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Underinsuring the Beauty Industry May Have Not-So-Pretty Consequences

BY KATHY LOPEZ & TERI PEREIRA

Today's beauty industry offers something for everyone, from department store cosmetic counters to luxury day spas. With the encouragement of Instagram and YouTube personalities, beauty trends are constantly multiplying and spawning new ideas.

It's an exciting time for beauty buffs and cosmetics creators alike. But businesses should address the potential hidden costs for both parties. Cosmetics manufacturers, spas, salons and related risks are potentially exposing themselves to layers of liability as diverse as these beauty trends.

Beauty Industry Trends

Technology and consumer demand are changing how the business of beauty is done—beginning with the packaging. Simple pastel compacts have been replaced by unexpected shapes, matte black and jewel tones, and application devices like rollers and foaming pumps.

Mainstream hair coloring used to simply cover up greys or help someone maintain a faux blond. But today, people routinely make major changes to express their individuality. Primary and pastel colors aren't just for pop stars anymore—you often see people with pink and teal hair picking up milk at the grocery store.

At day spas and wellness-focused salons, estheticians—those who do facials and eyebrow waxing—are packaging and selling private-label skincare formulations. Boutique brands have launched customizable cosmetics, like nail polish brands that call for mixing colors.

As big cosmetics brands recognize the end of one-size-fits-all beauty, they have jumped aboard this bandwagon. For example, some companies offer pigments separately from foundation so people can blend their own. Lancôme has created technology that allows retail staff to mix foundation to more perfectly match customers' skin tones on the spot.

Major cosmetics brands and beauty newcomers are capitalizing on the ubiquity of smartphones to create a custom experience for consumers. Joyful promises on-demand spa and salon services in 60 minutes or less, sending professionals to customers rather than vice versa. Tools like Sephora's Virtual Artist let people "try on" makeup before they buy it.

Insurance Solutions

How are these new trends compromising consumer safety or privacy, and exposing businesses to liability concerns?

Consider the questions raised when retail employees blend formulations on the spot or in small batches outside the traditional manufacturing environment. Employees who are not properly trained may operate the machinery, particularly in the case of brand-new processes or products. If they do not calibrate it correctly, could the machine explode? When an insurer receives a submission for an account that includes this process, expect in-depth underwriting to learn about these risks and the training processes that seek to prevent them. For property damage exposure, contents coverage is important.

And what about an esthetician's private-label products? Estheticians commonly blend products to use while performing a facial or other treatment. If used during a covered treatment service, the product is likely covered under a professional liability policy intended to cover that service. Yet by packaging and selling the same product, an esthetician becomes a cosmetics manufacturer. They now have a product liability exposure and should be insured accordingly.

Finally, like any mobile app, a beauty app presents a cyber liability exposure. Breaches of private consumer data from companies large and small are expensive, reputation-damaging and more common by the day. Many beauty apps require users to provide personal information, such as an email address, phone number or password. Others call for users to upload photos. Coverage for the cost of notifications, investigations and settlements is important for any company collecting consumer data—even the local salon that accepts credit cards.

As the beauty industry and technology continue evolving to meet consumer demand, understanding how new risks overlap is important to effectively insuring them. The future of beauty is on-demand, customized and high-tech. Agents and brokers can help ensure their clients respond to the risks as nimbly as the trends.

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