

TOTAL RECALL

MINIMIZING PRODUCT-RECALL FALLOUT HINGES ON PREPAREDNESS

In an age when distribution networks and supply sources are becoming more global, manufacturers must rely on outside providers to supply high-quality components or ingredients. Unfortunately, this does not always occur and product recalls are a reality for which organizations must be prepared.

As evidenced by several recent high-profile food recalls, customers can become very emotional when a food recall hits close to home. Customers may be dealing with their own illness or injury — or that of a loved one or pet — and these events affect them at the most personal level. Customers expect to be treated with respect and have their concerns addressed. Adjusters faced with hundreds, if not thousands, of similar stories from different claimants must avoid cynicism or an uncaring attitude.

The first critical step is to remove the product from the shelf, and many large companies have excellent recall plans to accomplish this. In fact, well-organized companies typically have an established, mechanical process that makes the product removal plan run smoothly in execution. Despite this initial preparation, however, most companies do not dedicate the same level of planning beyond the first stage of a recall. Once the product has been removed, the next steps are crucial to protecting the corporate image, pocketbook, and ultimately, future success in the market.

The way in which an organization handles the claim investigation process can have a major impact on these three important goals. Although companies and their claim adjusters deal with financial liability, corporate image must also be a focus during the

investigation phase of a recall. In short, the manner in which claim adjusters conduct themselves can have a long-term impact. Companies must develop a recall plan that takes both indemnity and corporate image into consideration while still conducting thorough claim investigations to quickly resolve the issue.

An Immediate Response

Major recall events require control of both the incident and the issues. Incident management should focus on daily concerns such as staffing needs or public communications. Issue management is more strategic. The gray area between the two is where many organizational responses go awry.

Too often, one “special interest” within the company is allowed to control the direction of the response. A sales-focused response, for instance, might call for the payment of undue claims, whereas an operations or production-focused response may not take into consideration the legal issues that could arise. A generalist must manage at both levels.

As soon as a recall is announced, companies should establish call centers to handle customer issues and claims. For large-scale recalls, multiple call centers may be needed. If working with a third-party administrator (TPA), companies should be certain the TPA has enough manpower to handle the scale.

Customers will expect to speak to a live

person, yet it's very possible for millions of calls to come in. Clearly, an alternative to a live operator is needed. The caller should be required to listen to a full introductory recording, which should answer as many questions as possible. This will reduce the number of agents needed to handle the first wave of calls. Indeed, well-written, informative recordings have limited the need for a live agent to only 20 percent of calls.

After listening to the recording, customers should have the opportunity to speak with an agent who is armed with an information sheet to which they can refer. These information scripts should be cleared through public affairs and legal departments, and will help keep the message consistent and make it easier for the agent to answer questions. As developments occur, the message can change, too. This requires the call center to be kept in the loop with updated scripts.

In addition to receiving a script and information sheet, agents also should be able to categorize calls into a particular type, depending on the product. For example, these types could include general inquiry, refund, medical/illness, property damage, and so forth. Call-center agents do not have time to perform a full investigation, so categorizing calls will help others who handle the calls downstream. Those handling calls later will then be able to determine who requires a refund, medical inquiry, and the like.

Companies should determine early on which data elements — the number of people who fell ill, how old the product is, whether a claimant has an attorney — must be captured by call-center agents and claim adjusters. Legal and claim departments must make key decisions at the outset to determine the details that will be needed later. These must then be com-

municated to the adjusters or consumer affairs personnel who will gather the information.

Developing an electronic database will ensure that information collected will be available to offices in different locations, making the adjuster's job easier while promoting effective claim resolution. While a product-specific database cannot be developed before a recall, companies can develop templates, and a good web master can add or delete questions as necessary.

