

Product Liability Insurance Importance & FAQ

Savannah L. Columbia

Introduction

Sometimes, product liability insurance is confused with other types of insurance that producers and farm owners have for their operation. Below, we discuss the purpose and importance of product liability insurance along with frequently asked questions. In addition, we note the differences between product liability insurance and other common farm insurance coverages.

Note: The following document is based on research but should not be taken as legal advice. We recommend reviewing all insurance documents and inquiries with your insurance agent. We are here to guide producers in the world of insurance, but we are not the end-all, be-all.

What is product liability insurance?

Product liability insurance protects producers in the event that a foodborne illness occurs from a product they sell. This type of insurance is often required by most retail stores, groceries, distributors, restaurants, etc. Product liability insurance covers claims of injured parties, such as medical treatment for consumers hurt by consuming the product. It does not cover the costs of a product recall.

Why is product liability insurance important?

Product liability insurance is a tool used to manage risk when selling goods to the public. Restaurants, groceries, and other establishments selling to the public need to know they are protected when selling your product. They need to know if a consumer becomes sick after eating your product, you will be able to account for any resulting lawsuit or injured-party claim.

Do I need product liability insurance?

The short answer is yes. If you are selling to restaurants, schools, groceries, etc., or selling directly to consumers, additional product liability insurance is needed to cover yourself if a foodborne illness were to occur. There may be a small amount of product liability insurance already in your general farm policy, but we suggest reviewing this policy with your insurance agent, as it might not meet the minimum requirements of your buyer.

What is the difference between general farm liability and product liability? Aren't they both liability insurance?

Yes, they are both liability insurance coverages. However, general farm liability insurance typically covers damage or injury resulting from the farm or from farming activities. Farming activities can include the sale of produce in its raw, unprocessed state, but a general farm liability policy does not cover the harm that could come to consumers if the raw, unprocessed produce causes a foodborne illness outbreak. Farming activities do not include processed items of any sort of food with additional ingredients. The key difference is that product liability insurance covers the producer in any foodborne illness cases resulting from their product, while general farm liability insurance does not.

Does product liability insurance cover the cost of recalling my product?

No, product liability insurance does not cover the cost of recalling your product. Product recall insurance is an insurance coverage option which does cover a recall; however, it usually only covers the direct costs of recalling a product. It would not cover the indirect costs of recalling, such as profit loss. Direct costs of recall usually include getting the product off the shelf, destroying it, and replacing it with new products.

What products require product liability insurance?

Any product you have modified or added value to will need product liability insurance. Additionally, any product sold to restaurants, groceries, wholesalers, schools, etc., will

need product liability insurance. Remember, there may be product liability coverage in your general farm policy, but it is your responsibility to ensure you have the minimum amount required by your buyers and product outlets.

How much product liability insurance do I need?

This is a great question to bring up with your insurance agent. They can give you a personalized policy based on what you are selling and who you are selling to. It is also a good idea to bring this question up with your buyer(s) because they can give you an idea of what they require, which can give you an idea of how much coverage you will need to work with them. However, a common rule of thumb is to have at least a \$1 million policy. Do not let this number scare you – a \$1 million policy refers to your amount of coverage, not the cost you pay for having the policy. Check with your insurance agent for updated information about how much this insurance premium might cost.

How does product liability insurance fit in with other insurance policies?

Table 1 shows how product liability insurance fits in with other insurance coverage options discussed in this document. This table does not include all the available insurance coverage options, but does include some of the most common types.

Table 1: Types of Insurance

	General Farm Liability Insurance	Product Liability Insurance	Product Recall Insurance
What does this insurance type cover ?	Damage or injury resulting from the farm or from farming activities.	The producer, if their product causes a foodborne illness outbreak.	The direct cost(s) of recalling a contaminated product.
What does this insurance type not cover ?	Does not cover your raw, unprocessed product if it causes a foodborne illness outbreak.	Only covers up to the policy limit. Be sure to have adequate coverage for your sales outlets.	Does not cover indirect costs of recall, such as profit loss or business interruption losses.

References/Resources:

Kime, Lynn & McGee, Winifred W. "Product Liability Insurance." PennState Extension. Updated January 2023. <https://extension.psu.edu/product-liability-insurance>

Massey, Ray & Langford, Barry. "Farm Liability Insurance." University of Missouri Extension. March 2019. <https://extension.missouri.edu/publications/g455>

Reviewed by:

Tim Woods, Extension Professor, Center for Crop Diversification, University of Kentucky

Emily Spencer, Senior Extension Associate, Center for Crop Diversification, University of Kentucky

Suggested Citation:

Columbia, Savannah L. (2021). *Product Liability Insurance Importance and FAQs*. CCD-MR-1. Lexington, KY: Center for Crop Diversification, University of Kentucky Martin-Gatton College of Agriculture, Food and Environment.

Cooperative Extension Service

Agriculture and Natural Resources
Family and Consumer Sciences
4-H Youth Development
Community and Economic Development

MARTIN-GATTON COLLEGE OF AGRICULTURE, FOOD AND ENVIRONMENT

Educational programs of Kentucky Cooperative Extension serve all people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, national origin, creed, religion, political belief, sex, sexual orientation, gender identity, gender expression, pregnancy, marital status, genetic information, age, veteran status, physical or mental disability or reprisal or retaliation for prior civil rights activity. Reasonable accommodation of disability may be available with prior notice. Program information may be made available in languages other than English. University of Kentucky, Kentucky State University, U.S. Department of Agriculture, and Kentucky Counties, Cooperating. Lexington, KY 40506



Disabilities
accommodated
with prior notification.