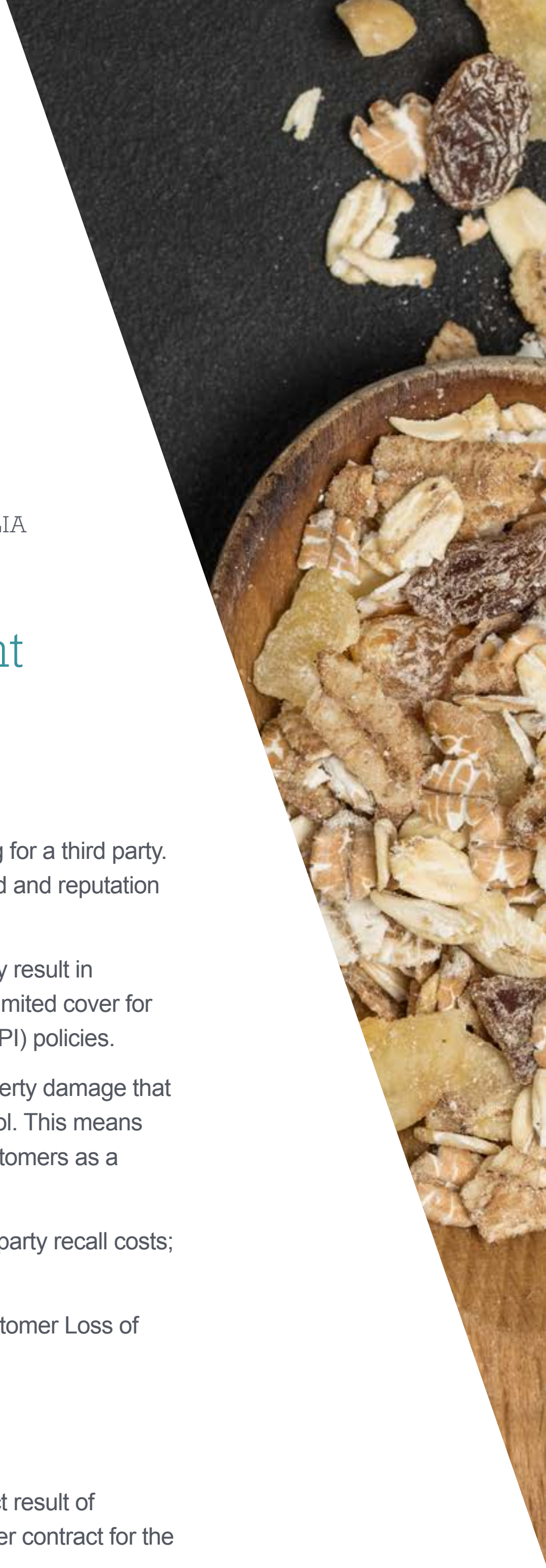


CRISIS MANAGEMENT // CONTAMINATED PRODUCTS // Q&A // AUSTRALIA

Extra protection with our Customer Loss of Profits Endorsement

Why purchase Customer Loss of Profits cover?

In Australia, there is a growing trend for businesses to undertake contract manufacturing for a third party. Often, the third party will be a large brand name that is particularly sensitive to any brand and reputation impacts resulting from accidental contamination.

Accidental contamination during manufacture or packaging of the product can potentially result in substantial lost profits for the third party. Unfortunately, the insured may have only very limited cover for such losses under their General Liability (CGL) or Contaminated Products Insurance (CPI) policies.

The cover provided by stand-alone CGL policies in the market is typically limited to property damage that occurs at the insured's premises, or to goods under the insured's care, custody or control. This means that the insured may not have adequate cover for the financial loss suffered by their customers as a result of accidental contamination.

Most CPI policies, too, have very limited third party cover. They commonly include third party recall costs; however, any claim from a third party for their loss of profits is usually not covered.

Liberty Specialty Markets (Liberty) addresses this potential shortfall in cover with its Customer Loss of Profits (CLOP) Endorsement.

