

Product Recall Claim Trends

Product recalls are on the rise. While recalls dipped during the COVID pandemic, 2022 turned out to be a record year with more than 1.5 billion units recalled. The first quarter of 2023 saw 863 recalls, the highest single-quarter total since 2018.² With this trend in mind, businesses across all industries can benefit from understanding the current regulatory environment and recall risk landscape.



**In 2022, 1.5
billion units
were recalled.²**

WHY ARE PRODUCT RECALLS ON THE RISE?

The increase in product recalls can't be attributed to a single factor. Multiple factors contribute to the rise in product recalls as well as the number of units included in each recall. The drivers behind the spike in recalls across 2022 and 2023 include:

COVID Bounce Back. Product recalls declined during the COVID pandemic, especially in the food and beverage industry. Recalls initiated by the US Department of Agriculture's (USDA) Food Safety and Inspection Service fell by 75% from 2019 to 2020. In addition, product recalls initiated by the Food and Drug Administration (FDA) fell by 27% from 2018 to 2021.³ During the pandemic, both agencies shifted their focus to other food and beverage issues, like supporting the agricultural supply chain. The increase in food and beverage recalls in 2021 and 2022 illustrates a return to pre-pandemic levels.

Multiplier Effect. Another issue contributing to recall volume is the "multiplier effect, which occurs when a specific part or ingredient is recalled, thus triggering a recall of every product that includes that particular part or ingredient. For example, a cumin recall impacted 100 brands and more than 700 products ranging from taco shells to Cajun seasoning

and ground beef.⁴ This doesn't just happen in the food and beverage industry. The average vehicle has more than 30,000 parts.⁵ An iPhone includes parts from more than 200 suppliers.⁶ It's easy to see how a single recall can have a ripple effect across an entire product line or industry.

Regulatory Priorities. Recalls are also on the rise because of changing regulatory priorities. As mentioned, the FDA and USDA are shifting their focus to product inspections as the COVID pandemic has subsided. The US Consumer Product Safety Commission (CPSC) recently released its 2023 priorities, suggesting even stricter product inspections, which may result in an increase in product recalls and fines.⁷ The FDA also recently rolled out its new traceability rules requiring farmers and food distributors to track Key Data Elements (KDE) and Critical Tracking Events (CTE) across their products' distribution and supply chains, enabling the FDA to better track outbreaks back to their source. This could lead to increased risk for farmers and other food producers as any outbreak is more likely to be traced directly back to their product.

Technological Advances. Product safety investigations were previously a very time- and labor-intensive process. Recalls often weren't initiated until people were harmed by the products in question. Today, agencies are leveraging technology to make the investigative process more efficient. Many agencies are now utilizing artificial intelligence to process data. The FDA and USDA also use Whole Genome Sequencing to detect irregularities in food, which increases the traceability factor and puts more companies at risk as their products can now be more readily recognized as contributing to a recall or contamination event. The ability to process information faster than ever before, allows regulatory agencies to conduct more investigations.

It's anticipated that
2023 will become
the **third consecutive**
year of over 1 billion
units recalled.²



RECALLS BY SECTOR

Product recalls were up in 2022, but some sectors saw sharper increases than others. Much of the rise came from the food and beverage and pharmaceutical sectors, while other sectors remained stable or saw declines.

Automotive

Recalls in the automotive sector declined 12.6% from 2021 while the number of units recalled dropped 10.3%, hitting the lowest point since 2013. However, regulators are expected to focus more on "smart features" in vehicles in 2023 to help reduce cybersecurity risk, which could lead to an increase in automotive recalls in the years ahead.¹ According to Sedgwick's Brand Protection Recall Index, automotive recall events increased 3.4%, from 237 in Q4 2022 to 245 in Q1 2023.²

Consumer Products

The number of recalls in the consumer products sector increased by 31.2% from 2021 to 2022. However, the number of units recalled fell by nearly 50%, from 42.8 million in 2021 to 23.4 million in 2022.¹ Research indicates that consumer product recalls increased 20.5% from the final quarter of 2022 to the first quarter of 2023.²

Food and Beverage

The food and beverage sector accounts for much of the increase in recalled units in 2022. Recalls initiated by the FDA increased 700.6% from 2021 to 2022. While that's a shocking number, it's most likely due in large part to the COVID pandemic and the halting of inspections and testing in 2021. The FDA recalled 416 million units in 2022, reaching a 10-year high. While the USDA food recalls held steady in the number of events, the volume of recalled units decreased substantially (87.0%) from 13.4 million pounds in 2021, to 1.7 million pounds in 2022.¹ However, FDA food recalls increased 23.2% from the fourth quarter of 2022 to the first quarter of 2023.²

Pharmaceuticals and Medical Devices

The number of recalls in the pharmaceutical sector increased 32.5% from 2021 to 2022. However, the number of units recalled increased by 114% to 567.3 million, reaching the highest level within the pharmaceutical industry in a decade. Medical device recalls increased 8.8% from 2021 to 2022 while the number of units recalled fell 27.2%.¹ As of the first quarter of 2023, medical device recalls were up 4.6% from the last quarter of 2022.²



There were **68 food recalls** in the United States in **2022**, with **nearly half** due to **product contamination**.¹⁸

HOW CAN BUSINESSES REDUCE THE RISK OF A PRODUCT RECALL?

