

Product recalls rise on back of reputation fears

RPC study found a record 291 recalls last year, up from 229 for 2010



By Scott Vincent
Deputy editor

Fears of potential damage to firms' reputations have sparked an increase in the number of UK product recalls to a record level during the past year, with supply chain disruption resulting from the year's catastrophe activity also a likely contributing factor.

Figures released on January 23 show UK product recalls rose to a record 291 in 2011, up from 229 during the previous year.

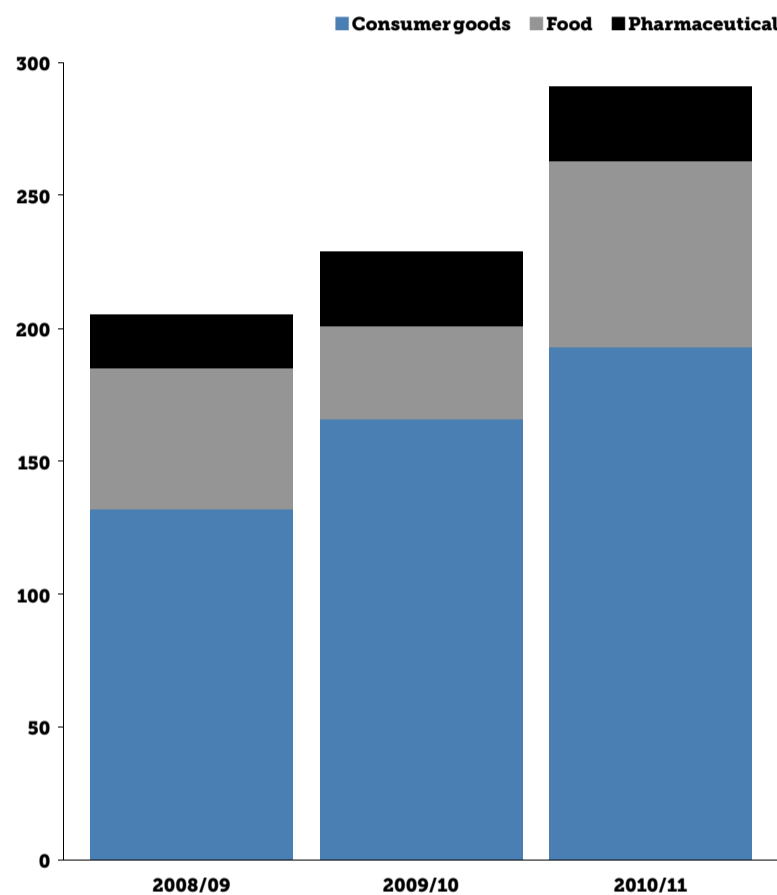
Companies are now moving faster to recall potentially faulty products amid fears of negative publicity, both through traditional forms of media and the rapid spread of information through social networks.

Stuart White, partner at Reynolds Porter Chamberlain (RPC), which conducted the product recall research, said the fear of a complaint going viral is sparking early action.

"The increasingly seamless spread of information through social networking platforms like Facebook and Twitter has also made it easier for consumers to complain about products to one another. Where a problem might once have been locally contained, it is now much easier for the complaint to become viral," he said.

Awareness of reputational risks

Graph: Product recalls in the UK over the past two years



Source: Reynolds Porter Chamberlain

291
Product recalls in the UK last year, up from 229 in the previous year

has been growing among major corporates and last October's Federation of European Risk Management Association conference in Stockholm saw the launch of a product to cover reputational damage and brand restoration, launched in collaboration between broker Aon, insurer Zurich and communications firm WPP.

An Oxford Metrica report revealed an effective communications strategy is the key determinant in firm's surviving reputational crises such as a product recall.

And White warned acting swiftly was becoming increasingly vital given the rapid spread of bad publicity that can follow.

"Delaying a recall can have disastrous consequences for a brand's reputation, which is sure to reflect on the businesses' balance sheet," he said.

RPC's research showed this year's increase was driven by a sharp rise in recalls for food products, which doubled to 70, compared with 35 in 2010.

Recalls for faulty electrical consumer products also increased dramatically, rising 45% to 58 in 2011, compared with 40 in 2010.

White said this could be attributable to high consumer demand for cheaper brands, particularly for household products such as cookers or freezers.

Another contributing factor is disruption to supply chains caused by 2011 catastrophe activity, which means manufacturers would have been forced to use unfamiliar suppliers and parts.

"From natural disasters to political unrest, the past 12 months have seen substantial supply chain disruptions. These will inevitably have put pressure on manufacturers, which may well have turned to third- or fourth-tier suppliers to cope with the supply shortage."

XL recruits Chartis' Harris to head international p/c insurance

Jason Harris, head of UK commercial lines operations at Chartis, has been appointed chief executive of international property/casualty insurance at XL, writes Richard Banks.

Harris took on responsibility for all Chartis UK's commercial lines profit centres in July 2010, replacing Kelly Lyles, who was promoted to the role of general manager in France of Chartis France.

In his new role, he will replace XL veteran Eileen McCusker, who announced her retirement last year.

Greg Hendrick, chief executive of XL's insurance division, explained Harris will "play a critical role in continuing our momentum in the international region, where we are looking to consolidate and expand our market presence in a broad range of mature and emerging markets".

Chartis confirmed it had begun the search for a replacement for Harris and will be considering both internal and external candidates.

Last July, Chartis named a new managing director for the UK, Nicolas Aubert, who replaced James Shea, who took on the new role of president of global specialty lines.

Last week, Chartis confirmed a number of high-level management changes in its global operations to more align its business with its geographical presence.

Chartis' former chief financial officer, Robert Schimek, has taken over as chief executive for the Europe, the Middle East and Africa region, with Peter Eastwood adding Latin America and Bermuda to his US and Canada portfolio of responsibilities. Jose Hernandez, Chartis' president and chief executive for the Far East region, now has responsibility for Japan and Chartis' Asia-Pacific region as well.

Insurers' resolution and recovery strategy 'alleviates systemic risk' – Geneva Association

Insurers are highlighting the industry's robust approach to dealing with business failures as they step up their campaign to prove to politicians and lawmakers the insurance sector does not pose the same level of systemic risk as banks, writes Richard Banks.

In the run-up to June's meeting of the G20 world leaders, the Geneva Association is due to publish analysis of what it terms the industry's "resolution and recovery plans",

which contrast sharply with those of the banking sector, where failures provoke greater systemic risk, the think tank argues.

In his outlook for 2012, Patrick Liedtke, secretary-general and managing director of the Geneva Association, acknowledged financial stability remains the number-one concern of world leaders, but he reiterated his asser-

tion lawmakers should be wary of imposing inappropriate financial services-wide regulation in response.

He said: "Over the past two years, the insurance industry has worked vigorously to clarify the nature of its contribution to financial stability, proving how insurance activities are a stabilising rather than a destabilising element and clearly

demarkated itself from other financial services providers."

Liedtke added: "It is clear from our analysis [of the resolution and recovery plans that exist in insurance] and fully consistent with the experience from the past decades that when failures of insurers occur, the recovery or resolution mechanisms and supervisory tools for insurance exist for allowing them to be managed in an orderly fashion and without

systemic disruptive effects on the global financial system.

"Against the Financial Stability Board stipulation a systemically important financial institution [SIFI] is an organisation that would 'cause significant disruption to the financial system and economic activity', self-evidently the orderly failure of an institution does not create a systemic risk, thus resolvable insurers cannot be SIFIs."

