



# Managing global risks and opportunities in the food and beverage sector

April 2023



# Introduction

Global population hit 8 billion in 2022 and is expected to reach 9.8 billion by 2050. The UN has estimated that food production will need to increase by 70% to feed everyone<sup>1</sup> by the middle of the century.

Yet even before the COVID-19 pandemic, the food and beverage industry was facing massive challenges, including:

- climate change
- more frequent and more severe natural catastrophes
- water and labor shortages
- human and livestock pandemics
- land degradation and deforestation
- further global urbanization
- pollution and ocean acidification

In this review, WTW colleagues in the areas of crisis management, supply chain disruption, environmental risk, product recall and business continuity look at what our latest global food and beverage survey tell us about the emerging risk landscape for the food and beverage industry.

The review is based on our webinar of 25 January 2023.

1. United Nations UN News <https://news.un.org/en/story/2013/12/456912>



# WTW Global food and beverage survey, 2022

The WTW Global food and beverage survey<sup>2</sup> asked 250 global senior executives from the sector for their views on the opportunities and obstacles facing their organizations, and the external factors that are posing the greatest risks.

As the world emerges from the pandemic, it has been a time of mixed fortunes for the food industry. Even while geopolitical tensions escalate in Ukraine and the aftermath of the pandemic continues to disrupt supply chains and limits available labor, our survey found a general feeling of optimism plus a focus on stability and resilience.

Figure 1: WTW Global Food and Beverage Survey, 2022 headlines



2. WTW Global Food and Beverage Survey Report 2022 - <https://www.wtwco.com/en-gb/insights/2022/04/global-food-and-beverage-survey-report>

# Navigating geopolitical risks



**Jo Holliday**

Global Head of  
Crisis Management, WTW

*Jo looked at how the sector can steer a safe course in turbulent times.*

The geopolitical challenges facing the food and beverage industry in 2022 were dominated by the conflict in Ukraine, with the impact felt well beyond those operating in the region.

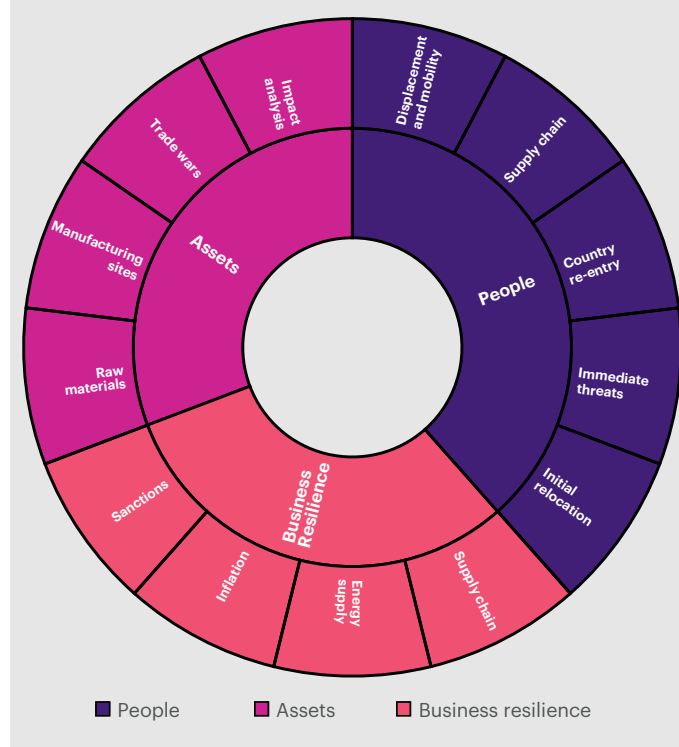
At the same time, several other geopolitical themes are also impacting the food and beverage industry, underlining the need to understand likely global and local risks.

Monitoring and evaluating geopolitical risks should form part of a company's planning, with an adaptable, agile team in place, ready to respond to future developments.

