

THE OUTLOOK FOR MANAGEMENT LIABILITY INSURANCE

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A photograph of two hands clinking wine glasses at a restaurant table. The hand on the left is wearing a blue shirt cuff. The hand on the right is wearing a gold watch. The glasses are filled with a golden liquid, likely wine. In the foreground, there are plates of food, including what looks like bread and a dark sauce.

**Toasting success in
the restaurant niche**

**A hard road ahead
for truckers insurance**

TO YOUR (FINANCIAL) HEALTH

Our recipe for success in restaurant insurance

By DEAN CARRAS

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EVERYONE has a favorite restaurant or two, places to which you often return and can't wait to take your friends. At the same time, we all probably remember a restaurant that has (figuratively speaking) left a bad taste in our mouths. When you have a bad experience at a restaurant, whether it's because of the quality of the food or because of poor service, you may vow never to eat there again.

The same possibility exists for insurance agencies providing coverage for restaurants. Giving excellent service to your clients helps you develop a good reputation and can lead to plenty of referrals; leave your clients with a "bad taste" and your reputation could suffer.

In my 25 years in the insurance industry, I've enjoyed serving up a menu of coverage and service that keeps customers coming back. I started selling restaurant insurance as a producer in the 1980s, helping build up a division of my agency that earned about \$14 million in annual premium. Today, I'm the owner and president of Innovative Coverage Concepts LLC, an MGA that markets a restaurant insurance program to retail agencies, whose clients include about 1,000 restaurants and bring in about \$25 million in premium. From each of these enterprises, I've learned the key ingredients in a recipe for success.

No shirt, no shoes, no insurance

As an MGA, we target "white table-

cloth" restaurants, a term denoting upper-end establishments. The term has become less accurate for this class of business lately, because, like other segments of society, much of the restaurant industry is becoming more casual. Trendy establishments such as cafés and bistros are becoming more popular, and even upscale fami-

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ly restaurants have a more relaxed atmosphere.

We look for clients from among such places, as well as from those that truly have white tablecloths. Our clients must have table service—which rules out fast-food establishments. We also shy away from writing business for operations that have live music or other

entertainment or that have promotions in which alcohol consumption is a featured item. Our typical client has about 30 employees and generates upward of \$1.5 million a year in revenue.

As a retail agency owner, I was interested in a broader variety of business. Our producers would help a prospect fill out one of our agency's own applications, then hand that application to someone in our marketing department. Marketing would then decide which of our carriers might be interested in the business. Agencies writing business for more than one type of restaurant may have to work with a number of carriers, each with a different "appetite" for risk.

Right this way, please . . .

When I've initiated marketing campaigns, I've often purchased a list of prospects that has been shaped according to criteria I supply. Working with an outside vendor, an agency can prepare and mail brochures that focus on the restaurant coverage, then follow up on the mailing with phone calls to the prospects. If nothing else, those phone calls can help you gather more information about prospects, allowing you to tailor your sales pitch in a later discussion.

Working with associations is an excellent way to gain access to new prospects. Our current program is a sponsored product of the National Restaurant Association. As a retail agency, we found it beneficial to work closely with local restaurant associa-

tions. They offer the opportunity to take a booth at annual conferences and to serve on their insurance committees. When you're working with the key players in your area, your name is going to get attention.

Referrals are probably the best source of new business, and I've always sought them in two ways. When I know I have satisfied a client, I ask him or her for the names of two or three other restaurant owners. I also look for other professionals who specialize in serving the restaurant industry. After I've worked a few times with a professional, for example, I'll let him know what I can do for restaurants, hoping that he'll keep me in mind.

One thing I want to know about prospects is why they are interested in talking to me. If they want to find a home for their insurance account and understand that a good agent can help them with their overall risk management program, I'm really interested. If they're just looking for the lowest price, I probably won't want to waste my time. I can spend a good deal of time coming up with an excellent, competitively priced program, and the prospect may simply take my bid back to his current agent, using it to get a better price from him.

