Ep #55: Restaurant Insurance: What Every Owner Needs to Know with Greg Gurovich

Full Episode Transcript

With Your Hosts

Patrick Totah and Andy Mirabell

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Welcome to *Restaurant Deal Making EXPOSED!*, the only show that equips you with everything you need to know about restaurant transactions. In this show, we tell you all about how to make the sale or purchase of your restaurant not just possible, but successful. Now, here are your hosts, ex-restaurateurs, and seasoned brokers, Patrick Totah and Andy Mirabell.

Andy Mirabell: Okay, welcome back to another episode of *Restaurant Deal Making EXPOSED!*. I'm Andy. I'm here with Patrick. And today, we are talking insurance for restaurants with Greg Gurovich.

Ugh, insurance. Who wants to deal with it? I sure didn't as an ex-restaurant owner. From rising premiums and limited carrier availability to liquor license liability, fire risk, and unrealistic lease or landlord insurance coverage requirements, navigating restaurant insurance is no fun. Thankfully, today our guest is Greg Gurovich, the co-founder and managing broker of OnMarket Insurance Associates in San Francisco, California, which was founded in 1995.

OnMarket Insurance Associates immerse themselves in the rigors of risk management to provide expert insurance solutions to their clients, many of which are restaurants, bars, and or nightclubs. Greg grew up in San Francisco, so he's a local. He knows all the ins and outs of this complex restaurant market.

I have professionally known Greg for over 20 years, and he has always been the go-to expert for trustworthy and high-level support regarding all insurance needs and questions. He's helped insure many of the restaurants I've worked in and for, all of my own restaurant locations, and still works with our repeat podcast guest, Dan Engel of Engel Accounting, to help many of his restaurant clients who need guidance and support with insurance needs. Greg Gurovich of OnMarket Insurance Associates is a veteran force in the industry. So look to him first for your insurance needs, and we'll share his contact information with you all at the end of the episode. So welcome, Greg. We're so happy to have you here and to get to discuss this specialized topic.

Patrick Totah: Welcome, Greg.

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Greg Gurovich: I appreciate it.

Patrick: So why is California such a difficult market for insurance right now?

Greg: Well, multiple different things, right? We're dealing with reinsurance costs, we're dealing with wildfire exposure issues on the property side, inflation and replacement cost increases, reduced capacity, high claims that are stemming in from either the slip and falls or the liquor liability, also venturing out to other lines of business like employment practices liability.

Andy: It was so funny. You pointed out something wildfire. You said wildfire earlier, and I know this is a little bit of a tangent, but I don't equate that liability with a restaurant most of the time. It sounds very residential.

Patrick: Or at least not in Oakland or San Francisco or…

Andy: But, Patrick, this is where I remember fire zone, ash fallout zone, and it covered most of downtown Oakland. And I remember somebody having to have that in their policy, and it just blew my mind in such an urban area.

Greg: Yeah, and it's kind of interesting because you have mapping on areas where you're like, this isn't in the wildfire area, but the way the mapping is zoned, some areas are affected. And again, it is an issue when it comes to underwriting property and also liability that stems from it, if it hits your property.

Andy: I've had multiple clients out in Guerneville, Russian River, and it was really, really broke my heart to see one year after year, a different issue, a flood one year, a fire the next year. At some point, do some of these businesses, we hear this in residents, in neighborhoods, in residents areas, but residential areas, but at some point, Greg, do restaurants become uninsurable because of natural factors like that?

Greg: I think there's always insurance out there. I think certain properties become more uninsurable, right, when you're talking from insuring the actual property of it. But there's always a policy out there. I think the issue starts creeping in is what type of policy is it? And what type of exclusions and endorsements does this policy come with and what's the cost of this policy? Because unfortunately, we can't operate a restaurant without insurance for different reasons. Even if we wanted to assume the liability, right? We got to carry workers' comp, right? It's that's a state mandate. We have to provide liability because our landlord won't let us pick up the keys, right?

So I think we're at a point where we're seeing certain parts of insurance start to flatten out, like the property portions of it, yet others are starting to rise and become problematic, like liability, excess liability, or umbrella. Commercial auto is always an issue, especially if you've got vehicles in your restaurant, even without delivery exposure, which adds so much more to the plate.

But you have you have other issues. You have liquor liability, you have assault and battery. We're starting to see exclusions or sublimits of assault and battery on policies. We're starting to see exclusions of liquor liability where people from standard carriers like Hanover, right, that are slapping on liquor liability exclusions and then forcing the brokers to take the business to another carrier or to go find a monoline liquor liability policy.