What does it cover?

Liberty's CLOP Endorsement covers loss of earnings incurred by a third party as a direct result of accidental contamination of an affected product which the insured is manufacturing under contract for the third party.

Liberty's CLOP Endorsement also includes cover for defence costs.

What sort of clients face this type of exposure?

Any manufacturer who manufactures or co-packs under contract for any third party. This can include the manufacture of generic products for retailers, as well as the manufacture of products for other parties.

Case example (AU$)

Muesli Bar Pty Ltd manufactured Krason-branded muesli bars for Krason Ltd. The cost to Muesli Bar Pty Ltd per product was $1.50, while Krason sold the muesli bars to retailers for $3.

The products were released to market and within the month, multiple consumer complaints were received by both retailers and Krason. Further investigation revealed that the product complaints related to a two-week period of production.

Muesli Bar Pty Ltd was informed of the complaints and upon investigation discovered that pieces of plastic had inadvertently made their way into the product. Krason and Muesli Bar Pty Ltd agreed a recall needed to be conducted.

Krason conducted the recall and sent their following invoice to Muesli Bar Pty Ltd. The chart below summarises the costs claimed, as well as the cover potentially provided by standard CPI and CGL policies, as compared with Liberty's CPI policy with CLOP Endorsement.

	AU$	CPI Policy	CGL	CPI with CLOP
Retailer recall costs	$150,000	✓	?	✓
Advertising expenses	$50,000	✓	✗	✓
Product replacement	$500,000	✓	✗	✓
Krason's profit margin	$500,000	✗	✗	✓
Krason's lost sales	$100,000	✗	✗	✓
Total:	$1,300,000			
Total uninsured losses without CLOP	**$600,000**			

✓ Coverage provided ✗ Coverage not provided

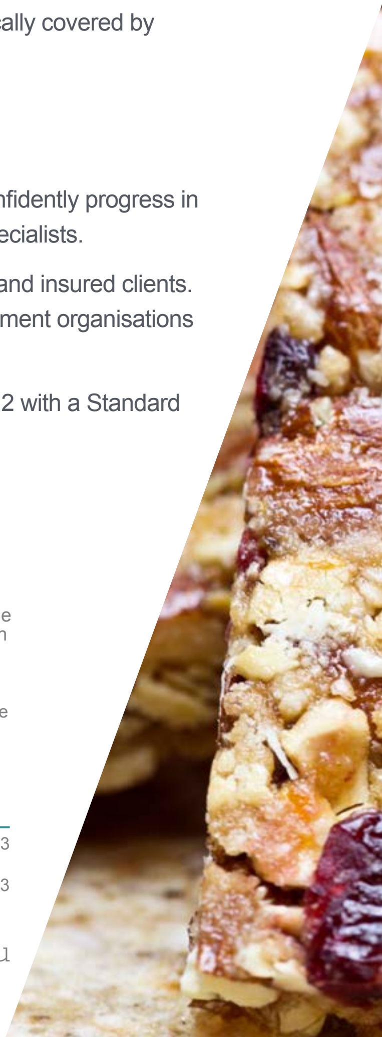
The total loss incurred by Krason was $1,300,000; however, a typical CPI policy would only cover $700,000 of this loss. The difference in the amounts arises from the lost sales and profit margins by Krason, which are specifically covered by Liberty's CLOP Endorsement.

Global reach. Financial strength. Local authority.

Distinct, complex and constantly evolving – every business is as unique as their insurance needs. To confidently progress in the face of risk and uncertainty requires a level of security you can only achieve through working with specialists.

Liberty Specialty Markets offers a breadth of world-class insurance and reinsurance services to brokers and insured clients. We bring value and solutions to more than 25,000 of Asia Pacific's most significant business and government organisations – helping protect what they earn, build and own.

We're part of the global Liberty Mutual Group, a Fortune 100 company that's been in business since 1912 with a Standard and Poor 'A' (strong) rating.



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