AN INSURANCE PROGRAM FOR RESTAURANT OPERATORS

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AN INSURANCE PROGRAM FOR RESTAURANT OPERATORS

by

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CHAPTER I

INTRODUCTION

It is estimated that there are about 42,000 places in the United States where food is served to persons outside their homes.[1] Restaurants alone serve 70,000,000 meals every day, and commercial eating places are said to employ over two million personnel.[2] Altogether it is the third largest retail business, grossing $13 billion a year.[3] The Michigan 1954 Census of Business[4] shows that there are 13,476 eating and drinking establishments with total sales of $589,765,000 per year, or about $92 for every person living in Michigan. Few of these establishments are without need of protection against risk by insurance. Since risk is both universal and undesirable, the insurance business has grown and flourished as a risk-bearing institution.

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[1]Reginald V. Spell, Public Liability Hazard (Indianapolis: The Rough Notes Co., Inc., 1955), p. 377.

[2]Donald E. Lundberg and Vernon Kane, Business Management--Hotels, Motels and Restaurants (Tallahasse, Florida: Peninsular Publishing Company, 1952), p. 17.

[3]Ibid.

[4]U. S. Bureau of Census, Census of Business; 1954, Vol. I. Retail Trade, Chapter 22: Michigan (Washington, D. C.: U. S. Government Pringint Office, 1955).

With the founding by Benjamin Franklin in 1752 of the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, the cornerstone was laid for an industry that in the course of two hundred years had developed into one of the largest in the country.[1] Its five branches (fire, marine, casualty, surety, and life) together control over 70 billion dollars in assets.[2] In 1950, the latest year for which precise statistics are available, the people of the United States spent $16,549,689,132 for insurance premiums.[3]

Before undertaking the study of insurance, it is necessary to have an understanding of the basic terms of that study. Insurance is a device for handling risk. Insurance may be defined broadly as the guarantee by one to another against accidental loss.[4] From the viewpoint of the individual insured, insurance is a device that makes it possible for the individual to substitute a small, definite loss for a large but uncertain loss under an arrangement whereby the

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[1]Eugene Dougherty, "Insurance Rate-Making Process of Interest to Corporate Buyers," The Weekly Underwriter, Vol. 172, No. 5, (January 29, 1955), p. 308.

[2]Robert I. Mehr and Emmerson Cammock, Principles of Insurance (Homewood, Illinois: Richard D. Irwin, Inc., 1954), p. 3.

[3]"Insurance History," Mutual Insurance 200th Anniversary Committee, Illinois State Committee Memorandum, 1952, No. 9.

[4]John H. Magee, General Insurance (Chicago: Richard D. Irwin, Inc., 1942), p. 3.

fortunate many who escape loss will help to compensate the unfortunate few who suffer loss.[1] Thus, a person who owns a restaurant valued at $30,000 must face the possibility that the restaurant may be totally destroyed. He is faced with the uncertainty of a $30,000 loss. He may, however, for the payment of a definite sum agreed upon by an insurer, eliminate the possibility of a $30,000 loss. He obtains certainty by exchanging an uncertain large loss for a certain small loss.

The margin of profit for a restaurant is often too small to absorb loss without protection. Therefore, protection from risk is important for any well-managed restaurant and merits comprehensive consideration.

Statement of the Problem

It is the purpose of this study to present practical information about insurance and its application in the restaurant business with emphasis upon the following factors:

1. The nature of risk in economic life.
2. Causes of loss in the restaurant industry.
3. Types of coverages available to protect insurable risks.
4. To discover and compare the degree to which insurance is being used for protection in the restaurant business.

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[1] Mehr, op. cit., p. 3.

5. Principles of restaurant insurance buying.
6. Considerations in putting the insurance program into effect.

From this study, the writer expects to secure information which will assist in formulating a recommended insurance program for a restaurant.

Method and Scope

The basis used by the author for the study of insurance and its application to the restaurant operator incorporates aspects of risk and its relation to insurance; current insurance programs for restaurants in Michigan; and the administration of the insurance program *per se*. Major conclusions and recommendations are then evolved from the body of the study.

To explore risk and its relation to insurance, the author selected and integrated from research significant findings to explain the fundamental principles of risk and risk bearing and introduced the insurance mechanism as an important device for reducing and sharing losses. To determine the degree to which insurance is being used for protection of risks in the restaurant business, a comprehensive direct mail questionnaire was sent to restaurant operators throughout Michigan, results tabulated, and analysis made. Risks which have a corresponding insurance coverage that a restaurant might possibly use are considered in the questionnaire.

To review insurance administration as a management function, the writer selected and integrated significant ideas pertinent to a better understanding of insurance administration from sound business principles of management which will apply to both small and large operations.

It is hoped that this study will stimulate further reflection on the part of those for whom it was prepared: the responsible executives who may have neglected to develop any explicit way of thinking about risk or its protection and those entering upon a serious study of restaurant management who may have an opportunity to manage or own a restaurant.

Limitations

This study is intended to stimulate interest in restaurant insurance buying as a management function, to find out what restaurant men are thinking and doing about insurance, to guide the reader in the insurance problems, and to lay the ground work for building a program that will serve most efficiently and economically in the individual case. It is not intended as a complete discussion of insurance organizations, forms, and methods, for the details are innumerable.

A direct mail questionnaire is only one means to evaluate the degree to which insurance is being used for protection in the restaurant business. Furthermore, it is impossible to verify the respondents' concentration or inattention in answering the questionnaire. On the other hand, if certain risks are frequently, or only seldom covered, it is reasonable to assume that they will show up in the tabulation of that specific item. Conclusions are drawn from returned questionnaires, and the results may be indicative, but not conclusive of the industry as a whole.

CHAPTER II

RISK AND ITS RELATION TO INSURANCE

In order to have a clear understanding of insurance it is necessary to first have a clear understanding of risk and of the nature of risk, because insurance is the business of transferring risk to a professional risk-bearer.

