

RESTAURANTS

Guide to Commercial Property and Casualty Insurance



Special considerations for restaurants

Restaurants face several challenges when seeking to obtain commercial insurance, primarily due to the nature of their operations and the specific risks involved. Some of these challenges include:

- **High-risk factors:** Restaurants are considered high-risk businesses due to potential factors such as fires, food spoilage, employee injuries, and liability claims from customers.
- **Cost:** Premiums can be expensive due to the high-risk nature of the business. Small or new restaurants might struggle with these costs.
- **Complex coverage needs:** Restaurants need a variety of coverage types, including property, liability, workers' compensation, and business interruption insurance. Understanding and managing these complex needs can be challenging.
- **Ratio of sales:** Ratio of alcohol to food sold in restaurants/bars is a critical factor for commercial underwriting. Detailed records may be requested to substantiate initial coverage. Policy renewals will involve a premium audit.
- **Claims history:** A history of multiple claims can make it difficult to obtain affordable insurance.
- **Regulatory requirements:** Restaurants must comply with various state and local regulations, which can affect insurance requirements and costs.

Terms to know

Actual cash value – the value of property determined by the cost to replace it, subtracted by an amount reflecting depreciation.

Admitted insurance company – an insurance provider that is licensed to write and sell certain types of insurance by the state(s) in which it conducts business.

Business owners policy (BOP) – an insurance policy that combines commercial property, commercial liability, and business interruption coverage into a single package. BOP policies are designed for small to mid-sized businesses.

Commercial package policy (CPP) – for businesses that are larger, riskier, or more complex, a commercial package policy may be more appropriate. A CPP combines two or more commercial coverage parts such as commercial property, general liability, and commercial auto.

Oregon FAIR Plan – serves as the insurer of last resort if a property owner cannot find insurance coverage in the standard market. The Oregon FAIR Plan offers a basic policy that covers certain commercial property, such as retail, mercantile, and apartment housing coverage at actual cash value.

Liability coverage – provides the policyholder with protection against claims of injury to another person or their property when the loss was caused by the policyholder.

Peril – a specific cause of damage or injury.

Premium – the amount a consumer pays for an insurance policy.

Rating plan – the method used by an insurance company to determine the premium for a policy based on a policyholder's risk factors.

Replacement cost – coverage for payment of the actual cost of rebuilding or repairing the commercial property using materials of a similar kind and quality to restore it to its pre-loss condition.

Standard market – the market where highly regulated insurance products are offered by admitted insurance companies to relatively low risk policyholders.

Surplus lines – is a special type of insurance that covers high risks or unusual situations. It fills a gap in the standard market by covering things that most companies can't or won't insure.

Underwriting – the process by which insurance companies determine if they will offer insurance to an applicant, and if so, what the terms of that coverage will be.

Restaurant owners can take proactive steps to address the challenges they face in obtaining commercial insurance and ensuring adequate coverage for their operations:

- **Risk management:** Implementing robust risk management practices can reduce the likelihood of claims. This includes regular maintenance, employee training, and strict adherence to safety protocols.
- **Shop around:** Comparing quotes from different insurers can help find the best coverage at the most affordable price.
- **Bundling policies:** Some insurers offer discounts for bundling multiple policies together, such as property and liability insurance.
- **Consult an insurance agent or broker:** Agents or brokers can provide expert advice on the best policies for a specific restaurant's needs and help navigate the complexities of insurance coverage.
- **Maintain a good claims history:** Minimizing claims through effective risk management can help keep premiums lower.

By understanding these challenges and proactively addressing them, restaurant owners can secure the necessary insurance to protect their business effectively.

Introduction to commercial insurance

Whether you are considering launching a new business venture, just starting out as a business owner, or have been running your company for several years, commercial insurance is a critical ongoing consideration in your business's future. Running a business presents numerous challenges, and the last thing you want is to face significant financial setbacks from unexpected events. Commercial insurance provides protection against common risks such



as property damage, business interruptions, theft, liability issues, and employee injuries. Choosing the right commercial insurance coverage can mean the difference between closing your business after a major loss or recovering smoothly with minimal disruption and financial strain on your operations.

How can I purchase commercial insurance?

One of the first steps in purchasing commercial insurance is to contact a licensed insurance agent or broker who specializes in commercial coverages. Beginning a working relationship with a reliable, competent agent or broker can be as crucial to your business plan as getting professional advice from an accountant, banker, or lawyer.

What services do agents/brokers typically provide?

Insurance agents or brokers, also called producers, can:

- Help you compare plans
- Explain terms and coverages
- Advise you on which coverage to buy and explain limits on coverage and exclusions
- Help with insurance applications and claims

How do I find an agent or broker?

- Ask other business owners for recommendations. The business contacts you have are excellent referral sources for recommending a commercial lines agent or broker, especially if the contacts are in the same industry as your business or in a closely related industry.
- Conduct an online search for an agent or broker who specializes in the type of insurance you want to buy.
- The Oregon Division of Financial Regulation (DFR) can verify that an agent or broker is licensed to sell in Oregon. Call the consumer advocates at 888-877-4894 (toll-free). The advocates can also tell you about any disciplinary actions on an agent's or broker's record. Please note, DFR cannot recommend specific agents or brokers or insurance companies.

