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How Product Recalls Expose Insurance Coverage Gaps

By **Sergio Oehninger, Teri Diaz and Audrey Gibson** (November 10, 2026, 1:54 PM EST)


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A contaminated ingredient or defective product or part can create a ripple effect throughout an entire supply chain, leaving companies with substantial costs that their standard insurance may not cover. The 2026 multistate Cyclospora outbreak linked to iceberg lettuce illustrates these risks.

Even after an outbreak ends, recalls can leave suppliers, manufacturers, distributors and retailers facing significant financial and operational consequences. The key question is not simply whether a company has insurance, but whether its policies will respond to the losses associated with a recall.

The 2026 Cyclospora outbreak, linked to iceberg lettuce sourced from central Mexico, resulted in 12,883 reported illnesses, 570 hospitalizations, and two deaths across 21 states. The affected products were sold at major retailers and distributed to food service locations across the nation, leading to a broad recall.

Although the Centers for Disease Control and Prevention declared the outbreak over on Sept. 11, the U.S. Food and Drug Administration has only recently wrapped up its investigation into the illnesses associated with iceberg lettuce recalled by Taylor Farms de Mexico. The FDA and CDC conducted investigations, including onsite inspections and border screenings.

Recalls are not confined to the food and beverage industry. Cosmetics, automotive, aviation, technology, industrial, pharmaceutical, medical device and other companies face similar exposures. FDA data reflects more than 29,000 recalled food and cosmetic products since 2012, second only to medical devices, with more than 40,000 recalled products. The numbers reinforce a practical point: Recall planning should include an insurance recovery strategy, not just strategies for product removal and customer communications.

Recalls can be either voluntary or mandatory. A recall is mandatory when the product is adulterated or misbranded, and there is a reasonable probability of serious adverse health consequences. On the other hand, companies may choose to conduct voluntary recalls for business reasons or if the threat of a mandatory recall is looming.

For example, there are three general categories of FDA recalls:

- Class I — where there is a reasonable probability that use of or exposure to a product will cause serious adverse health consequences or death;

- Class II — where use of or exposure to a product may cause temporary or medically reversible adverse health consequences or where the probability of serious adverse health consequences is remote; and

- Class III — where use of or exposure to a product is not likely to cause adverse health consequences.

Class III recalls are the most common and typically do not trigger coverage under general liability policies due to the absence of adverse health consequences.

A market withdrawal occurs when a product has a minor violation that would not be subject to FDA legal action, but a company removes the product from the market or corrects the violation — for example, a product removed from the market due to tampering, without evidence of manufacturing or distribution problems.

A medical device safety alert is issued in situations where a medical device may present an unreasonable risk of substantial harm. In some cases, these situations also are considered recalls.

For any business handling a potentially affected or defective product, part or ingredient, the resulting exposure raises an urgent coverage question: Which losses are insured, and which may be left on the balance sheet?

Potentially Applicable Insurance Coverage

A recall can affect every link in a supply chain, whether or not that company manufactured the contaminated product. Each participant should consider both its own policies and the insurance and indemnity protections available through commercial contracts.

General Liability Insurance

General liability insurance policies may cover a business's losses associated with third-party claims for bodily injury or property damage caused by, or alleged to be caused by, an affected product. For example, such coverage may be triggered by claims brought by downstream retailers against suppliers whose contaminated ingredients are incorporated into the retailer's product, or by consumers who experience an illness from the contaminated product.

Such coverage, however, is typically triggered by an allegation or showing of third-party property damage or bodily injury caused by an occurrence, which may not exist in every recall.

Whether general liability coverage is available will depend on the particulars of the claim and policy language. Policy exclusions, for example, may preclude coverage for costs associated with a product recall or contaminated product.[1]

In Discover Property & Casualty Insurance Co. v. Blue Bell Creameries USA Inc., the U.S. Court of Appeals for the Fifth Circuit held, in 2023, that a general liability insurer had no duty to defend or indemnify a company's directors and officers against a shareholder suit resulting from a Listeria outbreak that led to a nationwide recall.[2]

Because the suit alleged that the directors and officers acted knowingly and willfully, the court determined that there was no accident or occurrence to trigger coverage.[3] Also, the court determined that there was no coverage because the suit sought damages only for economic loss to the company, rather than damages on behalf of customers who experienced bodily injury.[4]

In contrast, in 2017, in Hanover Insurance Group Inc. v. Raw Seafoods Inc., the Appeals Court of Massachusetts found coverage under a general liability policy for damaged scallops at a seafood processing facility where the cause of the damage was unknown.[5] The court determined that the damage was caused by an "occurrence," since the damage was the result of some unknown failure of the processing or handling personnel at the plant.[6]

Relatedly, in J.M. Smucker Co. v. Ace American Insurance Co., the U.S. Court of Appeals for the Sixth Circuit held on July 1 that multiple claims arising from alleged Salmonella contamination in peanut butter constituted a single occurrence under a general liability policy, allowing the policyholder to avoid paying multiple retentions for separate claims.[7]

General liability policies typically do not cover first-party losses a business incurs due to a recall, such as costs for product testing, public relations management, and transportation, storage and disposal of recalled inventory, which often constitute a large portion of recall-related costs.

For such losses, coverage may be available under other types of policies, as discussed below.

Product Recall Insurance

Stand-alone product recall policies or endorsements can help address first-party costs that general liability insurance typically excludes, commonly responding to events such as accidental contamination, government recalls, adverse publicity or malicious tampering with products.