Risk Defined

Security is a relative term. No restaurant man, in handling the economic affairs of his business, can ever reach the state of absolute security or complete certainty. The economic structure is so organized that uncertainties of life bear considerable consequences. The possibility that a catastrophe will occur causing destruction and preventing completion of plans and projects, is of utmost importance to the individual concerned. The uncertainty of the occurrence of an unfavorable contingency has been termed risk. From the standpoint of insurance, risk is present when there is a chance of loss.[1]

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[1]Besides these definitions, the word "risk" has come to have a special or technical meaning in the business of insurance, and is sometimes used there to define an applicant for life insurance; or sometimes the unit of exposure, e.g.,a building in fire and casualty insurance is known as "the risk." But this special, or technical meaning is not the one considered in this thesis. Instead "the chance for loss" is the meaning used.

Nature of Risk in Economic Life

Risk, economically speaking, is classified in two ways with respect to its nature. For insurance purposes it is important to distinguish the two broad classifications of risk, namely (1) speculative or business risks and (2) pure risk.[1] The first is bilateral, including the alternate possibility of loss or gain. It is sought by those willing to take a chance of loss as an appropriate price to pay for the prospect of a possible gain. The latter is unilateral and negative, involving only the chance of loss. Only pure risks are regarded as appropriate subjects for insurance.

Risk is universal. It exists everywhere and at all times. It is inescapable. An appropriate amendment to the old saying "Nothing is more certain than death and taxes,"

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[1]A. H. Mowbray, Insurance (New York: McGraw-Hill Book Company, 1930), p. 5. This terminology follows Mowbray's definition of risk as "the chance of loss." It appears that the theory of risk has not reached the stage of generally accepted terminology. Willet distinguishes positive and negative risk. "There is the possibility that expected future wealth may never be obtained. We may distinguish these forms of loss as positive and negative." A. H. Willett, The Economic Theory of Risk and Insurance (Philadelphia: Univ. of Pennsylvania Press, 1951), p. 13. He also distinguishes between static and dynamic risk (p. 14), depending on whether or not the chance of loss arises out of dynamic conditions or would be present in a static state. Hardy classified risk into five types in accordance with their origin. C.O. Hardy, Risk and Risk Bearing (Chicago: Univ. of Chicago Press, 1923), p. 23. Other writers have used other bases for classification.

would be, "Nothing is more certain than death, taxes, and risk." This is only another way of saying, "Nothing is more certain than uncertainty." Risk then is universal.

Risk and effect on credit. Risk has a big influence on our credit structure. The lender of capital wishes to earn a profit from his money in the form of interest, but were he to lose it in seeking a profit he is worse off than if he allowed it to remain idle. Consequently he will lend money only when the major dangers to which it is exposed can be avoided. For example, the banker will not lend money on a mortgage on a building unless it is adequately protected by fire insurance, with a clause making him beneficiary to the extent of his loan. Here risk puts a burden on the lender, who has a restriction placed on his chances to lend money, except under special conditions. Also it puts a burdon on the borrower, who must not only pay the interest rate, but also the cost of the insurance premium.

Methods of dealing with risk. It is clear that there is no escape from risk in either business or private life. The methods of dealing with economic risks we face in the restaurant business may be classified under five headings. Each of these methods are discussed briefly hereafter.[1]

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[1]Adapted from Robert I. Mehr and Emmerson Cammock, Principles of Insurance (Homewood, Illinois: Richard D. Irwin, Inc., 1954), pp. 9-14.

1. Risk may be assumed by the restaurant with or without the provision of a reserve fund.

2. The fire hazard may be reduced to a minimum by the use of fire resistant building materials, proper safety precautions, and good housekeeping.

3. Danger of loss from fire may be reduced by the presence of fire extinguishers, or an automatic sprinkler system.

4. The risk may be shifted by incorporation-ownership. In this type of business organization, ownership is not direct. The corporation makes it unnecessary for an investor to place his entire personal estate at risk in order to invest part of it in one enterprise. Included in those who bear the risk besides the owners whose liability is limited, are the creditors, who stand to lose if the corporation cannot survive.

5. Risk may be reduced by insurance. The restaurant operator can budget a rather small fixed amount, knowing that this charge is all a fire or other loss will cost him.

<u>The law of large numbers.</u> The law of large numbers is based on the discovery that more can be predicted concerning an entire group of similar items than about the single items that compose it. A single event defies prediction, but the mass will always remain practically the same, or varies in ways that can be predicted. This is the way risk is eliminated by insurance companies after the risk is transferred to the company by the individual who is originally exposed to it.

Relative value of risk. Risk should be considered and evaluated in relation to the amount of loss which may occur. The importance or value of risk depends largely upon the amount of possible loss. It is not the absolute size of a possible loss that is the controlling factor, but the size in relation to the available funds to meet a casualty. If the restaurant exposed to a risk is of low economic strength, even a very small loss may be more than it can stand without distress. On the other hand, a restaurant whose resources run into millions might suffer little hardship, even though a loss ran to several thousand dollars. Again, the size of loss should be considered in the light of available funds. Even a restaurant of large wealth might be put to some difficulties to meet a sudden immediate need amounting to a relatively small sum. But, though the cause be sudden and unforeseen, if the liquidation can be spread over a period of time, often no great difficulty will be involved in meeting a large loss.

Causes of Losses Present in the Restaurant Industry

Restaurants are subject to a multitude of various risks,all of which may cause loss. This study considers those types of risks which are actually or potentially insurable. Primarily losses are attributable to only a few causes, such as fire, leakage, the elements, breakage, criminal acts, defaults, seizure, liability, disability, and death.

Classification of risks. The list of loss causes given below will serve to indicate the major classifications under which the individual restaurant operator may group causes for loss. The following arrangement is based on the three principle groups of risks to which a restaurant may be exposed. These are (1) direct property losses, (2) third party or liability claims, and (3) indirect losses or loss of earning power.