Recent geopolitical incidents have had an impact on the political violence insurance marketplace, reflecting the level of losses experienced by clients, so a review of geographical exposures, insured values and business indemnity periods continues to be prudent.

**345.2 million** people projected to be food insecure (up 200 million on pre-pandemic levels)<sup>3</sup>

Figure 2: The nature of geopolitical risks



## Conflict in Ukraine

Because the potential for conflict in Ukraine was well-flagged in advance, some clients' "early warning systems" enabled them to activate effective support and plans. Others acted quickly to put measures in place to protect their people and assets. A key focus was the safety & security of their people.

Many companies with manufacturing facilities in Ukraine were keen to maintain production in order to support the Ukrainian population and to continue to make products available. In the areas most impacted, the focus was on securing raw materials and ensuring that hazardous chemicals were safely stored or moved to safety to avoid the potential for accidental leakage or intentional misuse.

Factory damage in the East of Ukraine has been widespread. Rebuilding plans have largely been impossible due to the ongoing conflict and lack of access. Future rebuilding will also be significantly influenced by the lack of availability of machinery and equipment, further extending the expected period of business interruption and cost of reconstruction.

3. World Food Programme. A global food crisis. <https://www.wfp.org/global-hunger-crisis>





## Decoupling from China

Although tensions between China and the West have been on the radar for quite some time, the pandemic and conflict in Ukraine have crystalized potential geostrategic competition and disruption to the global economy, businesses and supply chains.

Decoupling those financial and supply chain integrations will be a strategic objective for governments and policy makers in the years ahead. As the trade tensions between China and the West increase, certain industry sectors may become retaliatory targets, including consumer brands.

The food and beverage industry was a prime target of retaliatory measures against U.S. tariffs on steel. No longer an “academic” or policy issue, managing this transition will be an operational challenge. Gray-zone aggression towards corporates, such as cyber-attacks or intellectual property theft, is likely to intensify, with the aim of weakening businesses and economies.

## Food nationalism

In response to the pandemic and geopolitical disruptions, some governments and organizations have sought to bring their supply chains home, replacing foreign products and services with domestic alternatives.

Recent EU legislation<sup>4</sup> that came into force from 1 January 2023, can include stiff financial penalties for companies under new obligations for supply chain due diligence.

## Disruption in Asia/Pacific

There are several potential flashpoints in the Asia/Pacific region: the obvious one being the dispute between China and Taiwan.

China will be watching the global response to the Russian invasion of Ukraine very closely, recognizing that even large economies are not excluded from international sanctions.

Perhaps more likely is the possibility of an escalation in the highly contested South China Sea, whether intentional or accidental, as well as potential disruption to key trade routes in the region.

## Weaponized interdependence

After decades of progress in globalization, economies have become interdependent.

Recent years have seen policymakers weaponize this interdependence to improve their chances in trade negotiations, punish opponents in diplomatic disputes, or undermine rivals in geostrategic competition. For example, China reacted to Australian comments on the source of COVID-19 by imposing tariffs on wine and shellfish exports.

## World food crisis

Less than 20% of household income in the US is spent on food, whilst in lower-income countries that amount can exceed 50%<sup>5</sup>. A world food crisis driven by rising inflation can cause an increase in civil unrest, as we saw when the cost of grain and bread in Egypt contributed to the Arab Spring.<sup>6</sup>

4. EU Commission [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_1145](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1145)

5. Household food spending divides the world. Financial Times. <https://www.ft.com/content/cdd62792-0e85-11e9-acdc-4d9976f1533b>

6. Use your loaf: why food prices were crucial in the Arab spring. The Guardian. <https://www.theguardian.com/lifeandstyle/2011/jul/17/bread-food-arab-spring>



# Reducing the impact of supply chain disruption



**Andy Edwards**  
Director, Global Marine



**Charlie McCammon**  
Marine National Team  
Leader at WTW

*Andy and Charlie set out 7 key ways that food and beverage businesses can address supply chain disruption.*

Recent global events, such as port congestion, shortage of shipping containers and haulage operators, along with a lack of infrastructure investment, have severely disrupted supply chains.

