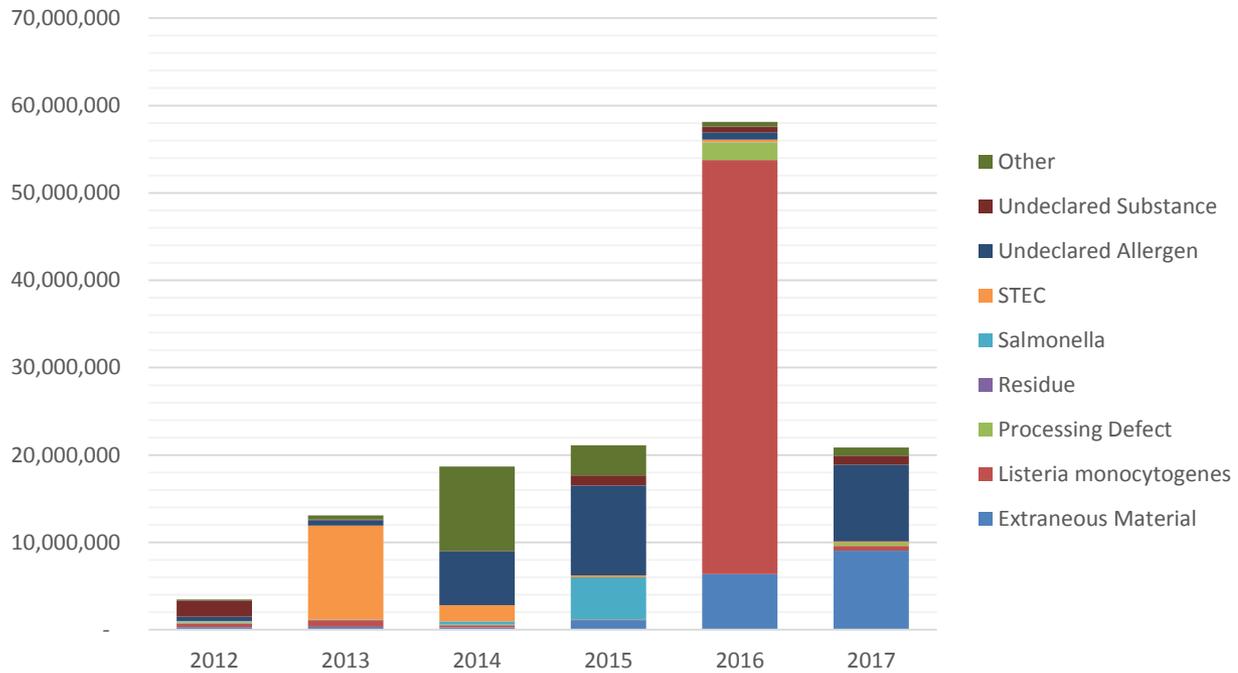
United States Department of Agriculture (USDA):

1. The relevant USDA agency for our purposes is the Food Safety & Inspection Service (FSIS);
2. Responsible for the food safety of meat, poultry and eggs (and now Siluriformes e.g. catfish);
3. 81 recalls issued so far this year, 31 of which are currently 'live';
4. Tracking slightly fewer recalls in 2018 than 2017, although big food production periods are yet to come (Thanksgiving, Christmas);
5. 45% of current recalls include a distribution list.

