



NOVISM

Web-based Service Overview

NOVISM Product Recall Cost Estimator

Knowing your risk starts with knowing your exposure

AIG has developed a free and confidential service to help food & beverage manufacturers better understand their risk and make better decisions to protect their customers, their supply chain, and their bottom line.

NOVISM provides a confidential and objective estimate of the product recall risk, allowing companies to:

- Better understand potential recall exposure;
- Determine the split between the amount of product recall exposure retained on the balance sheet vs. the risk transferred via insurance;
- Better manage third party volumes or contractual indemnity provisions, by measuring the recall risk at the supplier or contract manufacturer level.

The NOVISM Estimate calculates the Probable Maximum Recall Loss (PMRL) which includes the value of the contaminated products, recall expenses, destruction costs and lost profit associated with the contaminated products.

AIG's methodology is based on an extensive analysis of thousands of recall incidents, insight from over 25 years of interaction with food and beverage manufacturers worldwide, and input from leading food safety consulting companies.

Boiling it down to one number

NOVISM estimates the financial impact of a product recall caused by an accidental product contamination. It does this by calculating the largest probable loss arising from an accidental product contamination that occurs during production at the plant level, assuming failures of critical control points in the sourcing or manufacturing of the company's product.

Product recalls are rapidly becoming a common occurrence in the food and beverage industry. As international supply chains continue to expand in complexity, so do risk exposures, increasing the likelihood of a product contamination.

The number and magnitude of product recalls around the world has increased significantly in recent years and with the broader reach of the media, people are also becoming much more informed of such events. However, the recall itself is only one of the potential consequences of a product contamination.



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Financial Impact

Affected companies often report the volume of recalled products, but rarely disclose the real cost of contamination incidents. Government agencies monitor product contaminations and can force companies to take corrective action ranging from product recall, extended product recall, or suspension of production.

In addition to recall costs, a product contamination can cost food and beverage manufacturers millions of dollars. They are often subject to regulatory compliance, lost profit, decontamination costs and prolonged manufacturing delays, not to mention long-term brand damage to an entire product category.

According to the New Zealand Ministry of Primary Industries there have been 61 food recalls in the past two years.

This indicates that on average, there are more than two recalls every month.

AIG's analysis of data suggests there have been 368 food and beverage recalls occurring in both New Zealand and Australia between 2008 and 2013.

This implies an average of five recalls occur every month across the two countries.

These statistics represent only publicly announced consumer-level recalls. There are many more trade level recalls and withdrawals that do not become public knowledge.

For more information
Visit the NOVISM website
www.aig.co.nz/novi

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