Managing these supply chain risks has become a top priority, with just-in-time methods facing increasing scrutiny.

Indemnifiable physical losses that occur because of road traffic accidents, theft of goods, fire and natural catastrophic events are covered by insurance. However, many supply chain disruptions, such as delays, fall outside the parameters of indemnifiable losses. This has seen the development of new products, such as trade disruption insurance in the marine cargo market.

**'Many supply chain disruptions, such as delays, fall outside the parameters of indemnifiable losses'**





## 7 ways to keep your organization moving

### 1. Develop contingency plans

A supply chain's resilience can be quickly compromised if plans to deal with unexpected disruptions are not in place.

To prevent the unexpected, ask questions such as:

- How many links are in the chain?
- How long could we manage without our biggest supplier?
- Do our existing suppliers have spare capacity or business continuity plans in place?

### 2. Diversify your supplier base

Find suppliers who will be able to bridge the gap if a supplier:

- goes out of business
- experiences a production issue
- lets you down in favor of a competitor

### 3. Consider re-shoring and near-shoring operations

Re-shoring and near-shoring is not always possible in the food and beverage industry, but by bringing operations closer to home, organizations can mitigate some supply chain risk.

**Re-shoring:** returning production to the company's country of origin.

**Near-shoring:** bringing production closer to the original country.

### 4. Implement real-time tracking and visibility

Track the location status of your shipments in real time to quickly address potential issues and build a better understanding of your supply chain. Suppliers can use food labels and upload data for full and speedy traceability.

### 5. Foster strong relationships with logistics providers

Disruption can be managed better between companies that share strong and healthy relationships. This can help ensure you are treated more favorably in the event of a scramble for scarce goods.

### 6. Utilize data and analytics

Review and analyze data on past disruptions to identify patterns and develop strategies to prevent future disruption. Using data can help to continuously improve and optimize management of supply chain risk.

### 7. Review insurance terms and conditions

Choose risk management and insurance partners that fully understand the complexities of the food and beverage industry to ensure you get the correct cover.



# Environmental exposures



**Chris Strong**

Environmental Practice Leader, WTW

*Chris gave an overview of the key environmental exposures in food and beverage.*

The increased public and political awareness of the impact businesses can have has resulted in an increase in public expectation and regulatory focus on environmental, social and governance (ESG) standards. This continues to push environmental issues up the boardroom agenda.

Company directors now have an obligation to report environmental impacts and show how their business is managing their environmental responsibilities. Fines and penalties are increasing in frequency and cost, and the reputational damage of an incident is far-reaching.

## Biodiversity loss

Biodiversity loss is a key measure of ESG performance.

Food and beverage companies can have a direct and indirect impact through:

- habitat loss and degradation due to land use
- overexploitation of natural resources
- water, land and air pollution
- human-induced climate change
- Introduction of alien species