Patrick: Greg, let me ask you a question. I know my personal insurance carrier is not writing any new policies in California right now. Is there any relief in sight as far as for specifically restaurants and bars? Like, where are we on this timeline? Is it going to get better anytime soon, or is it just kind of the new kind of normal from here on out?

Greg: I mean, I think it's probably both, right? We're never going to get back. It's almost like with inflation, right? You're like, are we ever going to see prices come down? And the answer is yes, but never to the level that they were prior to the inflationary period, right? So to answer your question, I don't think we're going to get back to where we were. I think we were an underpriced state for many years.

Andy: Wow, you don't hear that associated with California.

Greg: No, no, and we were an underpriced state. I think a lot of carriers, especially in particular on the property side, were trying to seek rate increases for years, maybe six, seven years. They wanted to model forward, not only back, especially with the climate change and, you know, different weather patterns, right? And this becoming more of a catastrophic state and they were just kind of shut down.

So ultimately, all these standard carriers said, "Well, we're not going to write business in California." And what that did is it just put pressure on other carriers, more on the surplus lines non-admitted arena, and also a little bit of price gouging, probably, right? Just like with any other inflationary periods. So, to answer your question, do I think it's going to get better? I think it will get better with new leadership, but I think the whole mapping catastrophic has become a catastrophic state. I don't think that's going anywhere.

Patrick: I know that they have like state-mandated insurance for like residential and areas where you can't get insurance through like a carrier. Do they have that for restaurants, too? Can you get restaurant insurance, liability insurance for restaurants?

Greg: Yeah, you'd have, yeah, so let's say you can't get a property insurance for a restaurant, right? So you, because you're in a fire zone, let's say, right? So then what you would do is you would go and get a California Fair Plan policy for the property, then you would get a difference in conditions policy to fill in the holes of that California Fair Plan policy. And then you would go and get a liability policy, right, that included liquor or have a separate liquor liability. So one policy has now become three or four.

Andy: Can I clarify? Is that for a building owner?

Greg: That's for a building owner or somebody who has invested $300,000, $500,000, a million dollars into tenant improvements, and they want to protect their TIs, and they're required to protect their TIs in their lease agreement.

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We can talk about some of the nuances with restaurants. We've already talked, we're going to definitely ask you again about liquor licenses and things, but is there a general formula for when you have a client, a restaurant client, come to you and says, "Hey, I have a X-size restaurant. This is our concept and our general, you know, our location, our general pro forma for revenue and bodies in our seats and all these things." How do you evaluate their policy? Is there a general framework you start with?

Greg: Yeah, so we kind of want to learn what type of business they are, how many employees do they have. And based on that, normally the kind of the starting point for insurance for restaurants, whether we're taking this over, rewriting it from another broker, or whether it's new business, is we review the lease, right? Because the lease dictates first and foremost what they have to have. And if there's anything in that's not in the lease that we believe they should also have, then we address that in our intake call. All right?

So most of the leases are going to require you to carry liability. They're going to require you to carry property. They're not going to put a limit on the property. They'll put a limit on the liability. They're going to require you to carry tenant improvements, also no limit. They're going to make sure that you have loss of income, so they want to be sure if there's a fire or you have to shut down the place because there's a covered loss that you're still paying the rent. So you have loss of income, business personal property and TIs. That's all part of property form. That's all going to be in there.

Patrick: Are you seeing that those limits have been, like, I used to see leases where it was like $1 million was really common. Now I'm seeing like $2 and $3 million as being most common, and I've even seen like $4 and $5 million on some landlords. Is that like the new normal again?

Greg: Yeah, depends on the landlord too, right? So, like if you have an old school mom and pop owner that owns six buildings in North Beach and they're all paid off, they probably still have that old lease agreement and it's one two limits. Maybe it's two four, which basically can be accomplished with a standard business owner's package policy.

But if you're getting into a, you know, a national landlord or a REIT, you're most definitely going to see a minimum of $3 million excess, upwards of $5 or $6 million. And getting those layers becomes challenging because Hartford can say, "We'll give you the one two and we'll give you $3 million, but we're not going to give you more." So now I got to either go find another layer above that other $3 million, or I have to go find an outside excess liability umbrella market.

Andy: Greg, can you quantify this for just, let's just call it a single-unit restaurateur, you know, that doesn't quite understand all of this? I'll tell you, I can't quantify this and don't understand it, so no disrespect there. Can you quantify what the cost, how the cost jumps monthly or annually to a premium? If we're talking, you know, a from a $1 to $2 million policy to a $3, $4, or $5 million, how much more expensive can that become?