I. Direct Property Losses. Losses to a restaurant operator are great in number involving damage or destruction of property. The operator should consider the probable exposure to loss.

   A. Fire

      1. Internal hazards and external exposure
      2. Effect of heat, smoke, and smudge, following the fire
      3. Damage by water used to put out the fire
      4. Explosion caused by fire
      5. Incidental losses due to the elements
      6. Consequential loss indirectly due to fire

   B. Leakage

      1. Sprinkler system
      2. Gas or oil from cooking or heating units
      3. From refrigerator system
      4. Rain water and snow or hail
      5. Steam

C. The Elements

1. Earthquake
2. Water--surface water, floods, and tidal waves
3. Hail and rain
4. Lightning
5. Windstorms, tornadoes, and cyclones

D. Breakage

1. Breakdown of electrical equipment, engines, and machinery
2. Explosion of boilers, pressure cookers, and turbines
3. Miscellaneous explosion-hazards
4. Collapse of structure
5. Collision
6. Plate glass and electric or neon signs

E. Criminal

1. Burglary
2. Robbery by kidnapping
3. Pay-roll robbery
4. Inside holdups
5. Messenger holdups
6. Theft, larcency, and pilferage
7. Embezzlement and misappropriation of money, equipment, and stock
8. Forgery

F. Defaults

1. Defaults under bids, contracts, and mortgages

2. Failure of supplier to carry out agreement
3. Forfeiture connected with guarantee and lost instruments
4. Credit risk

G. Seizure
   1. Seizure by authorities
      a. Destruction of property to prevent spread of fire or other disaster
      b. Condemning property because of unsafe conditions
      c. Taking of property for public works
   2. Seizure by unauthorized personnel (piracy and racketeering)

H. Transportation
   1. Aircraft
   2. Automotive
   3. Marine--foreign and domestic
   4. Parcel post and registered mail
   5. Railroad and express

I. Miscellaneous
   1. Assessment under insurance or other agreements
   2. Excess replacement costs required by building ordinance
   3. Infringement of patent rights
   4. Vandalism and malicious mischief
   5. Sabotage
   6. Strikes, riots, and civil commotion

7. War
8. Obsolencense

II. <u>Third Party or Liability Claims.</u> The liability group of risks concerns claims brought by others and usually involves (1) bodily injury, (2) property damage, or (3) both bodily injury and property damage. It may include damage to possessions, loss of use of property or services, and harm done to character or reputation. Claims generally arise because of negligence in operation or performance, but obligations are sometimes by law, as in the case of workmen's compensation.

A. Contractual liability (assumed by contract)
   1. Leases containing "hold-harmless" clauses
   2. Elevator or escalator agreements under lease or contract
   3. Assumed liability under municipal or other ordinance
   4. Agreement with dealers, manufacturers, distributors, or other business people

B. Employee's liability and workmen's compensation

C. Advertiser's liability--a restaurant that uses advertising media may be sued for libel or infringement of property contract rights or the violation of copyright.

D. General public liability arising out of
   1. Ownership, maintenance, or use of property or premises

2. Restaurant's negligence in handling customers' property
3. Elevator operation
4. Explosion, collapse, and breakdown
5. Motor vehicle owned, leased, or hired by the restaurant
6. Acts of employees
7. Encounter between a guest and an employee
8. Known vicious disposition
9. Damages for refusal to serve
10. Injuries from defective food
11. Defective premises and equipment
12. Services away from the premises
13. Joint operation with others--for example, three restaurants serving a large function away from the premises
14. Sponsoring any excursion, concert, entertainment, convention, picnic, bowling team, baseball team, etc.
15. Water damage from premises owned or rented by restaurant operator
16. The restaurant operator subletting any portion of the premises he owns, rents, leases, or occupies
17. The use of signs, posters, bulletins, placecards, or street banners by the restaurant which are placed on premises not occupied by the restaurant

18. Subsurface damage due to excavation or drilling in streets or highways with mechanical equipment
19. New construction work or demolition work
20. Renting or leasing equipment to or from others

E. Infringements on patents

F. Trustee's and agent's liability to principal

III. Earning Power Risk. The future earnings of a restaurant are constantly in danger because a casualty may stop or interrupt their power to earn. The most common causes are the destruction of, or damage to, property; and service failure.

A. Business interruption

1. Fire and related perils
2. Leakage
3. The elements
4. Breakage and collapse
5. Seizure
6. Malicious damage and sabotage
7. Strikes, riots, and civil commotion
8. Warlike operations
9. Delays in receipt of supplies
10. Failure of outside power and service

B. Interrupted rentals--owner and landlord losses due to property made untenantable by casualty

C. Falling values--substantial reduction in value of real and personal property due to unforeseen circumstances

D. Individual service losses

1. Death or prolonged disability of executives, partners, or trained employees
2. Old age retirement obligations
3. Unemployment

<u>Miscellaneous Consideration of Risk</u>

Although risk deals with the chance of loss, there are additional factors that should be taken into consideration by the individual.

<u>Underwriters' classification.</u> Underwriters separate risks into classes according to the nature of operations and the manner in which loss may occur. For example, the usual public liability policy does not protect against elevator, automobile, and products liability claims. The restaurant operator may look upon a loss of money by theft as a legitimate claim under a robbery policy, but the insurers issue separate policies for pay-roll and messenger holdups, burglary by forceful entry, embezzlement, and other types of theft. It should be noted, however, that the preceding separate policies may be covered under the comprehensive dishonesty, destruction and disappearance policy.

<u>Incidental hazards.</u> Various incidental hazards may accompany losses. For example, smoke and water damage is usually suffered in connection with fire. Salvaging property may cause damage in transfer. Property may be damaged when

a burglary has been committed or an attempt thereat. The insurers may include such hazards as a part of the main risk, but the individual should verify the fact when purchasing protection.