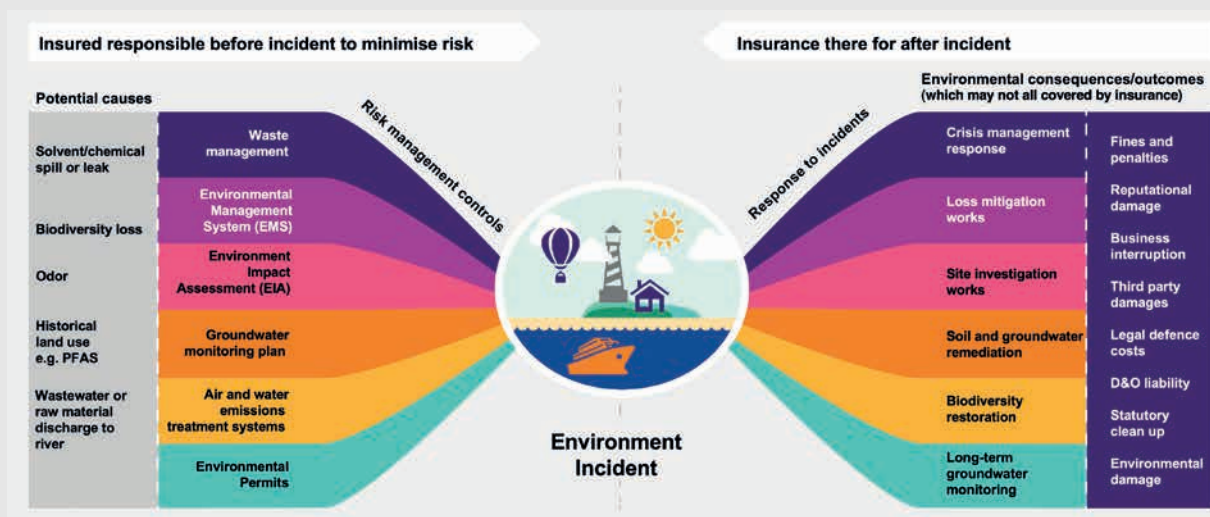
Figure 3 shows key aspects where the food and beverage sector has a duty to mitigate environmental risks.

## Environmental insurance policies

Standard general liability policies are limited in their pollution cover. Biodiversity damage, first party cleanup costs, gradual pollution, historical pollution, crisis management costs, loss mitigation costs and statutory remediation costs are not usually covered by general liability or property policies. There is a broad spectrum of scenarios of how environmental damage and pollution arises, from simple spills from tanks and pipelines, wastewater discharges, odour, mold, historical land uses, air emissions and biodiversity damage.

Environmental Impairment Liability (EIL) insurance (as shown on the right of figure 3) can help to reduce reputational damage with the support of a crisis management team to handle local press and residential queries. Specific EIL policies cover different types of pollution and environmental damage, from soil and groundwater issues to dust and odor. Access to environmental consultants and lawyers can minimize reputational damage and ensure your response to an incident is rapid and correct.

Figure 3: **Raising awareness of environmental risks**





# Maximizing the benefits of automation and digitalization



**Glyn Thoms**

Head of Finex GB Cyber & TMT, WTW

*Glyn outlined how food and beverage businesses can maximise the benefits of automation and digitalization.*

Automation and digitalization continue to revolutionize the food and beverage industry, giving businesses the opportunity to optimize processes through new technologies, leading to increased efficiency, flexibility in production and sustainability.

In our Global Food and Beverage Survey 2022, 39% of respondents identified increased technology in production as one of the key opportunities in the next 2 years. Research suggests that companies that fail to invest face challenges around profit margins, a shortage of operatives and reduced output.

## Key opportunities for the food and beverage sector

### Improved productivity and efficiency

Automation allows companies to maintain high output rates because of the more reliable 24/7-nature of the technology.

Automation also enables more efficient use of resources and minimizing of waste.

### Flexibility to adapt to customer needs

Digital technology allows producers to monitor and control the production process.

Production can be scaled up or scaled back quickly based on the data and analytics of customer demand, while companies can be more creative in launching new products to market in a shorter timeframe.

### Sustainability

With the increasing focus on sustainability, digitalization can help to lower emissions, reduce waste, reduce energy consumption, and provide better supply chain visibility.

## Safer products and procedures

Customer and regulatory focus on food safety and hygiene has increased. Manufacturers must control their processes strictly to meet these ever-higher standards.

Digital technologies enable the detection and correction of potential quality issues in real time, saving significant amounts of time and money. They can help with automatic compliance checks and fast-track the recall process.

## Managing associated risk

Automation and digitalization can amplify exposure to existing risks as well as create new ones.

Cyber risks as an example, and the exposure to ransomware attacks, can impact the food and beverage sector. Our WTW cyber claims data shows that the manufacturing sector is now the second highest for cyber claims frequency.

