



CPA Info #128

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## Food Product Liability Insurance

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Insurance is an important safeguard for any business operation and a large range of insurance coverages exist. Particular needs should be carefully evaluated through consultations with an insurance provider. Many business owners feel they do not need insurance until they really get the business off the ground. In fact, some never consider insurance coverage until someone they want to do business with requires it, a disaster strikes or they find themselves in a lawsuit.

One particular form of insurance coverage that should be evaluated by food product manufacturers and processors is “Food Product Liability” coverage. This type of coverage should provide some protection in the event that the food product insured causes injury to a user. Most retail outlets “require” that food products have a minimum level (normally at least a \$1 million policy and often \$2 million) of product liability coverage before they will carry it.

Providing food product liability coverage does not appear to be a very common activity in Tennessee. Many “local” insurance agencies do not routinely provide food product liability insurance. However, depending on a number of attributes, they may be able to arrange for such coverage. Food product insurers do exist and three are listed below. The firms listed below can be contacted by “any” local or private insurance agency to discuss the writing of a food product liability policy. However, they will require several specific pieces of information concerning the product and the business (annual sales, annual payroll, etc.) in order to provide a premium quote and they may require that the request be made by an insurance agency rather than the business owner.

- ✓ Insurance Placement Center  
1-800-532-1002
- ✓ Sedgewick & James  
(423) 584-9101
- ✓ Southern Insurance  
Manager  
(615) 356-2900

The cost for food product liability coverage is anything but easy to estimate. Most insurance providers should be able to give an estimate for a \$1 million dollar policy when a series of business and product specifics can be answered. However, some “rules-of-thumb” approximate the annual premium of a \$1 million policy to be around \$1,000. But sometimes, rules-of-thumb can be a long way from reality.

Providers of food product liability insurance are often reluctant to provide policy quotes because there is not a standard rate for food products. Instead, the insurance provider may prefer to give an estimate which requires very specific product and business characteristics. In order to provide an estimate or an actual “premium quote,” most companies require a completed application and the submission of the businesses’ production, distribution and marketing plans. The level of gross sales and prior claims (history) are variables that seem to significantly contribute to the price for an annual premium. The information in the following table was summarized through an informal survey of insurance providers during May, 1998 and provides an excellent place to start. The survey found a wide range of annual premium estimates for food-product liability coverage.

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| 1) | Annual Premiums for Food-Product Liability Insurance Coverage Ranged from <u>\$500 to \$20,000</u>  |
| 2) | The Average Food Product Liability Premium was Estimated at <u>\$3,000</u>  |
| 3) | The Most Significant Factors Contributing to an Annual Premium were: <ul style="list-style-type: none"><li>• Level of Gross Sales or Annual Payroll</li><li>• Prior Claims/History</li><li>• Level of Coverage</li><li>• Speciality or Standard Market</li><li>• Type of Product</li><li>• Type of Market</li><li>• Recall Plan</li><li>• Batch System for Production</li></ul> |

There are no “standard rates” for liability coverage for food products. The actual premium depends on the many “specific” characteristics of the product, the manufacturing process and marketing plans. Some insurance agencies base the premium totally on estimated gross sales and charge a certain dollar premium per thousand dollars of estimated gross sales. For example, a premium for a product with an estimated \$50,000 in annual gross sales might cost \$500.00, or \$10.00 per \$1,000 worth of estimated sales. In general, the rate per \$1,000 of sales tends to decrease as gross sales increases. Many “small business” policies will be subject to a “minimum premium” which could be around \$500.00 per year.

As of March 1998, the Tennessee Department of Commerce & Insurance has licenced over 1,600 agencies to provide insurance in Tennessee. However, these agencies are not categorized by whether or not they write food product liability policies. The Tennessee Department of Commerce & insurance does maintain a list of all companies authorized to do business in the state and their address.

According to an article by Melissa T. Stock <sup>1</sup> concerning food-product liability insurance:

*“The bottom line is that to be a real company, you need to have insurance. That’s the word from every hot shop, gourmet shop and grocery store we talked to. In fact, most stores require to see a certificate of insurance before they place their first order. Some require to see proof of coverage before they will even consider a product for placement. Just as your vendors have the right to ask for verification of sufficient insurance, it makes good business sense for you also to ask for certificates of insurance from suppliers who are part of your business, from bottlers, co-packers and distributors”*