Consequential losses. Although there is similarity of meaning in the preceding title, the underwriters treat these losses quite differently. To illustrate, they consider the spoilage of goods by the destruction of a heating or refrigeration system, requiring separate insurance. The looting of property during a casualty may seem to be a direct result of a primary hazard, but it is not so regarded by the insurer.

Contributory causes. In some cases there are contributory causes, as when an explosion or earthquake creates a condition leading to loss by fire, leakage, or the elements. Strikes, riots, and war are often contributory hazards, increasing the risk of fire or other destruction elements to such an extent that special insurance is required.

Controllable hazards. There are a few natural uncontrollable hazards, such as earthquakes, windstorms, and floods, but most risks are due to contributory actions of negligence or carelessness, largely under the control of restaurant owners or operators. In fact, prevention and control activities may exert major influences on loss experience.

CHAPTER III

A SURVEY OF INSURANCE PROGRAMS FOR 114 RESTAURANT OPERATORS IN MICHIGAN

Purpose

It is the purpose of this investigation to discover and compare the degree to which insurance is being used for protection of risks in the restaurant business throughout Michigan. More specifically, the study will cover: the amount spent for insurance; how this amount is determined; the per cent of the actual cash value carried on building and contents; if an appraisal of building and contents is made to arrive at insurable value; what risks are present in the individual restaurants; and which of these risks are covered by insurance; to what extent social insurance is carried; what additional insurance is thought to be needed for complete protection of business risks; and which risk insurance is most important to the restaurant operation.

Procedure

To determine to what extent insurance is being used for protection of risk in the restaurant business throughout Michigan, it was decided after conferences with the Hotel, Restaurant, and Institutional Management Department at Michigan State University, to send out a direct mail questionnaire under their sponsorship.

The general nature of the questions to be asked was based upon the author's research from secondary material. A rough draft was made, reviewed, and suggestions received from insurance salesmen, the Hotel, Restaurant and Institutional Management Department, and the Bureau of Business Research of Michigan State University. Later copies were typed and suggestions and comments were received from restaurant operators. A cover letter was developed with the aid of the Business Letter Writing Department of Michigan State University.

The letter based its appeal for return of the questionnaire on the idea of benefit to the operator. The questionnaire was a simple choice check type for ease in answering and accuracy of tabulation. It was emphasized that respondents were not to sign or identify the questionnaire in order to secure accurate information and high return. A stamped, addressed envelope was provided. A copy of the letter and questionnaire will be found in Appendix A.

Scope and Method

Between August 8 and 13, 1956, 1,885 copies of the questionnaire and cover letter were sent to restaurants in 167 cities in Michigan. The greater part of the mailing list was supplied by the conference specialist at the Kellogg Center for Continuing Education, Michigan State University. This list was originally made two years ago from the Michigan Restaurant Association and names from telephone books. This list was supplemented by the National Restaurant Association and Duncan Hines recommendations for Michigan. An attempt was made to send questionnaires to highly competitive, year around food services, such as restaurants, public cafeterias, lunchrooms, tearooms, coffee shops, and grills. Conversely, there was an attempt to eliminate seasonal operations, school lunchrooms, industrial cafeterias, hotel dining rooms, night clubs and theater restaurants, fountains, ice cream stands, soft-drink stands, doughnut shops, hamburger stands, and drive-ins. Approximately one-third of the questionnaires were sent to Detroit. This was the ratio of the number of eating and drinking establishments in Detroit compared to the total in the state, as shown in the United States Census of Business, Retail Trade, Michigan Preliminary Report, 1954.

By September 10, 1956, replies had been received from 114 restaurant operators from fifty-two cities;[1] ninety-eight questionnaires were returned marked as out-of-business, moved, left no address, unclaimed, etc. This was a return of 06.4% from operators who received the questionnaire. At this point replies were cut off and the tabulation prepared.

A test was made to verify the accuracy of the sample by numbering the questionnaires as they came in, dividing them into two equal groups, and comparing them. The comparisons were generally close. As a result, it is felt a valid sample was achieved, even though the sample was relatively

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[1]Appendix B lists the cities and number of returns as indicated by post marks on the return envelope. Three questionnaires could not be identified as to city.

small. It should be remembered that the mailing was taken from selected lists, supposedly representing the better restaurants, so that the results are not completely indicative of Michigan as a whole.

Tabulation of Results

Each part of every question was tabulated separately, with the results shown as a percentage of those answering the question. The total number answering the question upon which the percentage is based is given in parentheses.

The relation between (1) annual sales and amount spent per year for insurance, (2) annual sales and per cent of actual cash value for building and contents, and (3) annual sales, form of ownership, and extent of social insurance is examined to discover resemblances or differences.

The returns for Question H, "What risks do you have in your restaurant, and which are covered now?" have been grouped into two divisions under the total for each question. These two divisions are (1) lease the building and own the contents, and (2) own the building and own the contents. Under these two divisions are the three major forms of business organization, which are (1) sole proprietor, (2) partnership, and (3) corporation. Percentages were compiles for the replies of each form of ownership. In this way the reader can compare the answers for each type of ownership. This is done for those interested in very specific information about one type of ownership. As far as could be ascertained, the results from this investigation will provide new information.

Statistical Data

The following is a tabulation of the results of questionnaire replies:

A. "Check your form of restaurant ownership," (114)

1. Sole proprietor. 51.8%
2. Partnership 32.5%
3. Corporation 14.0%
4. Other 01.7%

B. "Check whether you lease, are buying, or own (1) Building (2) equipment."

1. Building (118)[1]
   a. Lease. 50.0%
   b. Buying 11.0%
   c. Own 38.1%

2. Contents (118)[2]
   a. Lease. 04.2%
   b. Buying 15.3%
   c. Own 80.5%

C. "Check the size of restaurant operation for annual sales, seating capacity, and average number of full time employees."