Greg: It depends on whether you're qualified to be insured with a preferred standard carrier or you have to go to the surplus lines market. And it also depends on what your underlying premium is. But all in all, if you're jumping within the standard carrier, it's not as expensive. It could be $500 to $750 additional for each million layer, right? Maybe up to $1000.

Now, if you're have to go to the other market outside of it because it doesn't fit for it's in a fire zone or if it's got a high crime rate, then it could be significantly more because it's going to go off of the underlying liability premium, like a $5 or $6 million policy could run you $10,000 plus, maybe more.

Andy: And it doesn't mean necessarily you're getting better coverage, right?

Greg: No. No, not at all.

Andy: Just to be clear.

Greg: Absolutely. Sometimes, sometimes you're paying more and you're getting or not sometimes, I think in our industry, quite a lot of times, you're paying more, and you're getting inferior coverage.

Andy: Got it. Got it.

Patrick: And what are like the largest roadblocks or hurdles for restaurants? I mean, is it really come down to location? Like San Francisco, where there, you know, you're not in a real wildfire area versus like being in a Santa Barbara County or something like that, right? Like you're in the middle of a forest. I mean, is it really come down to being in cities is going to be a lot easier to get insurance and…

Greg: No, not necessarily. Oakland's tougher, right? Oakland's got a very high crime score. Certain parts of San Francisco have high crime scores. So what does that mean? That means high crime score, okay, probability of a fire is greater, arson, whatever, vandalism, theft, everything that comes with it, not to mention potential robbery and burglary and just…

Andy: Can some of these things be carved out? I mean, like, you know, storefront windows that are broken once a month, I have clients that have to deal with this regularly, and I see that carve out in leases. I don't know if you can carve that out of your coverage of insurance that plate glass windows are not covered, you know, because it happens so frequently in Oakland.

Greg: Yeah, they're always, they're covered, but they're usually subject to the deductible. And in today's climate, even if they weren't, I would always advise my clients it's just part of doing business. You know, I've replaced four windows in the last two and a half years on my building.

Andy: Oh, on your own building.

Greg: On my own building. I haven't filed a claim against the insurance company.

Andy: Got it.

Patrick: It's not worth it.

Greg: Not worth it because I'm with a great carrier. I do the math, and we're at a point where, you know, where part of the insurance costs is also going to be kind of self-insuring.

Andy: Let's add on some of these restaurant nuances, Greg, and talk about it a little bit. I think the largest one we talk about is having a liquor license, a full liquor license, let's call it. So, as an operator, you don't want your staff to overserve someone, go out, get in a car, and get in a car accident, and it puts you at, you know, you have liability in that if you've overserved them or haven't served them safely, I should say, right? That's one example. But what other layers do liquor licenses or having a full bar in your concept in your restaurant add to insurance policies and coverages?

Greg: Well, it's not only overserving. I mean, how about people being drunk and getting into fights in your establishment, right? Or shooting someone. With some carriers putting not only assault and battery sub-limits or exclusions, but also putting firearm exclusions.

Andy: Interesting. Interesting.

Patrick: What does that mean? Does that mean that the restaurant owner now has bears the responsibility?

Greg: Yeah, so to a point where they're like, wait a second, I have to go and find a policy that won't have this exclusion, which is going to be considerably more expensive, or I assume the risk. You know, and it just depends. I mean, if you're a little sandwich shop, what's really the risk? But the fact is, this is more prevalent in the ENS surplus lines market. The standard carriers normally will not have a firearms exclusion. They're going to stay silent on it, and the same will go for assault and battery.

Andy: So likewise with bars and liquor licenses, like a late-night operation, like a nightclub or a lounge…

Greg: Yes, that's where you're going to see it.

Andy: Only bad things happen after midnight. So, you know, like what if a party goer falls off a table that they were dancing on, things like that? So, where do the policies start going for like a nightclub? I mean, is it just go up from there? I mean, are those hard to insure as well?

Greg: We've got clubs and we've got lounges that are paying six figures plus. You know, and in some multi-large areas approaching between all their lines, seven figures.

I'll tell you what the problem with the nightlife is. You've got multiple issues. You've got assault and battery, you've got liquor liability, but at a much greater event, right? You've got ID checkers, you've got bouncers. You've got firearms, you've essentially, you have more employment practices issues, inappropriate behavior, wrongful termination. It just accelerates.