In order to avoid overburdening the claim process, it is important to be comprehensive — but not excessive — in data capture. Adjuster efficiency is potentially at risk, but a less-quantifiable expense is in the claim itself. By requiring an extraordinary amount of information, claimants who otherwise would be reasonable may become both suspicious and intimidated. Such perceived intimidation will alienate claimants, resulting in a damaged corporate image and loss of future revenue when the product returns to the shelf.

Protecting the Image

Organizations face three main concerns with a product recall: protecting corporate image, determining indemnification, and returning the product to the shelf.

Adjusters can begin to protect the corporate image through effective communication when speaking with claimants by addressing them with sincerity and timeliness. Adjusters should provide a road map of what happened and the steps being taken. Sincerity is the key to ensuring a public perception that a company is working to amend the situation. Vacillation or hiding behind technicalities will only affirm the public's distrust of large corporations.

Proactively handling the media and public is the best approach, but adjusters should defer any media inquiries to someone whose role is to respond to requests. Quite simply, no good is ever served by an individual (adjuster or otherwise) giving his personal account of an incident. A company spokesperson, however, can help the media disseminate information to the public and, by doing so, build trust with the media and its audience.

It may also be important to engage reinsurers. Placing them on notice may not be sufficient. Companies should review their

High-Profile Product Recalls

Product recalls often make national headlines. Below are a few notable recent cases that gave consumers heartache and companies headaches.

- ▶ **Pet Food Recall** – In March 2007, several pet food companies began recalling dog and cat foods because they contained melamine, an industrial chemical used to make plastics and fertilizers. The chemical resulted in kidney failure of many household pets, many of whom died as a result. Since then, many other pet food companies also have voluntarily withdrawn products from the market. The Food and Drug Administration's investigation remained open and active in May.
- ▶ **Bagged Spinach Recall** – In Sept. 2006, an E.coli outbreak from contaminated Dole-brand baby spinach that was packaged by Natural Selection Foods resulted in more than 200 illnesses and three deaths. The FDA and California's Department of Health Services were unable to determine how the contamination originated.



claim plans with reinsurers to verify that they agree to the level of documentation needed for subsequent company claims.

Determining Claim Philosophies

Organizations must quickly determine their indemnification and claims philosophies. Some companies choose to pay money to all claimants simply because they purchased the product. While this may assuage claimants' hard feelings, it negatively affects the bottom line. On the other hand, if companies regard claimants with a high level of skepticism, they risk losing their customer base. Finding a middle ground between the two philosophies will benefit the company in the long run, both in corporate image as well as in financial performance.

Once claim protocols are in place, it may be possible to categorize claims to help expedite the process. Examples might be:

- ▶ Clearly affected: Small effect (product refund only)
- ▶ Clearly affected: Large effect (documented injury)
- ▶ Questionably affected: Small effect (physician visit)
- ▶ Questionably affected: Large effect (significant out-of-sight damage)

In practice, it's neither wise nor feasible to take the aforementioned categories in a precise sequence. With such categorization, however, it becomes possible to appoint teams of adjusters to deal with different levels of claims.

The questionably affected are often

driven by a sense of indignation. They believe, often with deep conviction, that a company should be punished and pay something more than what is required to make them whole. Paying uncontested claims might quickly make such claimants recognize that the company's response is being driven by fairness and actual damages sustained. Attitudes will soften, demands will become more realistic, and public opinion will swing in the company's favor as more and more people understand the company is doing the right thing.

It has been said that by settling uncertain claims quickly, the number of questionable claimants, and thus potential lawsuits, is reduced. While true, it is typically not the best practice because it can raise the expectations of the entire group.

Final Thoughts

Product recalls and the ensuing claims are little different from those of natural disasters. A large segment of the population has undergone a similar experience that has resulted in some type of damage, real or perceived. In the case of product recalls, the adjuster's duty to deal in good faith is driven not by contract, but by a company's need to survive the crisis. This is a far more personal duty, one that requires a display of consideration in the name of customer service while at the same time never forgetting a fiduciary responsibility to the client or employer. ■

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