Serving up a submission

I've seen plenty of carriers come and go in the restaurant market in the past 25 years. Many have gotten into the niche without understanding it, which led them to write the wrong risks and soon get out of the market. A valuable service an agent can provide to clients is knowing which carriers have the expertise and commitment to stay around. You don't want to invest time in winning a client and placing his business, only to have to move him to a new carrier the following year. At the same time, the good carriers want to work with agents who understand the market. Do your homework and provide them exactly the timely, accurate information they need, and they'll work more aggressively to quote your submission.

In addition to an application and loss runs, carriers generally want the same type of information about a client, regardless of the class of restaurant. Some financial information is necessary, especially the sales receipts that demonstrate the proportion of alcohol to food sales. I always include a back-

ground of the restaurant owners and management, highlighting their prior success in the industry.

Underwriters want to know about particular practices a restaurant might engage in, such as sponsoring live entertainment or catering events. Of prime concern is activity related to alcohol. The liquor liability coverage requires a separate, supplemental application, which asks about such practices as happy hours, cheap drink nights, and any other promotion or activity in which alcohol consumption may play a significant role.

The restaurant's safety program is also important. The more safeguards a restaurant has in place, the easier it is to sell that client to a carrier. Carriers are interested in fire suppression systems, alarm systems, and what type of training and safety manuals are used. For smaller restaurants, the safety program

Business income and food spoilage coverages must be written carefully to avoid disaster.

might not need to be as formal—I might just provide underwriters with an overview of steps management takes to maintain the facility and train employees. For larger establishments and those with multiple locations, it might be necessary to provide a copy of any manuals that are used, and to interview staff members responsible for safety training at each location.

I recommend that producers do on-site inspections before submitting applications to a carrier. A client may indicate on the application that they have no live entertainment, but your inspection may reveal that at 11:30 p.m., they have a DJ booth and a makeshift dance floor. Without this knowledge, a producer might submit an application that results in insuffi-

cient coverage, and he might also alienate a good carrier that didn't want to cover such an establishment.

Coverage

Our current program most often sells restaurant coverage in a package that includes everything most establishments need. Some of those coverages are common to most businesses: general liability, building and property coverage, workers comp, EPLI, mechanical breakdown and crime coverage. In addition, restaurants require other coverages such as checkroom liability, garagekeeper's liability and food spoilage.

Knowing how to read a restaurant's lease is an important part of writing coverage correctly. A lease may indicate the business is required to have certain limits of insurance. It also may indicate what the restaurant is responsible for repairing or replacing (if the restaurant owners don't own the building, which is often the case).

General liability coverage is one part of the insurance package that is fairly consistent among types and sizes of restaurants. A typical limit is \$1 million per occurrence, with a \$2 million aggregate, and there usually is no deductible. Almost every carrier I've worked with also provides a \$1 million-per-occurrence limit for liquor liability.

A typical client we work with has a building and business personal property limit between \$1 million and \$3 million, though larger establishments have had limits as high as \$20 million. The deductible is usually \$1,000 or \$2,500 but can be as high as \$5,000. I always suggest that my clients insure their building and business personal property with a blanket limit. I carefully explain to clients that certain items they think of as equipment or contents are considered part of the building for the purpose of insurance and limits; regardless of my explanation, some clients remain confused, and using a blanket limit ensures that they'll have enough coverage in the event of any serious loss.

All the policies I've written are on a replacement-cost basis, which requires a careful evaluation of what the replacement cost for an establishment might be. With restaurants, there is no manual for determining value per square foot—the equipment and furnishings vary so greatly from one establishment to another. With upper-

end restaurants, special attention must often be paid to the fine arts schedules, since they can have a significant value. Most of the time, clients don't have a professional appraisal done, because of the cost. I usually lead my clients through a quick self-test, helping them realize how thorough they've been in deciding what limits they want; if they really have no clue, I'll recommend an appraisal.

Business income and food spoilage are two coverages that must be written carefully to avoid disaster. Most of our clients do between \$1 million and \$5 million in annual sales, and the business income limits we write range from \$300,000 to \$3.5 million. Most business income coverage includes a deductible of 24 hours to 72 hours. This could lead

Coverage for food-borne illnesses is more important than ever.

to a significant loss for a restaurant if, for example, almost all of its business comes on the weekend and a loss takes place on a Thursday. We almost always suggest the client buy back the deductible with an endorsement, and some carriers offer a zero deductible. However, the zero deductible option is less available today after recent events such as the attacks of 9/11 and the New York City blackout.