## Managing risks effectively

Adopting a structured approach to risk management is critical. Organisations should start with a detailed risk assessment and analysis of key scenarios through risk modelling. It is important to understand the potential frequency and severity of exposure to decide which risks to retain and which can be transferred through to insurance – either through traditional lines or through new products like cyber insurance. This covers liabilities, costs, loss of revenue and provides access to a panel of incident response experts to help manage the potentially significant financial and reputational impacts.

# Managing product recall risks



**Louise Dorrian**

Head of Product Recall, WTW

*Louise gave an overview of how food and beverage businesses can manage product recall risks.*

The claims cost to recall, remove and replace products in the food and beverage industry can be high. The impact of a recall on a brand's reputation cannot be underestimated, with social media providing a platform for dissatisfaction to potentially reach an audience of millions within minutes.

## Allergens

Manufacturers must be aware of an ever-increasing list of known allergens, adjusting processing, packaging and labelling to ensure products are compliant with food standards.

Prepared snacks and baked goods are commonly associated with food allergen incidents due to the number of ingredients, complex supply chain and methods of production.

## Contamination

Contamination from salmonella or listeria develops from poor hygiene within the manufacturing or storage process. Leafy greens and vegetables that are processed without a kill step tend to be the highest offenders in this category.

## External factors in increasing product recall

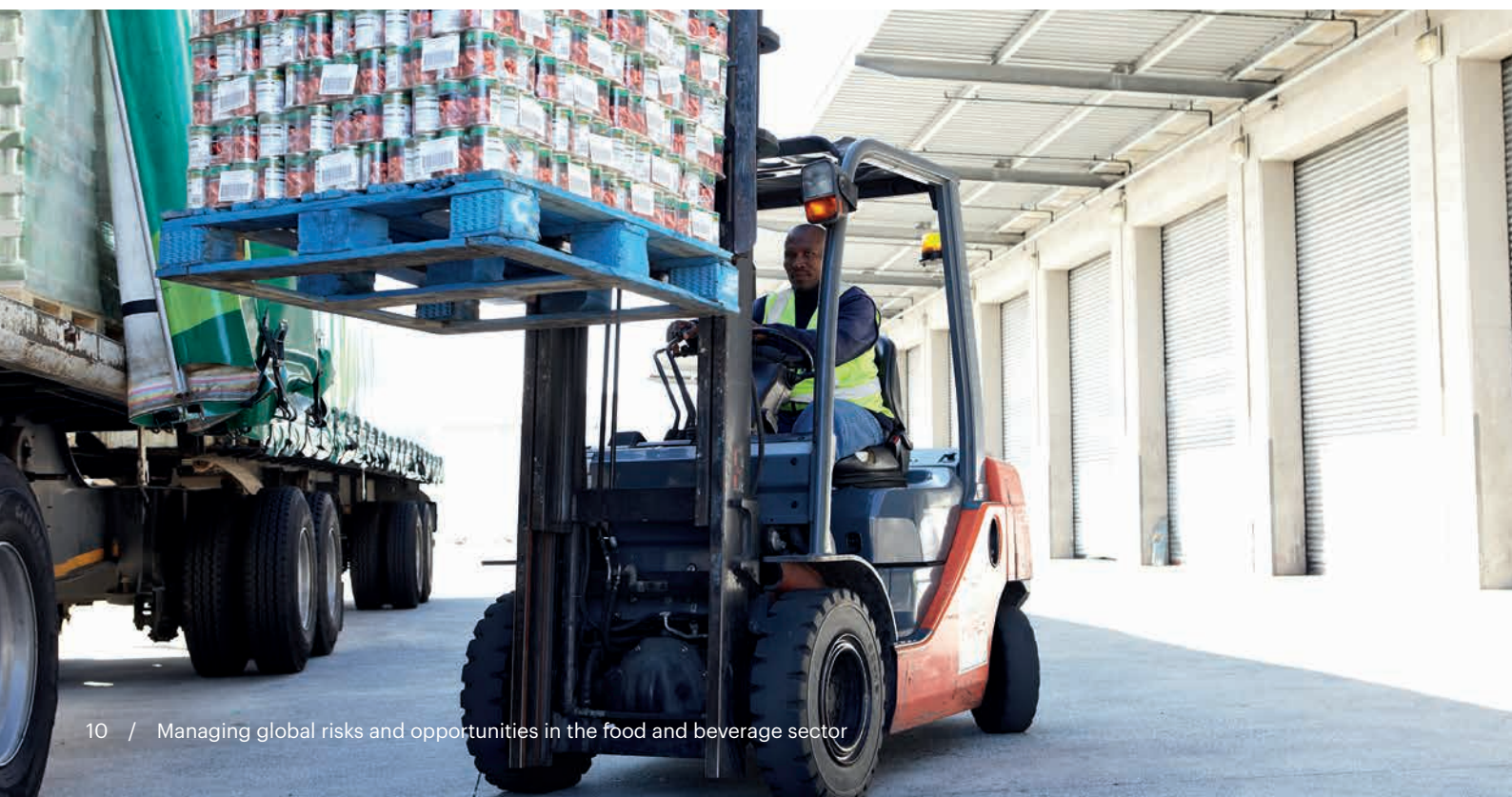
As well as the established risks, such as allergens and contamination, a range of external factors have added another layer of complexity.

