

CRISIS MANAGEMENT // MALICIOUS PRODUCT TAMPERING & PRODUCT
EXTORTION // CLAIMS EXAMPLES // ASIA PACIFIC

Malicious Product Tampering and Product Extortion insurance

Malicious product tampering (MPT) and product extortion (PE) are some of the most financially damaging incidents a company can face. These crimes are easy to commit, are potentially dangerous to public safety, and are capable of causing significant commercial damage.

The extent of the damage caused by an actual or threatened malicious product tampering incident depends as much on the company's response to the incident as on the severity of the threat. Some degree of business disruption is inevitable, but if the immediate response is slow, inadequate or inappropriate, the problem may escalate and cost the company more to contain.

Liberty Specialty Markets (Liberty) offers a MPT policy that covers clients against the financial loss associate with a malicious product tamper or product extortion event, including:

- ▶ Recall costs
- ▶ Product replacement costs
- ▶ Loss of gross profit
- ▶ Rehabilitation expenses
- ▶ Product extortion monies
- ▶ Consultants' and advisors' costs

Early response is critical in the event of an MPT or PE incident, and Liberty's experienced crisis consultants are on hand 24/7 to assist and advise the client from the outset.

Case studies

The following well-known MPT and PE events illustrate the many and varied exposures faced by business of all types, and the importance of robust insurance protection.

Tylenol

In possibly the most infamous case of product contamination ever reported, in 1982, Johnson & Johnson's headache remedy Tylenol was deliberately laced with cyanide in the USA. Seven people died as a result of taking the contaminated capsules.ⁱ

Although the Tylenol product recall was handled successfully, the Tylenol incident cost the company more than US\$100 million post tax.ⁱ It is generally accepted that the 1982 Tylenol crisis propelled the crime of product tampering into the international area, the motives of the perpetrators being as varied as the MPT acts themselves.

Unfortunately, despite the introduction of tamper-evident packaging after the Tylenol case, several more deaths occurred in 1986 due to the consumption of cyanide-laden analgesic products.ⁱⁱ

Strawberries

In 2018, strawberries grown in Queensland and Western Australia were found to be contaminated with sewing needles with 186 contamination reports received nationally. Consumers were recommended to either dispose of affected brands or return them to the place of purchase, and to cut up other brands before eating. Soon after, needles were found in “Australian Choice” brand strawberries sold in Auckland, New Zealand. Additionally, several copycat contamination incidents occurred, with needles detected in bananas, apples and mangos.ⁱⁱⁱ

In response to the contamination, Suncoast Harvest of the Sunshine Coast announced that they would stop growing strawberries for the remainder of the year, resulting in job losses for 100 workers. Some growers started ordering and installing metal detectors to protect their strawberries from contamination. Donnybrook Berries of Queensland, one of the brands affected, dumped truckloads of berries, sharing the resulting video footage which went viral with over a million views in a day. One Queensland farm burned off 500,000 strawberry plants deemed unsellable, because it was cheaper than harvesting. It was reported that the strawberry industry saw a 14% lower than average revenue because of the incident.ⁱⁱⁱ

Panadol

In a two-million dollar extortion attempt against Smith Kline Beecham and Herron (the then makers of Panadol), the extortionist threatened to lace the painkiller medication with strychnine if the companies refused to pay.^{iv}

The extortion resulted in the recall of various lines of Panadol product, and the recall costs were estimated to be about AU\$72 million. Police arrested and charged with extortion a man who fell ill with his wife after swallowing the contaminated products.^{iv}

Arnott's

In 1997, an extortionist threatened to contaminate Arnott's biscuits in Queensland and New South Wales (NSW) unless a prisoner, held in a Queensland jail, was released. Arnott's triggered a massive product recall and launched a massive publicity campaign, publishing the extortionist's demands in the media.^v

The recall alone cost the company approximately AU\$10 million.^v

Mars and Snickers

In 2005, tens of thousands of Snickers and Mars chocolate bars were withdrawn from sale in NSW after the manufacturer, MasterFoods, received a letter threatening to poison members of the public. The letter warned that up to seven Snickers and Mars bars in the Sydney metropolitan area had been contaminated. The letter followed two similar threats sent to MasterFoods a few months earlier.^{vi}

Police determined that the perpetrator was not trying to extort money from the company; instead, a third party was the target. MasterFoods cooperated with the police and used crisis and media management techniques to communicate the risks and keep the target public informed of developments throughout the seven-week recall campaign.^{vi}

Why choose Liberty?

The Liberty Crisis Management team is experienced in handling complex risk exposures and is able to craft tailored wordings to suit our clients' specific needs. Our crisis response consultants have 20 years' of experience in the food industry and are only a phone call away, and our claims team has been efficiently handling recall claims since 2009.

i Rehak, J and International Herald Tribune, Tylenol made a hero of Johnson & Johnson, (23 March, 2002), The New York Times, <<http://www.nytimes.com/2002/03/23/your-money/tylenol-made-a-hero-of-johnson-johnson-the-recall-that-started.html>>.

ii Schmidt, W, Cyanide is found in a Tylenol pill, (February 1986), The New York Times, <<http://www.nytimes.com/1986/02/28/us/cyanide-is-found-in-a-tylenol-pill.html>>.

iii Caldwell, F, Queensland strawberry industry takes financial hit after needles crisis, The Brisbane News, <<https://www.brisbanetimes.com.au/politics/queensland/queensland-s-strawberry-industry-takes-a-financial-hit-after-strawberry-crisis-20190111-p50qrv.html>>.

iv Schmetzer, U, Suspect Jailed in Case of Tainted Painkillers, Extortion in Australia, (22 December 2000), The Chicago Tribune, <<https://www.chicagotribune.com/2000/12/22/suspect-jailed-in-case-of-tainted-painkillers-extortion-in-australia/>>

v Hoyle, S, Extortion threat is poison to Arnott's bottom line (17 February, 1997) Financial Review, <<https://www.afr.com/politics/extortion-threat-is-poison-to-arnotts-bottom-line-19970217-k7cag>>

vi The Sydney Morning Herald, Threat sparks Mars, Snickers bar recall, (1 July 2005), The Sydney Morning Herald, <<http://www.smh.com.au/news/national/threat-sparks-mars-and-snickers-bar-recall/2005/07/01/1119724802668.html>>

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This document is intended to broadly illustrate the kinds of exposures a business can face from Malicious Product Tampering and Product Extortion. It is not a comment on insurance coverage available from Liberty. You should not rely on this information without first obtaining professional advice. This information is current as at October 2024. Liberty means Liberty Specialty Markets, a trading name of Liberty Mutual Insurance Company, Australia Branch (ABN 61 086 083 605; AFSL No. 530842 (for claims handling and settling services only)) incorporated in Massachusetts, USA (the liability of members is limited); Liberty Specialty Markets Hong Kong Limited (UBI 66395065); Liberty Specialty Markets Singapore Pte Limited (UEN 201538069C); and Liberty Specialty Markets Singapore Pte Limited, Labuan Branch (Company No. LF12903), a licensed insurer under the Labuan Financial Services and Securities Act 2010 (Licence No. IS2016162).

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