Patrick: Greg, is there anything that a bar, a club owner can do to offset that cost? Like if they hire full, you know, security, or if they're a really good operator and they have their records in order, if they can demonstrate, you know, strong management, can they bring down their cost? Like, is there anything they can do to…

Greg: Absolutely. All those things in place can bring costs down and open up the risk to more markets, right? Because if you're, it's like pride of ownership on your building, same pride of ownership and you know, taking care of your business, running it effectively, and you see more of that in larger operations. It's kind of it's tougher when you're when you're a small operation and you're creative and you're trying to cook or you're trying to serve or you're trying to book the DJs or the musicians to also know your P&Ls and your balance sheet. It's challenging, but we help them with that.

Patrick: Yeah, not all owners are the same. I mean, there's got to be…

Greg: Not all owners are the same.

Andy: What about insurance policies? How do they differ from a restaurant, for example, that let's call it has only cold service, no open-flame cooking, no Type

1 hood, versus a full-service restaurant that has a Type 1 hood, open-flame cooking, fryers, and all that? How does the policy change for you?

Greg: It'll open up, basically open things up to almost every market that wants to write that and you just you pick the best policy for the best price, right? When you have open flame cooking, you have you have certain other issues. Maybe you have hab on top of the restaurant. That's very problematic to a lot of carriers. Some will say, "Okay, we can deal with hab, but you can't be in a frame building, right? Or you have to be in a non-combustible building, and your entire restaurant has to be sprinklered. And then we may consider it."

Andy: Got it. I've had no less than a half dozen clients currently and in the past year or two that have their business within a historic building. Does that have any, you know, how does that affect your view, how you value something?

Greg: If it's on the historic, if it's on the historic registry, some, you know, many underwriters will balk, and they'll kind of walk away because they're not filed to underwrite that type of risk.

Andy: Got it.

Greg: Because with historic things come other issues, right? I mean, we have carriers that won't write in certain geographic areas that are close to landmarks. This applies more to property, but it would probably also apply to restaurants as well. So if you're next to a Salesforce Tower or you're next to the Transamerica Building or you're next to the Golden Gate Bridge, they won't write you because of potential terror acts.

Andy: Interesting. Moving along, Patrick, where are we headed now with insurance?

Patrick: Yeah, let's skip over to workers' comp.

Andy: Yeah.

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Patrick: Now, when I am working with a buyer, I typically advise because I thought, you know, I learned this a long time ago when I bought a restaurant, is that you inherit the workers' comp rate when you buy a restaurant from the previous owner. Is that correct, Greg?

Greg: Only if you're inheriting the staff. A percentage of the staff has to be inherited, but normally, if the ownership is less than 50%, if more than 50% different, you basically have to start a new policy. You start off with no X-Mod. So if you're buying a business with a poor X-Mod, that's in your favor.

Andy: Can you let us know in layman's terms what an X-Mod is?

Greg: What an X-Mod is. So an experience modification is a coefficient rate that's assigned by the state of California, and after you've had X amount of years of insurance and X amount of premium, it either gives you a credit or a debit on the base rate for that particular carrier. So if a particular carrier, let's say, has a base rate of $4 for class code 9079, right, restaurant class code. Now it's broken down. If you have an experience modification of, let's say, 0.75, that means you get a 25% credit off the get-go off that $4 rate per hundred.

Patrick: How does one find out the current rate of a potential restaurant that they're buying so that they can make an informed decision on whether they want to, you know, take on that rate or somehow figure out how not to take on that rate?

Greg: What they want to do is they want to ask them for the last five years of loss runs and they want to ask them for an experience modification sheet.

Patrick: And they get that from their insurance broker?

Greg: And they can get that from their insurance broker.

Andy: Good, practical advice. All right. Patrick, you touched on this earlier when you brought up, you know, good behavior and an organized club owner, can they bring down their premiums and, you know, there's some benefit. So let's go through a little list here because we like to give the listeners some practical, real-life stuff that maybe they could do to help them go back to their insurance broker and say, "Hey, we're taking these steps. Let's take this into consideration when we renew our policy."

So Greg, let's go here. How can we, you know, help our listeners here improve their premium costs in California? Okay, how about having all of their staff members take Safe Serve classes for, you know, the Health Department, Safe Service of Food. Does that help at all?

Greg: Yes, that will help get more credits that are coming from the carrier themselves.

Andy: Okay.

Greg: Right? So on top of these experience modification credits, each carrier has their own set of credits and the minimum and max that they can provide. And that would go into those credits.

Andy: Got it. How about, it sounds like the same would be true then for alcoholic beverage control courses?

Greg: Correct.

Andy: Safe service of alcohol for your bartenders and management.