Annual Sales (113)

1. Under $15,000. . . . . . . 05.3%
2. $15,000 - 24,999 . . . . . 09.7%
3. $25,000 - 39,999 . . . . . 14.2%
4. $40,000 - 59,999 . . . . . 23.0%
5. $60,000 - 99,999 . . . . . 17.7%
6. $100,000 - 199,999 . . . . . 15.9%
7. $200,000 - 399,999 . . . . . 07.1%
8. $400,000 - and over 07.1%

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[1]Four replies checked that they both lease and own their building.

[2]One replied they lease and own the contents; another answered they lease and are buying the contents; while three questionnaires indicate they are buying and own the contents. One questionnaire was unanswered.

Number of Seats (109)

1. Under 15	07.3%
2. 15 - 24	06.4%
3. 25 - 44	16.5%
4. 45 - 84	26.6%
5. 85 -124	22.9%
6. 125 -199	10.1%
7. 200 -299	04.6%
8. 300 and over	05.5%

Number of Employees (109)

1. Under 4	21.1%
2. 4 - 7	24.8%
3. 8 -12	18.3%
4. 13 -19	09.2%
5. 20 -29	07.3%
6. 30 -49	09.2%
7. 50 -79	03.7%
8. 80 -and over	05.8%

D. "How much do you spend for insurance pertaining to your business?" (112)

1. Under $75	08.9%
2. $75 - 149	04.5%
3. $150 - 249	15.2%
4. $250 - 499	31.3%
5. $500 - 999	18.8%
6. $1,000-1,999	08.9%
7. $2,000-4,999	08.0%
8. $5,000- and over	04.5%

TABLE I

COMPARISON BETWEEN ANNUAL SALES AND AMOUNT SPENT FOR INSURANCE

	Amount Spent for Insurance							
Annual Sales	Under $75	$75-149	$150-249	$250-499	$500 - 999	$1,000-1,999	$2,000-4,999	$5,000-over
Under $15,000	1	2	2	-	1	-	-	-
$ 15,000 - $ 24,999	3	2	3	3	-	-	-	-
$ 25,000 - 39,999	2	1	5	7	-	-	-	-
$ 40,000 - 59,999	3	-	5	10	6	1	-	-
$ 60,000 - 99,999	1	-	1	3	12	5	1	-
$100,000 - 199,999	-	-	1	3	6	5	3	-
$200,000 - 399,999	-	-	-	-	1	3	3	1
$400,000 - and over	-	-	-	-	1	-	2	5

E. "My building is insured for _____% of the actual cash value, and my contents are insured for _____% of the actual cash value."

% of Actual Cash Value Covered by Insurance	Building(64)[1]	Contents(93)[2]
100	09.4	09.7
90	10.9	10.8
85	01.6	02.2
80	42.9	37.6
75	10.9	09.7
70	04.7	05.4
65	01.6	01.1
60	03.1	04.3
50	04.7	10.8
40	01.6	02.2
33-1/3	03.1	--
25	01.6	03.2
20	--	01.1
10	03.1	01.1
None	01.6	01.1

[1]Forty-four questionnaires did not give an answer for the per cent of insurance carried on the building. In comparing these unanswered questionnaires to the question on risk of fire in the building, 29 operators indicated they did not have this risk. Six questionnaires were answered in dollar amounts.

[2]Eleven questionnaires were answered in dollar amounts; nine did not answer this question.

F. "I do (27.9%), do not (72.1%) have an appraisal of my building and contents made at least once a year to arrive at insurable values." (111)

TABLE II

COMPARISON BETWEEN ANNUAL SALES AND WHETHER OR NOT AN APPRAISAL IS MADE TO ARRIVE AT INSURABLE VALUES

Annual Sales	Do Have Appraisals Made	Do Not Have Appraisals Made
Under $15,000	3	3
$ 15,000 - 24,999	2	10
$ 25,000 - 39,999	2	14
$ 40,000 - 59,999	8	15
$ 60,000 - 99,999	5	14
$100,000 - 199,999	5	13
$200,000 - 399,999	3	5
$400,000 - and over	4	4

G. "How do you determine how much your business should spend for insurance?" (112)

1. A percentage of total sales. 10.7%
2. A fixed amount per seat 01.8
3. A dollar amount not related to the size of the operation 33.0
4. An amount necessary to cover what you consider to be the most serious risks of the business 53.6
5. The amount recommended by an insurance agent 33.9
6. The amount determined by an insurance survey of your business 22.3
7. Am self insured. 03.7
8. Other:
   "Slightly under insurance survey."
   "What I can afford to pay."
   "Employee Compensation Insurance by State Law."
   "Replacement cost of equipment."

H. "What risks do you have in your restaurant, and which are covered now?"

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
1. Fire			
a. Building--Total (107)	72.9	01.9	25.2
Lease Building,Own Contents			
Sole proprietor (20)	30.0	0.	70.0
Partnership (12)	33.3	0.	66.7
Corporation (6)	33.3	16.7	50.0
Own Building,Own Contents			
Sole proprietor (24)	100.	0.	0.
Partnership (12)	100.	0.	0.
Corporation (6)	100.	0.	0.
b. Contents--Total (112)	94.6	04.5	00.9
Lease Building,Own Contents			
Sole proprietor (23)	100.	0.	0.
Partnership (14)	100.	0.	0.
Corporation (6)	83.3	16.7	0.
Own Building,Own Contents			
Sole proprietor (23)	95.6	0.	04.4
Partnership (12)	100.	0.	0.
Corporation (6)	100.	0.	0.
2. Extended Coverage--Total(110)	87.3	09.1	03.6
Lease Building,Own Contents			
Sole proprietor (21)	66.7	19.0	14.3
Partnership (14)	100.	0.	0.
Corporation (6)	83.3	16.7	0.
Own Building,Own Contents			
Sole Proprietor (24)	95.8	04.2	0.
Partnership (12)	100.	0.	0.
Corporation (6)	83.3	16.7	0.
3. Vandalism and Malicious Mischief--Total (101)	45.5	39.6	12.9
Lease Building, Own Contents			
Sole proprietor (21)	33.3	47.6	19.0
Partnership (13)	46.1	38.5	15.4
Corporation (5)	80.0	20.0	0.
Own Building, Own Contents			
Sole Proprietor (20)	50.0	45.0	05.0
Partnership (10)	20.0	40.0	40.0
Corporation (6)	33.3	50.0	16.7

