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Insights for Your Industry® — **Restaurants**

PROTECTING YOUR PROPERTY

Keys to Successful Restaurant Operations — *Good Sanitation/Quality Control Practices and Sufficient Insurance*

As one of the largest private-sector employers in the U.S., restaurants are big business. Americans enjoy eating out whether to save time and effort at a fast-food restaurant or to experience the offerings of a high-end bistro.

Regardless of the type or scope of the restaurant operation, all require the same kind of controls. Who prepares the food? How is it prepared? What is the experience level of the person preparing the food? Is the preparer a short-order cook or a graduate of a culinary institute? According to safety and risk control expert, Patrick Hill, the key to a successful restaurant, from the loss control perspective, is good sanitation and good quality-control practices.¹

Restaurant operators face a variety of loss exposures, including fire and theft, business interruption, and liability to customers who are injured on the premises or will become ill due to food poisoning or contamination. One area that restaurant owners should not view lightly is that of the insurance. Insurance needs that restaurant operations should carefully consider include the following:

- **Property Insurance** — provides protection for building and contents against fire, windstorm, hail, explosion and other perils, and, through additional separate coverage, may insure for loss by flood or earthquake.
- **Business Interruption** — should a covered loss cause the restaurant to suspend operations, this insurance will help recover some of the lost revenue from the suspension of operations until repairs are made.



- **General Liability** — covers claims by customers who are injured on the premises typically from a slip, trip, or fall on the premises.
- **Products Liability** — protects the restaurant for injuries that arise out of the consumption of food. Food poisoning is an example.
- **Liquor Liability** — protects the restaurant if a customer drinks excessively and while driving injures someone in an accident due to impaired driving from alcohol consumption.
- **Automobile Liability** — if the restaurant owns vehicles, say for delivery or if it provides a valet service, it will need auto liability insurance.
- **Workers Compensation** — depending on the number of employees, the restaurant may be required to purchase workers compensation insurance which will pay medical claims of employees injured at work as well as a percentage of their lost wages.

¹ Patrick J. Hill, *Defining Risk Assessment* (Yarmouth, Maine 2006 Alexander & Schmidt), p. 102.

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- **Food Contamination** — food contamination can result from spoilage due to a power failure or from unsafe food handling practices.

Other exposures that restaurants face include equipment breakdown, employment practices liability, and the requirements of the Affordable Care Act (ACA) as it relates to head count and number of hours worked, which are affected by provisions of the Act.

It is highly recommended that restaurant owners review their insurance needs with their agent or broker on an annual basis to ensure that their loss exposures are covered sufficiently by their insurance program.

For many restaurants, a Businessowners package policy (BOP) will be sufficient to cover the general liability, property and business interruption exposures. For example, some fast-food and limited cooking restaurants are eligible for the BOP, such as those where food is prepared cold or cooked in microwave ovens, electric warmers or toasters. However, when cooking appliances emit grease-laden vapors, such as deep fat fryers, the restaurant must have installed and must maintain an automatic fire extinguishing system that complies with the National Fire Protection Association NFPA standard No. 96.



If the operation has an auto or workers compensation exposure, separate insurance will be needed. The same is true for liquor liability if alcoholic beverages are served, and for flood and earthquake if the restaurant operation is exposed to those perils.

More traditional or larger restaurants with sizeable commercial cooking operations are not eligible for the BOP policy, and the same is true for bars and grills. In such cases, commercial package policies designed to insure larger operations are available. Check with your agent or broker for details.