Greg: Andy, a lot of times they're like, if you don't implement that, it's a non-starter for that carrier anyway.

Andy: Good.

Greg: These are things that they must have in order to get exposed to the most amount of work comp carriers out there so they can get the best rate. And remember, the best rate isn't always the cheapest rate. The best rate is from the, yeah, is from the best carrier.

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Andy: How about an owner of a business that maintains their hood system, ansul system, and fire extinguishers quarterly or wherever the requirements are, but shares that with your insurance broker?

Greg: That's a requirement.

Andy: Requirement. Okay.

Greg: For packages and comp, more so on the liability property side policy, that's a requirement.

Andy: General good behavior, lack of claims. Is that helpful?

Greg: Absolutely. You know, if you're coming into somewhere with claims, right, you're going to limit your carrier appetite.

Andy: And then lastly, the annoying customer, calling your insurance broker or carrier each year and saying, "What can we do to improve our premiums?" I think it's good to check in with all your representatives and professionals. We keep pound, that's a theme on our podcast, but I should check in with you every year, Greg, and be like, "Hey, are we in good hands right now? Or is there something better we could do to save a buck?"

Greg: And what we do is, yeah, and if you have, if you have a good broker, right? So a good broker doesn't market the account every year because if he markets the account every year, then when he's letting the market know is, "These guys are just shopping hopping for rate, right? And this isn't the type of client we want, right? So we're not going to give you 40% internal credits when you come back to us." So what a good broker does is he kind of navigates and makes sure that he has the right pulse if he's with the right carrier.

So like, to give you an example, every renewal, we reach out to our clients, right, 90 days or 120 days out, saying we're here, let's get on a call, or if you can at least provide us with updates of your new revenues estimated as well as payroll, right? And based on that, when we go in and if I see that most of my restaurants were with Republic, we think they're the best. But all of a sudden, Republic's taking quite a bit of rate.

So I'm going to go to the market, and I'm going to see what's out there. And if there's something cheaper and I've got them with Republic, I'm going to go back to Republic, and I'm going to give them the last look. And I'm going to say, "Listen, I have Hartford that's coming in considerably lower. I need you to sharpen your pencil." And sometimes they'll match, or they'll be a little less. And sometimes they may be a little more, but their claims are better. Their loss control is better. And I'm going to tell the client, "We have a slightly lower rate. I'm going to advise you to stay put here because I think you're going to save more money down the long run."

Andy: I love it. See, this, listeners, this is why Greg's the best. He checks in, he's always on it, and he's always looking out for his clients because he's informed. So, Greg, we're so happy to have you here today. This has been really informative on a subject that we sometimes, you know, don't want to talk about. It's insurance. Sorry, we'd rather talk about fancy dishes and the cool new restaurant in town.

Greg: For sure. I would too.

Andy: We're going to give you a chance to do that in one second. Will you please share with the listeners briefly how the best way to find you and your team is?

Greg: Yeah, absolutely. So our website is onmarketins.com. My email is greg@onmarketins.com, and you can always feel free to call my mobile at 415-264-7917.

Andy: Got it. All right. This guy's not hiding. He'll help you all. Reach out to Greg. Greg, we got a bonus question for you. We know that you're a long-time SF local and you love the food scene. Can you share one long-standing SF institution that you enjoy and one new one you've tried lately that you could recommend?

Greg: Well, I think, I mean, there's so many, but I think Kokkari hits it out of the park for me always and consistently, from ambiance to food to everything. New, I think I don't know if it's, it's not new, but I think they're doing great things right now is Rich Table.

Andy: Oh, they're fantastic.

Greg: I think they're doing great. And the people are great. They're just on point. And then, you know, if you want old school San Francisco, there's always Original Joe's and Westlake Joe's. I think…

Patrick: That's my office.

Andy: Patrick loves you 10 times more now, Greg, because you just said Original Joe's.

Patrick: No, I love Rich Table. I love Rich Table. They've been there for a very long time, though. So…

Andy: We appreciate your suggestions. You got some good winners in that list. Greg, thanks again for being here. I appreciate you. It's been a long, we've known each other a long time and you are the expert and go-to in this field. So thank you for sharing with Patrick and I and our listeners.

Greg: All right. And thank you, guys. I appreciate you.

Andy: All right. Until next time, listeners.

Thank you all for listening to this week's episode of *Restaurant Deal Making EXPOSED!* If you're considering selling your business and would like a free consultation, reach out to patrickAndAndy@therestaurantsalesbroker.com or visit TheRestaurantSalesBroker.com to learn more.