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
4. Flood--Total (97)	29.9	17.5	52.6
Lease Building, Own Contents			
Sole Proprietor (20)	20.0	25.0	55.0
Partnership (13)	15.4	15.4	69.2
Corporation (4)	50.0	25.0	25.0
Own Building, Own Contents			
Sole Proprietor (21)	38.1	04.8	51.1
Partnership (9)	44.9	0.	55.6
Corporation (6)	16.7	66.7	16.7
5. Earthquake--Total (96)	26.0	28.1	45.8
Lease Building, Own Contents			
Sole Proprietor (19)	05.3	36.8	52.6
Partnership (13)	15.4	23.1	61.5
Corporation (4)	50.0	25.0	25.0
Own Building, Own Contents			
Sole Proprietor (21)	33.3	23.8	42.9
Partnership (10)	40.0	10.0	50.0
Corporation (6)	16.7	66.7	16.7
6. Demolition--Total (96)	14.7	42.7	42.7
Lease Building, Own Contents			
Sole Proprietor (20)	10.0	20.0	70.0
Partnership (11)	09.1	54.5	36.7
Corporation (5)	0.	40.0	60.0
Own Building, Own Contents			
Sole Proprietor (19)	21.1	42.1	38.8
Partnership (12)	16.7	33.3	50.0
Corporation (5)	0.	100.	0.
7. Rents or Rental Value--Total (99)	20.2	34.4	44.4
Lease Building,Own Contents			
Sole Proprietor (21)	14.3	23.8	61.9
Partnership (12)	25.0	33.3	41.7
Corporation (5)	0.	60.0	40.0
Own Building, Own Contents			
Sole Proprietor (21)	14.3	52.4	33.3
Partnership (11)	09.1	18.2	72.2
Corporation (5)	0.	60.0	40.0
8. Leasehold Interest--Total(99)	11.1	32.3	56.7
Lease Building, Own Contents			
Sole Proprietor (21)	14.3	33.1	47.6
Partnership (14)	21.4	57.1	21.4
Corporation (4)	25.0	50.0	25.0

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Own Building, Own Contents			
Sole Proprietor (20)	0.	20.0	80.0
Partnership (10)	0.	10.0	90.0
Corporation (5)	0.	20.0	80.0
9. Improvements and Betterments--Total (103)	23.3	24.3	32.4
Lease Building,Own Contents			
Sole Proprietor (22)	18.2	40.9	40.9
Partnership (14)	28.6	50.0	21.4
Corporation (5)	40.0	60.0	0.
Own Building, Own Contents			
Sole Proprietor (17)	0.	10.5	89.5
Partnership (10)	0.	10.0	90.0
Corporation (6)	33.3	16.7	50.0
10. Consequential Loss or Damage--Total			
a. By fire (104)	48.1	41.3	11.6
Lease Building,Own Contents			
Sole Poprietor (20)	45.0	45.0	10.0
Partnership (14)	71.4	14.3	14.3
Corporation (5)	60.0	40.0	0.
Own Building,Own Contents			
Sole Proprietor (21)	28.6	57.1	14.3
Partnership (11)	36.4	36.4	27.3
Corporation (6)	50.0	33.3	16.7
b. By Breakdown of Equipment--Total (96)	11.5	75.0	13.5
Lease Building,Own Contents			
Sole Proprietor (17)	0.	82.4	17.6
Partnership (13)	0.	92.3	07.7
Corporation (4)	25.0	75.0	0.
Own Building, Own Contents			
Sole Proprietor (20)	0.	85.0	15.0
Partnership (10)	0.	70.0	30.3
Corporation (5)	20.0	60.0	20.0
11. Extra Expense--Total (99)	12.1	61.6	25.3
Lease Building, Own Contents			
Sole Proprietor (21)	14.3	61.9	23.8
Partnership (14)	21.4	50.0	28.6
Corporation (4)	25.0	50.0	25.0
Own Building, Own Contents			
Sole Proprietor (20)	05.0	75.0	20.0
Partnership (11)	0.	45.5	54.5
Corporation (5)	20.0	60.0	20.0

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
12. Sprinkler Leakage--Total(96)	05.2	12.5	82.3
Lease Building, Own Contents			
Sole Proprietor (12)	05.0	10.0	85.0
Partnership (13)	07.7	15.4	76.9
Corporation (5)	20.0	0.	80.0
Own Building, Own Contents			
Sole Proprietor (19)	0.	05.3	94.7
Partnership (11)	09.1	0.1	90.9
Corporation (4)	0.	25.0	75.0
13. Electric Sign--Total (105)	45.7	29.5	24.7
Lease Building, Own Contents			
Sole Proprietor (22)	27.3	36.4	36.4
Partnership (13)	46.1	38.5	15.4
Corporation (5)	40.0	20.0	40.0
Own Building, Own Contents			
Sole Proprietor (20)	30.0	40.0	30.0
Partnership (12)	66.7	0.	33.3
Corporation (6)	66.7	33.3	0.
14. Plate Glass--Total (108)	60.2	23.1	19.4
Lease Building, Own Contents			
Sole Proprietor (23)	47.8	17.4	34.8
Partnership (14)	50.0	14.3	35.7
Corporation (4)	50.0	25.0	25.0
Own Building, Own Contents			
Sole Proprietor (24)	54.2	25.0	20.8
Partnership (12)	66.7	16.7	16.7
Corporation (6)	50.0	50.0	0.
15. Boiler and Machinery			
a. Steam boiler explosion--Total (98)	13.3	40.8	45.9
Lease Building, Own Contents			
Sole Proprietor (20)	0.	40.0	60.0
Partnership (13)	07.7	23.1	69.2
Corporation (4)	25.0	50.0	25.0
Own Building, Own Contents			
Sole Proprietor (20)	0.	60.0	40.0
Partnership (11)	18.2	36.4	43.4
Corporation (5)	40.0	60.0	0.