For many industries, product recalls are a known risk of doing business. They exist to protect consumers and end users. However, a recall can be financially damaging for a business. Fortunately, there are steps every business can take to minimize the risk of a product recall.

Commit to quality and training. Perhaps the most vital step any business can take against product recall risk is to make a company-wide commitment to quality. That process may look different for every business, but it generally means maintaining documented quality assurance processes and systems that guide product development from the earliest days of product design through to distribution. Quality should be a priority throughout the process.

Create a product recall response plan. The first hours and days of a recall can have a substantial impact on the overall scope and severity. If a business can take quick action to halt distribution, promptly pull products from shelves, and proactively reach out to customers, it may be possible to limit the scope of damage and protect against extensive reputational damage. Having a thorough recall response plan can help a business act quickly. Many product recall insurance policies also offer coverage for recall consultants who can help a business develop an effective plan and take the right action should a recall occur.

Transfer the risk. Another crucial step in a company's risk mitigation plan is the opportunity to transfer the risk to an insurer. A recall/contamination insurance policy can help a business cover losses associated with contamination and/or product defect type events. Policies can cover large expenses such as the value of lost product, loss of profit,

rehabilitation expenses, expert consultant costs, and other recall related expenses. An experienced and knowledgeable insurance broker can help a business find the right recall policy to fit both its needs and budget.

In 2022, the FDA oversaw 70 Class I drug recalls, its highest risk classification, compared to an average of 47 over the previous 5 years.¹⁹



RECENT PRODUCT RECALL EXAMPLES

Food & Beverage Recall

A national beef manufacturer voluntarily recalled nearly 94,000 pounds of ground beef thought to be contaminated by hard glass fragments. All of the impacted meat came from one distribution facility in Texas and was delivered to one Texas grocery chain.⁸

Pharmaceutical Recall

A manufacturer of lotions, polishes, and sanitizers recalled 20 lots of hand sanitizer after it was found to contain undeclared methanol. Methanol ingestion can lead to seizures, coma, blindness, and nervous system damage. Customers were offered refunds and product credit upon presenting proof of purchase.¹⁷

Automotive Recall

An automotive manufacturer recalled 70,000 SUVs that were equipped with a tow hitch accessory. The hitch had a defect that may accumulate debris and moisture in the circuit board, which could lead to an electrical fire.¹³

Consumer Product Recall

A rainbow stacker toy designed for young children was recalled in 2022 because the toy's information sticker was considered a choking hazard. The recall affected nearly 3,000 units. Customers were offered a full refund for the toy.¹⁴

Food and Beverage Recall

A national chicken supplier recalled 148,000 pounds of fully cooked chicken breast patties because they may have been contaminated with hard, clear pieces of plastic. The patties were distributed to Costco stores throughout the western half of the United States. The investigation started after customers complained about finding plastic embedded in the chicken breasts.⁹

Pharmaceutical Recall

A pharmaceutical company recalled four lots of a blood pressure medication after it was discovered to have excessive levels of nitrosamines. Nitrosamines can increase the risk of cancer if ingested over extended periods of time. The company stopped marketing the drug in September 2022 and recalled outstanding lots in December 2022.¹⁶



Vehicle manufacturers issued more than 400 recalls impacting more than 25 million U.S. vehicles in 2022.²⁰

Automotive Recall

Tesla recalled more than 350,000 vehicles in November 2022 for two separate issues. Over 320,000 Model 3 and Model Y vehicles were recalled because the taillight may inadvertently flash, increasing the risk of an accident. In a separate issue, the company recalled nearly 30,000 Model X vehicles because the front air bag may deploy incorrectly.¹¹

Consumer Product Recall

A major appliance manufacturer recalled over 150,000 refrigerators after it was found that the handle on the bottom freezer could potentially fall off, becoming a falling hazard. Owners of the refrigerator were offered free repair and replacement of the handle.¹⁵

Food and Beverage Recall

A global food and beverage company recalled nearly 6,000 cases of juice after a diluted cleaning solution was accidentally used in the juice production process. The recall was initiated after customers reported that the juice tasted like cleaning solution.¹⁰

Automotive Recall

A major American car manufacturer recalled over 300,000 trucks due to an issue with the relays that could cause an engine fire. The issue affected trucks produced from 2021 through 2023. Truck owners were asked to bring the truck in for repairs and advised not to park the truck indoors until the issue could be resolved.¹²

BOTTOM LINE

These recall and contamination events are a known risk of doing business across many sectors, including food and beverage, pharmaceuticals, and consumer products. The discovery of these issues can come from regulatory agencies like the FDA, customer product testing, supplier issues, and/or a company's own quality control process. Even companies with the best quality control processes in place are vulnerable to product recall risks. Recall & Contamination insurance should be a key part of a company's risk management plan, helping to protect against product loss, revenue loss, and the costs of managing the recall and correcting the issue. CRC Group brokers have the industry experience and insight businesses can depend on to help protect them against recall/contamination risks. Contact your local CRC Group producer today to learn more.

END NOTES

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