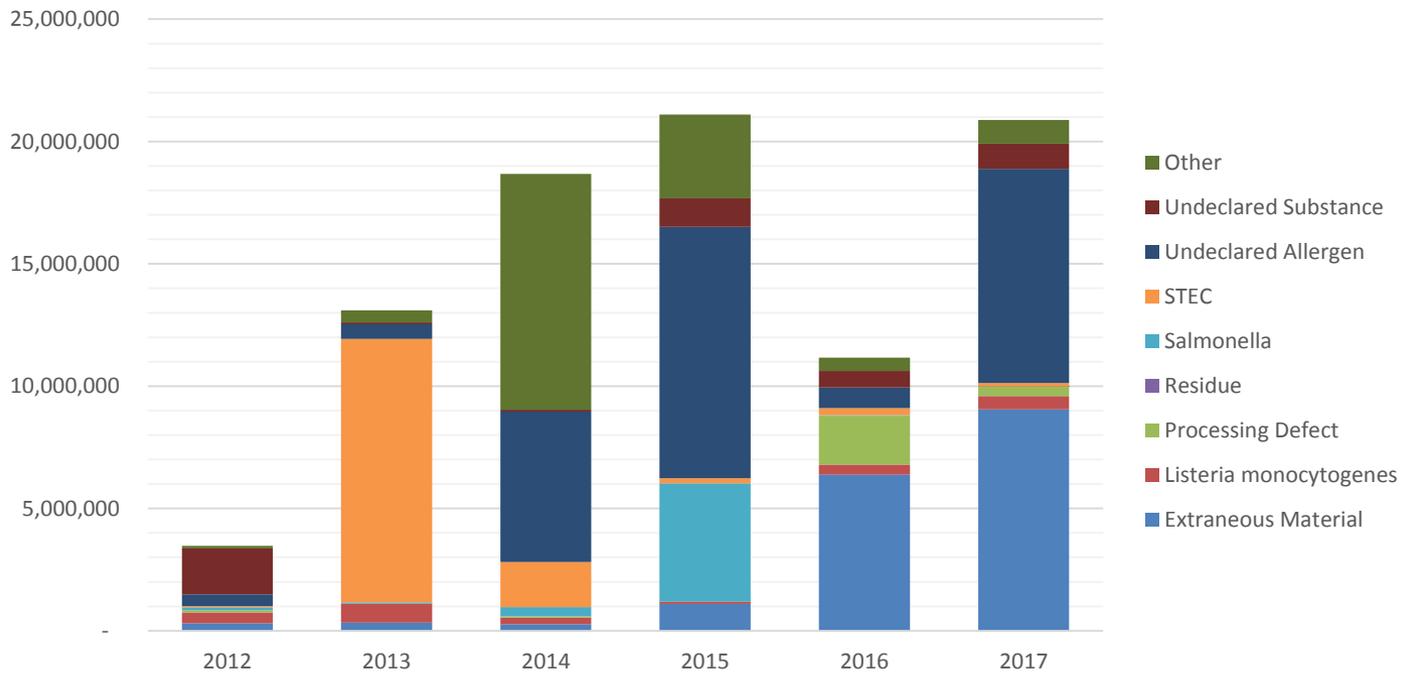
Causes, sources and attrition vs catastrophe:

There is a clear difference between the continuous and frequent risks vs those which blow up occasionally - compare these charts:

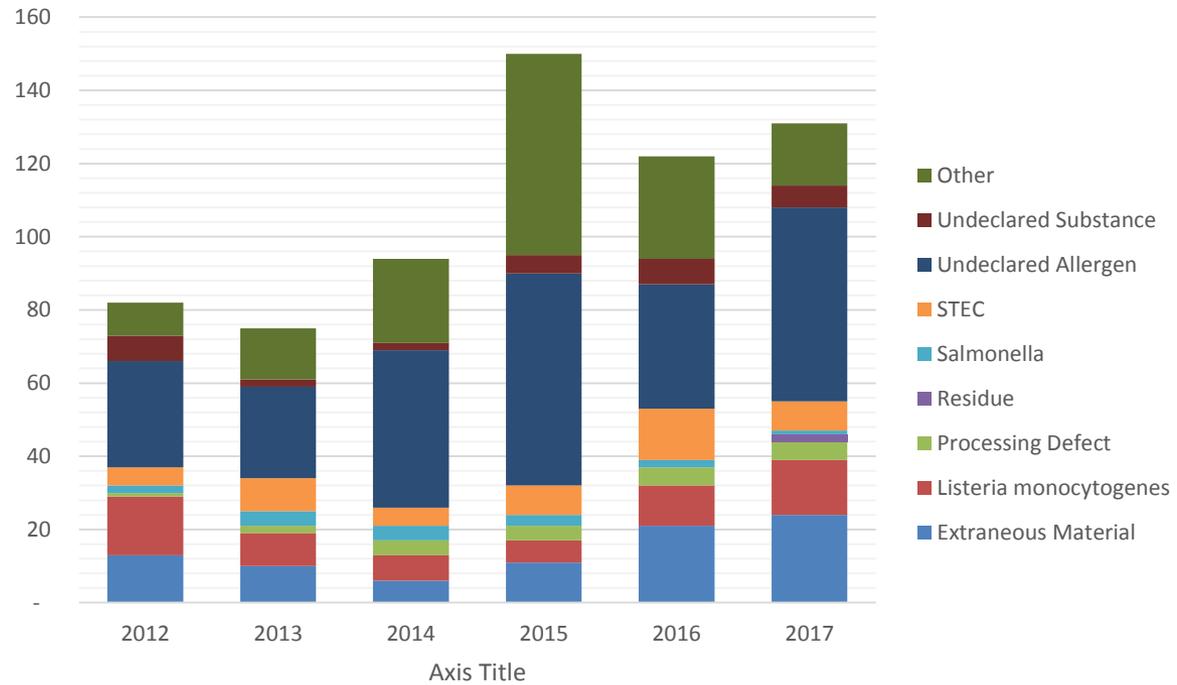
Pounds of recalled product split by cause of recall:



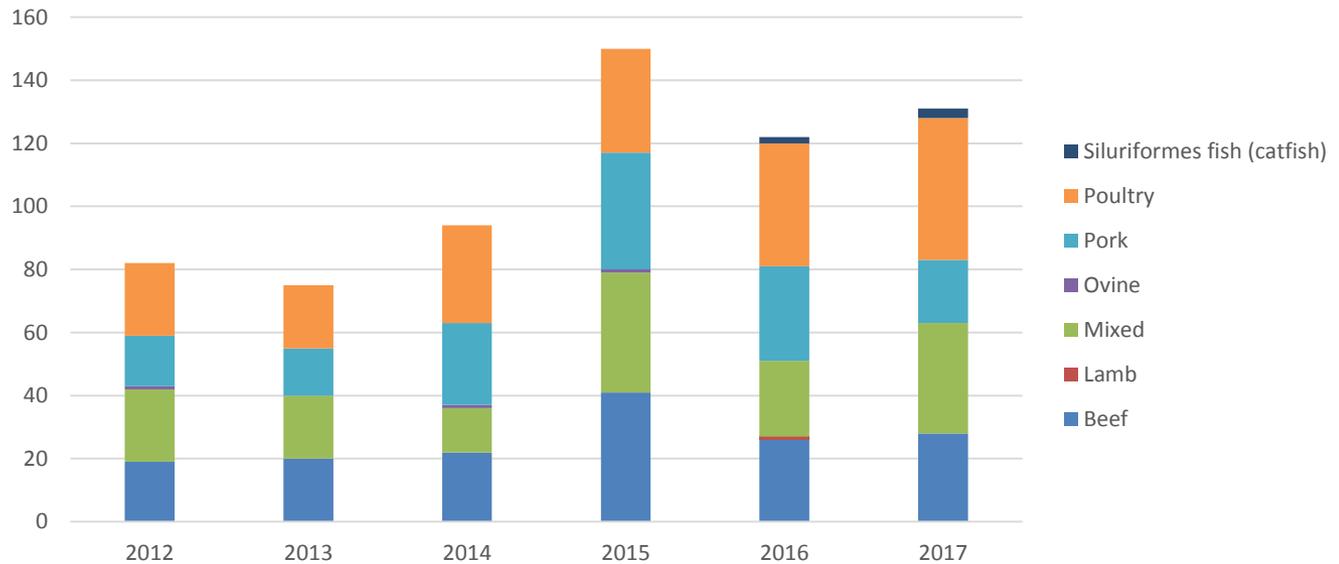
Pounds of recalled product split by cause of recall:



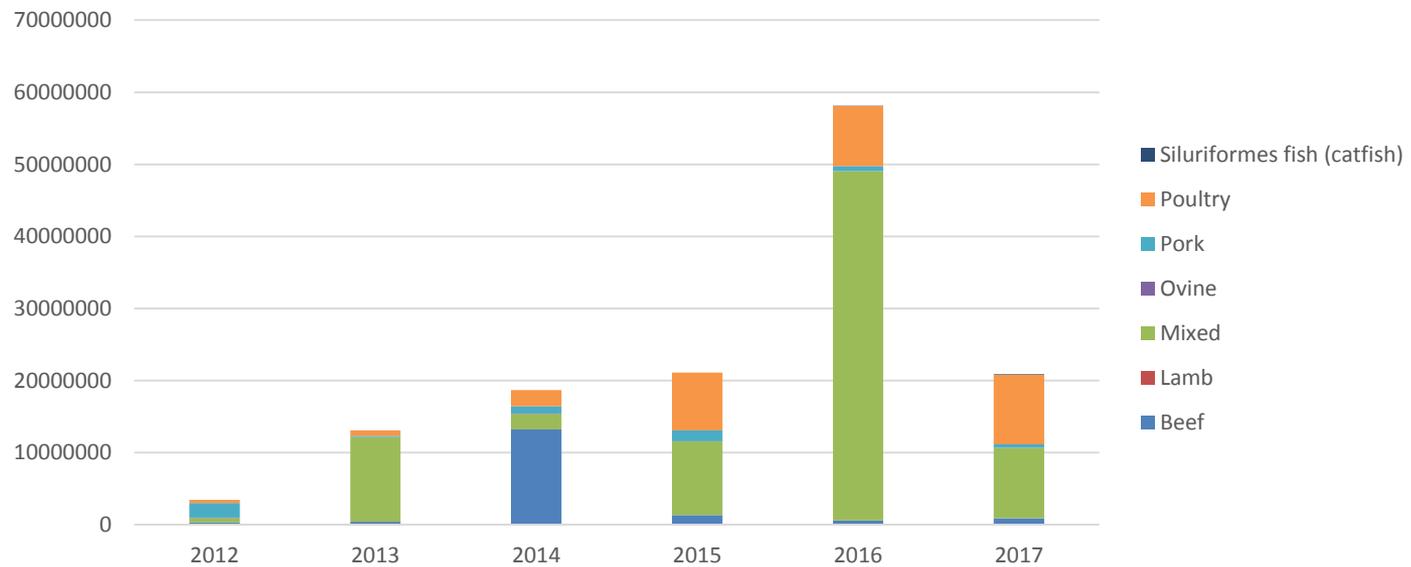
Number of recalls split by cause of recall:



Number of recalls split by type of product:



Pounds recalled split by product type:



Public health alerts:

1. The FSIS issues public health alerts where a recall cannot be recommended;
2. This can cause major problems for food producers as well as insurers and brokers;
3. Generally speaking these are released where the ultimate source of an outbreak has not yet been determined or where improper handling of goods has been causing illnesses;
4. There have been five this year.

Manufacturers live hand to mouth

- Operate throughout the year, often seasonally;
- Need a steady cash flow to keep up the purchasing of ingredients/materials;
- Any period with extra expense and less revenue can threaten the viability of the business;
- The larger the crisis, the bigger the loss of profit.



We have a broad appetite for the following industries:

- Bottling / Packaging risks
- Co-manufacturer
- Vineyards / Microbreweries
- Restaurants
- Food & Beverage
- Automotive component manufacturers (Tier 1 / Tier 2)
- Consumer Products / Manufactured Products
- Non-Invasive Medical Devices

Certain industry sectors are less favourable though:

- Finished product vs base ingredient
- Infant related goods
- OEM's (i.e. Audi)
- Construction materials
- Marine / Aviation application

Our stats:

- Last month we responded to over **90% of enquiries within the first 48 hours**
- CFC handles **all document production**, so you don't have to!
- **Concise** wordings with a lack of jargon and legal terms
- We hate to say 'no' and try to be as **flexible** as possible

- 1) Turnover and description of activities for an indication
- 2) Our short, simple application form is on our website, but
- 3) We'll always try to work with what you have, even a casualty application form

Our service proposition to you:

- We aim to provide you with an indication within 24 hours.
- Policy documentation is dynamic and in-house.
- We are always happy to talk things through on a call.

Send your enquiries to CrisisManagement@cfcunderwriting.com

THANK YOU

Thanks for listening! If you have any questions please let me know.

Matt Hagan

Underwriter - Crisis Management

CrisisManagement@cfcunderwriting.com