### Post-COVID environment

Many experienced personnel opted for early retirement during and after the pandemic. Contract workers used to meet short-term labor needs may not have the same level of training in food safety, which creates a higher risk of production failure leading to potential contamination and the need for a product recall.

### Rise in inflation

To prevent passing on higher costs to consumers, food and beverage manufacturers are looking to source from more competitive suppliers.





**'The average cost of a food and beverage recall in 2016 was \$10million'<sup>7</sup>**

There is a risk that this can lead to suppliers cutting corners to satisfy demand and maintain profitability. For example, we have seen an increase in instances of food fraud, such as peanut butter powder being used to bulk out cumin.

### Conflict in Ukraine

The global supply of core and base ingredients has drastically reduced, forcing prices up.

The issue is exacerbated by the increase in fuel and transportation costs and has a significant impact on energy-intensive manufacturing, such as glass bottling.

### Implementing a sufficient product recall program

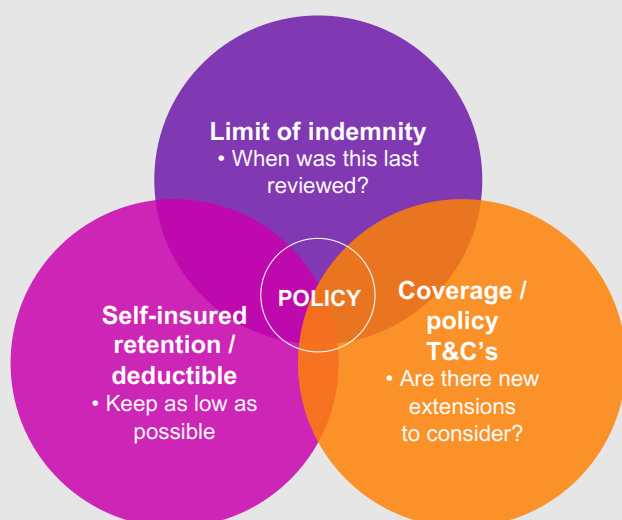
Product recall insurance works alongside sound quality control measures to manage risk.

### Review your product recall limits

Review your product recall limits to make sure they continue to reflect business growth and inflation.

Self-insured retentions or deductibles are key. Over the past 9-12 months we have found insurers pushing for increased retentions that maintain parity with the growth in overall turnover of the cost of goods manufactured. Brokers who specialize in product recall in food and beverage can ensure you minimize, prevent or negotiate any potential increases, while enhancing terms and conditions in other areas.