Another important facet of business income is ensuring it is supplemented with contingent business income, if appropriate. Some establishments are located next to venues such as performing arts centers, whose patrons make up a significant portion of the restaurant's clientele. If the nearby venue suffers a loss and has a business interruption, it's important for the restaurant to have coverage for the related loss of customers.

When writing coverage for food spoilage, agents must pay attention to all possible causes of loss. If lightning hits the building and the refrigerator breaks down, or if a client suffers a mechanical breakdown on the premises,

resulting food spoilage is covered. Without the proper endorsement to the business income coverage (CP 15 45), however, spoilage would not be covered if it occurred because of an off-premises cause of power failure, such as lightning striking a transformer at the local power plant. And yet a further endorsement (Spoilage Coverage CP 04 40) would be needed to cover spoilage that was caused by an on- or off-premises power interruption not caused by a typical peril, even those covered by the Cause of Loss Special Form. For instance, while our clients were covered for food spoilage in the recent New York blackout, many restaurants were not. If a client has an extensive wine collection, a separate spoilage endorsement should be purchased with higher limits.

Other important coverages include crime and food-borne illnesses. Coverage for food-borne illnesses seems more important than ever, with an increasing number of well-publicized incidents hitting the news in recent years. In addition to securing crime coverage, including employee theft, agents can do their clients a service by evaluating the exposure carefully to see how it can be reduced. A restaurant that processes a great deal of cash should take steps to control the handling of the money. In the event of a loss, it can be quite difficult to adjust a claim if you can't document exactly how much cash was on hand.

Steak and claim

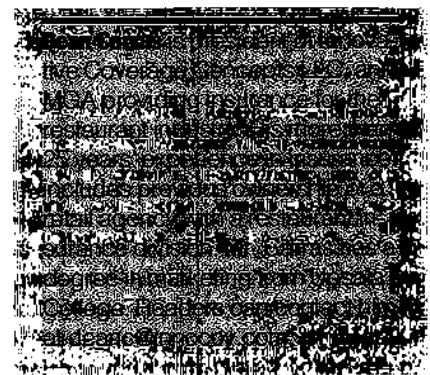
From a general liability standpoint, slips and falls are a big concern and make up a significant portion of claims. We work closely with clients to reduce the possibility of claims in several ways. Restaurants should make sure floors are mopped daily and should repair cracks in tile and tears in carpets. Snow and ice should be removed promptly, and lighting should be adequate in all areas to guard against falls.

Helping clients handle claims is one of the main services we provide. All of our carriers have their own call centers, and our clients might call a claim in directly to the carrier if it happens after normal business hours and they want to report it while it's still fresh in their minds. In this case, we still request a copy of the claim. During business hours, we're happy for a client to

call us first so that we can pass the claim along to the carrier. For some complicated claims, we've visited the client to help engineer the adjustment of the loss.

We are always ready to provide professional advice to clients. An establishment may consider buying nearby land for a parking lot, for instance, or a restaurant that has parked patrons' cars with its own staff may think about hiring a valet service instead. We'll talk with them about what the risk management concerns might be and help them estimate their increased insurance cost.

We start preparing for renewals about 90 days in advance. We'll talk about what new exposures the client has, explain what the insurance market looks like, and form a strategy either to test the market or to start working on a renewal with the same carrier. Some clients are eager for us to test the market, in the hopes of saving money. Sometimes we'll do this easily, and at other times we counsel the clients that moving too often from one carrier to the next can be risky—a



10% increase in premium may just be the result of the market changing, and it can be a wise decision to keep building a good history with one carrier.

Understanding this market and creating a package of coverage that addresses all a restaurant's exposures takes almost as much expertise as running the restaurant itself. The restaurant business is hectic and requires a great deal of time and energy from owners and management, and the last thing they need is to have to worry about insurance. When you come up with the menu of coverages and allow them to concentrate on running their business, you'll get rave reviews and a loyal clientele. 