What if I have trouble finding insurance for my business?

Most businesses will have no difficulty obtaining insurance in the standard insurance market with the assistance of a qualified agent or broker. However, if your business has experienced significant losses, your business is engaged in high-risk operations (with a greater chance of claims frequency or severity), or you have recently started your business, you may not be able to find insurance in the standard commercial insurance

market. If this is the case, your agent or broker can explain your options in securing commercial insurance elsewhere, such as in the **surplus lines market** or the **Oregon FAIR Plan**.

Surplus lines insurance

Surplus lines insurance is a type of insurance that covers risks that standard insurance companies will not or cannot cover. It is often used when the risk is too big, unfamiliar, or does not meet the guidelines of licensed insurers. Surplus lines insurance can also be used to cover new risks, or risks that require high coverage limits.

Surplus lines insurance is written by specialized, non-admitted insurance companies that have more flexibility than licensed insurers to design their coverage and pricing. Because of this flexibility, they can accept risks that licensed insurers would not, but they are also generally more expensive than regular insurance.

Oregon FAIR Plan

The Oregon FAIR Plan serves as the insurer of last resort if a property owner cannot find insurance coverage in the **standard market**. The Oregon FAIR Plan offers a basic property policy that covers structures and contents coverage only on an **actual cash value** basis. The FAIR Plan does not sell coverage for liability. You can contact the Oregon FAIR Plan Association at 503-643-5448 or at info@orfairplan.com.

What kind of insurance do I need to purchase for my business?

Depending on the individual risk characteristics of your business, the agent or broker will present you with different coverage options for purchasing commercial insurance. Ultimately, it is your responsibility to make an informed decision and choose the insurance that best fits your business plan.

While your business may not need all commercial coverage lines, it is a good idea to have a basic knowledge of the types of insurance coverage available. As your business changes and expands, you will have the necessary knowledge to purchase insurance coverage as new exposures arise. Commercial insurance is divided into two main categories: property insurance and casualty insurance. The following commercial lines of insurance cover broad areas of exposure common to most business operations:

Property insurance

- Commercial property
- Crime
- Inland marine
- Boiler and machinery

Casualty insurance

- Commercial automobile
- Commercial general liability
- Commercial umbrella
- Workers' compensation

What is a business owners policy?

Designed specifically for small businesses, a business owners policy (BOP) is a combination commercial policy that usually covers property, general liability, and business interruption. A BOP is most appropriate for small, "main street" businesses such as hardware stores, barbershops, greeting card shops, or accountant offices.

What is a commercial package policy?

For businesses that are larger, riskier, or more complex, a commercial package policy (CPP) may be more appropriate. A CPP combines two or more commercial coverage lines such as commercial property, general liability, and commercial auto.

How do insurers determine whether to offer or renew a policy to a business owner?

When you apply for business insurance, your level of risk is evaluated through a process known as **underwriting**. Each insurer's underwriting rules for eligibility vary, which means a consumer may be able to find a policy with one insurer when another declines.

Insurers can choose not to renew a policy for many different reasons. These may include a change in risk, failure to maintain a property, nonpayment of **premiums**, fraud, or misrepresentation of information.

What information does an insurance company use to decide my premium?

Insurers can use many different rating factors to determine a premium, depending on the type of insurance. Some common factors include:

- Business size
- Business classification
- Years in business or years of experience in business category
- Number of employees
- Revenue projections
- Type of construction
- Location
- Availability of fire protection
- Claim history
- Number and types of vehicles

In many cases, your business may be subject to an audit at the end of each policy term to assess the level of risk

and adjust premiums. It is important to work with your agent or broker to have a clear understanding of the types of business records you'll need to keep. It is important to note if asked to estimate the future year (ex. sales) that you provide as accurate a number as possible as this could impact the audit bill. Information reported may include type/percentage of business conducted, number of employees, percentage of alcohol sold in restaurants, sales, or certificates for subcontractors and many other details depending on the type of business. The audit data is then used to adjust the premium up or down to provide appropriate coverage. If commercial customers forget or refuse to complete audits, they risk being non-renewed or cancelled.

What else can I expect when applying for commercial insurance?

The application and underwriting process is much more involved than personal lines of insurance. You

will be asked to provide detailed information such as your experience level in the type of business, business records, and business activity descriptions. You may experience a multistep process in which the insurance company will solicit more information. As a business owner, you will want to be extra detailed and clear on what you submit to your agent or broker.

Also, experience in the type of business can be a significant factor, so it can be more difficult for new businesses to find insurance.

Who can I contact if I have questions?

DFR offers free help to people with insurance questions, or to check a license. Call 888-877-4894 (toll-free), visit our website at dfr.oregon.gov, or email DFR.InsuranceHelp@dcbs.oregon.gov. Should you need to file a complaint against an insurer or an agent/broker, you can do so online or call to request a paper copy be mailed.