Depending on their terms, these policies may respond when a company voluntarily recalls a product to prevent anticipated harm, even before bodily injury or property damage occurs. Coverage may extend to voluntary recalls as well as regulator-mandated actions, but the triggering conditions warrant close review.

In the case of voluntary recalls, a point of dispute that often arises between insurers and policyholders is whether bodily injury or property damage was sufficiently imminent to justify the recall and thus trigger recall coverage.

Coverage typically requires actual contamination or defect of a product — rather than fear or suspicion of contamination or defect — that has caused or will cause bodily injury or property damage.

Quality issues alone will not likely trigger coverage, highlighting the importance of product testing and record-keeping for establishing a coverage claim. Ultimately, such disputes often depend on the specific policy language and the particular facts at issue.

Recall insurance policies may cover first-party costs associated with a product recall, including the following:

- Removal of products from the marketplace;

- Product testing;
- Transportation, storage and destruction of recalled goods;
- Customer notification expenses;
- Public relations and crisis management; and
- Business interruption losses resulting from the recall event.

In GreenGate Fresh LLP v. Houston Casualty Co., the New York Appellate Division, First Department, held, in 2023, that there was coverage for losses sustained by a company in connection with an E. coli outbreak under the policy's government determination endorsement.[8]

The court determined that the language of the endorsement did not require governmental authorities to specifically name the company's product to trigger coverage, since government orders implicated the company's products and there was a reasonable probability that consumption of the company's products would have resulted in bodily injury.[9]

Recall insurance policies can provide valuable protection for companies facing a wide range of recalls. However, they do not typically cover a company's response to normal spoilage or changes in government regulations.

Additionally, such insurance policies frequently contain strict notice requirements, such as imposing time limits between a company's discovery and reporting of a contamination. Companies facing recall risks will want to review their recall insurance policy's terms and conditions to understand the scope of coverage afforded and whether any gaps need to be shored up at policy renewal.

First-Party Business Interruption Insurance

Traditional property insurance policies may also cover first-party property damage and business interruption losses resulting from a recall event. Although these policies can provide coverage for lost business income arising from property damage, this coverage is often not triggered without a showing of damage to the policyholder's own property resulting in business interruption.

Whether there is coverage for such a loss will depend on the particulars of the claim and policy language, including endorsements.

Practical Steps to Protect Recovery

The Cyclospora recall offers a broader lesson for food and consumer products businesses: A fast-moving product safety event can create losses across multiple entities, states and coverage lines. The legal and financial response should begin before the scope of the recall — or the ultimate allocation of responsibility — is settled.

When a recall is announced or reasonably anticipated, companies should promptly evaluate notice obligations under every potentially responsive policy, including general liability, product recall and first-party property coverage.

At the same time, they should track costs by category, preserve supporting records, and assess the specific triggers, sublimits, deductibles, and exclusions that may affect recovery. Early coordination can reduce the risk that an otherwise viable claim is compromised by late notice or incomplete documentation.

Insurance is only part of the recovery picture. Supply agreements, purchase orders and other contracts may provide additional insurance rights or indemnification from suppliers, manufacturers, distributors or retailers. Those rights should be reviewed alongside the policies, particularly where several parties handled the affected product.

Businesses also need to coordinate insurance strategy with applicable regulatory requirements governing notifications, product handling and consumer safety. Coverage decisions should not delay appropriate safety measures.

The practical takeaway: Review recall coverage and contractual risk allocation before an incident, establish a cross-functional response plan and preserve potential recovery avenues from the first day of a recall.

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[1] PBM Nutritionals, LLC v. Lexington Ins. Co., 724 S.E.2d 707, 714 (Va. 2012) (holding that a pollution exclusion endorsement applied to preclude coverage for contaminated infant formula); but see Cheer Pack N. Am., LLC v. Valley Forge Ins. Co., No. CV 15-14135-FDS, 2017 WL 1552315, at *6-9 (D. Mass. Apr. 28, 2017) (holding that while the policy's microbe exclusion applied to recalled products containing bacterial contaminants, the ambiguous food processing exception should be interpreted in favor of coverage); ConAgra Foods, Inc. v. Lexington Ins. Co., 21 A.3d 62, 72 (Del. 2011) (holding that the "lot or batch" provision in the policy was ambiguous and should be interpreted in favor of coverage for losses resulting from Salmonella-tainted peanut butter).

[2] Discover Property & Casualty Insurance Co. v. Blue Bell Creameries USA, Inc., 73 F.4th 322, 330, 334 (5th Cir. 2023).

[3] Id. at 330.

[4] Id. at 334.

[5] Hanover Insurance Group, Inc. v. Raw Seafoods, Inc.,73 N.E.3d 831 (Mass. Ct. App. 2017).

[6] Id. at 835; see also Travelers Prop. Cas. Co. of Am. v. USA Container Co., 686 F. App'x 105, 108-10 (3d Cir. 2017) (holding that damage to corn syrup was caused by an "occurrence" and the precautionary recall exclusion did not apply since the damaged product was not recalled but rather sold at a reduced price).

[7] J.M. Smucker Co. v. Ace American Insurance Co., 179 F.4th 1038 (6th Cir. 2026).

[8] GreenGate Fresh LLP v. Houston Casualty Co., 216 A.D.3d 593 (N.Y. App. Div. 1st Dept. 2023).

[9] Id. at 594.