Figure 4: **Is your product recall program sufficient for your needs?**



7. More than money: What a recall truly costs <https://www.fooddive.com/news/more-than-money-what-a-recall-truly-costs/426855/>



### Quantifying self-insured retentions

Product recall policies provide balance sheet protection from catastrophic or large losses as opposed to more manageable business risk and quality issues. Quantifying a reasonable self-insured retention is usually done using several determining factors, such as daily output, average or largest batch value and the previous loss history. Rarely would we recommend increasing a self-insured retention purely to make a premium saving.

Insurers are extremely hesitant to reduce self-insured retention once increased. Over the past few years, an increase in coverage extensions has been offered widely across the food and beverage sector in the U.S. and London markets. Many insurers will now agree to include extensions, such as carcinogens or mold and infestation on select policies.

### Ensuring recall policies are fit for purpose

Ensuring your existing recall policy is fit for purpose, especially regarding coverage, could mean the difference between a paid or declined claim. The average cost of a food and beverage recall in 2016 was \$10million<sup>7</sup> – a crippling expense to any size of organization, causing cash flow issues, eroding profit and affecting the share price. As a consequence, manufacturers are insisting that suppliers maintain a high level of product recall or contamination insurance before trade starts.

# Business continuity and resilience



**Frederick Gentile**

Director of Risk Management, WTW

*Frederick expanded on how food and beverage businesses can ensure business continuity and resilience.*

The food and beverage risk landscape has changed exponentially in the last three or four years. Extreme weather events are expected to become more commonplace, while rising energy costs, environmental concerns, and geopolitical tensions have become ever-present.

Similarly, the rise in cyber-crime, driven by organized criminal groups and even nation states, disrupts critical technology, national infrastructure and personal information to weaken society and interrupt commerce.

## Business continuity management

Companies can manage risk using an international standard such as ISO 22301, which provides a framework for the planning and execution of business continuity management.

Effective tools include:

### 1. Business impact analysis

Establish which processes, activities, and assets are critical to the business. Assess how much it will hurt to lose them, and how long before the loss is irretrievable. This will help you establish recovery time objectives.

### 2. Business continuity plan

Develop a plan that sets out what to do to minimize disruption, including who is responsible, how and when are actions taken, and what resources are required.

Use playbooks or flowcharts to keep plans more manageable and accessible.

### 3. Training and exercising

Test the plan through a desktop or live exercise to ensure it works and that assumptions are correct. Follow up on the learnings from the exercise.

## Working with suppliers

Companies can develop stronger bonds with suppliers through joint exercises and workshops to gain greater visibility and involvement in business continuity processes. Resilience questionnaires are good, but on-site visits to audit suppliers are better.

Vetting suppliers is crucial. Ideally, vetting should be carried out by a multidisciplinary team of procurement resilience, finance and production personnel.

Creating a dedicated and prioritized supply chain risk register will help to truly understand the end-to-end supply chain and to identify 'factory killers' at lower levels. The register should consider risks such as: raw materials, packaging, cyber risk, driver availability, fuel supply, and tier 2 and tier 3 suppliers.

Supply chain software and modelling tools enable effective scenario planning, using analytical data to create plausible scenarios that can stress-test the organization.

WTW's supply chain risk diagnostic tool enables our clients to understand their third-party risks, and visualize and prioritize alternative supply regions and ratings.

**'WTW's supply chain risk diagnostic tool enables our clients to understand their third-party risks, and visualize and prioritize alternative supply regions and ratings.'**





### How WTW can help

We work with clients in the food and beverage sector to help them understand what their potential losses could look like, what scenarios they should be concerned about, and advise on placement strategy.

Our analytics team offers powerful modelling tools and systems to help businesses assess risks and quantify probable losses. We also run workshops to help clients identify their exposures and tailor cover appropriate to their business.

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