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
b. Machinery Breakdown--			
Total (94)	04.3	63.8	33.0
Lease Building, Own Contents			
Sole Proprietor (20)	10.0	60.0	30.0
Partnership (13)	07.7	23.1	69.2
Corporation (3)	0.	100.	0.
Own Building, Own Contents			
Sole Proprietor (19)	0.	68.4	31.6
Partnership (10)	0.	70.0	30.0
Corporation (4)	20.0	80.0	0.
16. Business Interruption--			
Total (106)	22.6	60.0	11.3
Lease Building, Own Contents			
Sole Proprietor (21)	17.4	69.6	13.0
Partnership (14)	35.7	57.1	07.1
Corporation (5)	60.0	40.0	0.
Own Building, Own Contents			
Sole Proprietor (21)	09.5	71.4	19.0
Partnership (10)	27.3	36.4	36.4
Corporation (6)	16.7	83.3	0.
17. Bailees Liability--Total (97)	02.1	29.9	68.0
Lease Building, Own Contents			
Sole Proprietor (21)	0.	14.3	85.7
Partnership (12)	0.	25.0	75.0
Corporation (4)	0.	50.0	50.0
Own Building, Own Contents			
Sole Proprietor (20)	05.0	40.0	55.0
Partnership (11)	0.	27.3	72.7
Corporation (5)	20.0	40.0	40.0
18. Owners', Landlords', and Tenants' Liability			
a. Bodily injury--Total (104)	86.5	12.5	01.0
Lease Building, Own Contents			
Sole Proprietor (22)	63.6	31.8	04.5
Partnership (14)	85.7	14.3	0.
Corporation (5)	80.0	20.0	0.
Own Building, Own Contents			
Sole Proprietor (22)	100.	0.	0.
Partnership (12)	91.7	8.3	0.
Corporation (6)	83.3	16.7	0.
b. Property Damage--Total(105	82.9	16.2	01.0
Lease Building, Own Contents			
Sole Proprietor (22)	59.1	36.4	04.5

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Partnership (14)	78.6	21.4	0.
Corporation (5)	80.0	20.0	0.
Own Building, Own Contents			
Sole Proprietor (22)	90.1	09.1	04.5
Partnership (12)	91.7	18.3	0.
Corporation (6)	83.3	16.7	0.
c. Medical Payments--Total(102)	81.4	15.7	02.9
Lease Building, Own Contents			
Sole Proprietor (22)	68.2	27.3	04.5
Partnership (14)	85.7	14.3	0.
Corporation (4)	100.	0.	0.
Own Building, Own Contents			
Sole Proprietor (20)	90.0	10.0	0.
Partnership (12)	75.0	08.3	16.7
Corporation (6)	83.3	16.7	0.
d. Comprehensive General Liability--Total (102)	70.6	21.6	07.8
Lease Building, Own Contents			
Sole Proprietor (23)	52.2	34.8	13.0
Partnership (11)	81.8	09.1	09.1
Corporation (5)	80.0	20.0	0.
Own Building, Own Contents			
Sole Proprietor (22)	77.3	13.6	09.1
Partnership (11)	81.1	09.1	09.1
Corporation (6)	67.7	33.3	0.
19. Products Liability--Total (110)	64.5	24.5	10.9
Lease Building, Own Contents			
Sole Proprietor (23)	56.5	26.1	17.4
Partnership (14)	57.1	35.7	07.1
Corporation (6)	100.	0.	0.
Own Building, Own Contents			
Sole Proprietor (22)	68.2	22.7	09.1
Partnership (12)	58.3	08.3	16.7
Corporation (6)	50.0	33.3	16.7
20. Elevator Liability--Total(102)	08.8	01.0	90.2
Lease Building, Own Contents			
Sole Proprietor (21)	0.	0.	100.
Partnership (13)	0.	0.	100.
Corporation (6)	50.0	0.	50.0
Own Building, Own Contents			
Sole Proprietor (21)	04.8	0.	95.2
Partnership (10)	0.	0.	100.
Corporation (5)	20.0	0.	80.0

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
21. Elevator Collision--Total (99)	01.0	02.0	97.0
Leasing Building, Own Contents			
Sole Proprietor (21)	0.	0.	100.
Partnership (13)	0.	0.	100.
Corporation (5)	0.	20.0	80.0
Own Building, Own Contents			
Sole Proprietor (21)	0.	04.8	95.2
Partnership (10)	0.	0.	100.
Corporation (5)	0.	20.0	80.0
22. Contractual Liability--Total (93)	04.3	12.9	82.8
Leasing Building, Own Contents			
Sole Proprietor (21)	0.	14.3	85.7
Partnership (13)	0.	0.	100.
Corporation (4)	50.0	0.	50.0
Own Building, Own Contents			
Sole Proprietor (19)	10.5	05.3	84.2
Partnership (10)	0.	20.0	80.0
Corporation (3)	0.	66.7	33.1
23. Fire Legal Liability--Total(99)	27.3	39.4	33.3
Lease Building, Own Contents			
Sole Proprietor(21)	19.0	38.1	42.9
Partnership (14)	28.6	28.1	42.8
Corporation (4)	25.0	75.0	0.
Own Building, Own Contents			
Sole Proprietor (21)	23.8	57.1	19.0
Partnership (10)	20.0	30.0	50.0
Corporation (6)	33.3	66.7	0.
24. Civil Liability--Total (102)	23.5	02.9	73.5
Lease Building, Own Contents			
Sole Proprietor (19)	05.3	05.3	89.5
Partnership (14)	28.6	0.	71.4
Corporation (5)	40.0	0.	60.0
Own Building, Own Contents			
Sole Proprietor (21)	33.3	0.	66.7
Partnership (11)	27.3	0.	72.7
Corporation (6)	50.0	0.	50.0
25. Automobile Insurance			
a. Bodily injury liability--Total (106)	64.2	01.0	34.9
Lease Building, Own Contents			
Sole Proprietor (22)	36.4	0.	63.6

