



Prevention is Profit

by Dan Burke

The restaurant industry is booming – Mom & Pop, family style, buffets, fast food, high-end, breweries – the variety seems endless. But it doesn't matter whether a restaurant offers sit-down service, delivery or carry out. There is one thing they all have in common – the need for adequate risk protection. With dozens of insurance carriers and scores of coverage options available, all restaurant owners should have adequate protection. The difficulty may come, however, in choosing just the right carrier and coverage for the challenging exposures restaurant owners face.

Coverages

Insurance coverage for restaurants is typically written on a Business Owner's Policy (BOP), which, among other things, provides 12 months of business income coverage on an actual loss-sustained basis. Umbrella policies for excess liability are also available, with "Follow Form" coverage over the standard BOP.

Employment Practices Liability Insurance (EPLI) is a relatively new item in risk management. This coverage helps protect businesses from employee claims arising from sexual harassment, discrimination, disciplinary issues, wrongful termination, etc. In the past, this type of exposure was primarily a concern for larger businesses. But today, many small- to mid-size companies, including restaurants, are concerned about the possibility of these types of claims. Paul Grasso of Midlantic Agencies predicts that in the future, EPLI coverage will become as important for restaurants as liquor liability is now. Owners will not want to do business without it.

Preliminary Requirements

Before coverage can be bound, restaurant owners may be required to do the following:

- Authorize the carrier to perform a credit check
- Confirm at least three years of experience in the industry
- Provide financial statements
- Produce receipts proving that no more than 30% of total sales are from alcohol
- Have a "wet" ansul (fire prevention) system in place

When a restaurant owner applies for insurance, it is necessary that carriers be authorized to perform a credit check. The food and beverage business can be volatile. With a fair amount of turnover in this business area, it is important for the carrier to have a good idea of the owner's financial situation.

Another important issue in restaurant operations is loss prevention, beginning with the kitchen. Any restaurant using hot oil in its deep fat fryers faces increased fire exposure. All dining establishments should have a fire suppression system in place, and although ordinances and laws in many towns and states now require wet systems, some existing facilities with dry systems have been grandfathered in. It should be noted,

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however, that the number of dry systems is diminishing as more vendors move to wet systems. As an additional fire-prevention step, many carriers require that restaurants engage outside services for steam cleaning of all kitchen equipment on a quarterly basis to prevent grease buildup.

One additional area of critical concern for any restaurant owner is the condition of the building and parking lot. To obtain or maintain coverage, the following items may need to be addressed:

- Is carpeting in good condition?
- If stairs are present, are handrails of adequate size and strength? Are they properly placed?
- When were fire extinguishers last inspected?
- Is the fire suppression system working properly?
- Is interior lighting adequate to prevent falls?
- Are outside trash receptacles located well away from the building (in case fire breaks out in the receptacle)?
- Are sidewalks in good repair?
- Do your parking areas require resurfacing? Are they adequately lighted?

Policy Review

Brokers are qualified to identify coverage gaps and provide solutions. As a restaurant owner, be sure that you take advantage of all services offered by your broker, such as complimentary reviews for claim activity and loss control. Working closely with your agent can ensure that you stay ahead of potential problems. Keeping your business healthy is the best way to increase profits and build your investment.

Some information for this article was taken from the December 2006 article "Providing first-class service to the food and beverage market," by Paul Grasso of Midlantic Agencies, Mahwah, New Jersey. Accessed on February 7, 2007 from the American Agent & Broker website <http://www.agentandbroker.com>