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Partnership (13)	38.5	0.	63.6
Corporation (5)	100.	0.	0.
Own Building, Own Contents			
Sole Proprietor (24)	83.3	0.	16.7
Partnership (12)	91.7	0.	08.3
Corporation (5)	60.0	0.	40.0
b. Property damage liability--Total (107)	63.6	01.9	34.6
Lease Building, Own Contents			
Sole Proprietor (22)	36.4	0.	63.6
Partnership (13)	38.5	0.	61.5
Corporation (6)	83.3	16.3	0.
Own Building, Own Contents			
Sole Proprietor (23)	82.6	0.	17.4
Partnership (12)	83.3	0.	16.7
Corporation (5)	60.0	0.	40.0
c. Medical Payments--Total(102)	59.8	02.0	38.2
Lease Building, Own Contents			
Sole Proprietor (21)	33.3	0.	66.7
Partnership (13)	38.5	0.	61.5
Corporation (4)	75.0	0.	25.0
Own Building, Own Contents			
Sole Proprietor (21)	81.0	0.	19.0
Partnership (11)	81.8	0.	18.2
Corporation (5)	60.0	0.	40.0
d. Comprehensive loss of or damage to automobile except collision or upset--Total(105)	57.1	05.7	37.1
Lease Building, Own Contents			
Sole Proprietor (22)	36.4	0.	63.6
Partnership (13)	38.5	0.	61.5
Corporation (5)	80.0	0.	20.0
Own Building, Own Contents			
Sole Proprietor (22)	77.3	04.5	18.2
Partnership (11)	81.8	0.	18.2
Corporation (5)	60.0	0.	40.0
e. Collision or upset--Total (103)	58.3	04.9	36.9
Lease Building, Own Contents			
Sole Proprietor (22)	36.4	0.	63.6
Partnership (13)	46.2	0.	53.8
Corporation (5)	80.0	0.	20.0
Own Building, Own Contents			
Sole Proprietor (21)	76.2	04.8	19.0

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Partnership (11)	81.8	0.	18.2
Corporation (5)	60.0	0.	40.0
f. Theft--Total (105)	59.0	03.8	37.1
Lease Building, Own Contents			
Sole Proprietor (22)	31.8	04.5	63.6
Partnership (13)	38.5	0.	61.5
Corporation (5)	80.0	0.	20.0
Own Building, Own Contents			
Sole Proprietor (22)	81.8	0.	18.2
Partnership (11)	81.8	0	18.2
Corporation (5)	60.0	0.	40.0
g. Towing and Labor costs--Total (101)	55.4	05.0	39.6
Lease Building, Own Contents			
Sole Proprietor (21)	28.6	04.8	66.7
Partnership (14)	28.6	07.9	64.3
Corporation (5)	80.0	0.	20.0
Own Building, Own Contents			
Sole proprietor (22)	72.7	04.5	22.7
Partnership (11)	72.7	09.1	18.2
Corporation (4)	50.0	0.	50.0
26. Non-Ownership Liability			
a. Bodily injury--Total (98)	23.5	05.1	71.4
Lease Building, Own Contents			
Sole Proprietor (21)	09.5	04.8	85.7
Partnership (12)	16.7	16.7	66.7
Corporation (5)	60.0	0.	40.0
Own Building, Own Contents			
Sole Proprietor (19)	15.8	0.	84.4
Partnership (10)	40.0	0.	60.0
Corporation (6)	33.3	33.3	33.3
b. Property damage--Total (96)	24.0	05.2	70.8
Lease Building, Own Contents			
Sole Proprietor (18)	16.6	0.	83.3
Partnership (11)	18.2	18.2	63.6
Corporation (5)	60.0	0.	40.0
Own Building, Own Contents			
Sole Proprietor (21)	09.6	04.8	85.7
Partnership (10)	40.0	0.	60.0
Corporation (5)	20.0	20.0	40.0
c. Medical payments--Total (95)	22.1	05.3	72.6
Lease Building, Own Contents			
Sole Proprietor (21)	09.5	04.8	85.7
Partnership (12)	16.7	16.7	66.7
Corporation (4)	50.0	0.	50.0

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Own Building, Own Contents			
Sole Proprietor (17)	05.9	0.	94.1
Partnership (10)	40.0	0.	60.0
Corporation (5)	20.0	40.0	40.0
27. Comprehensive Dishonesty, Destruction and Disappearance--Total(105)	20.0	61.9	18.1
Lease Building, Own Contents			
Sole Proprietor (22)	13.6	72.7	13.6
Partnership (14)	14.3	64.3	21.4
Corporation (4)	75.0	25.0	0.
Own Building, Own Contents			
Sole Proprietor (21)	04.8	76.2	19.0
Partnership (11)	18.2	27.3	54.5
Corporation (6)	33.3	66.7	0.
28. Burglary			
a. Money and Securities--Total (109)	45.9	45.9	08.2
Lease Building, Own Contents			
Sole Proprietor (23)	39.1	52.2	08.7
Partnership (13)	23.1	76.9	0.
Corporation (6)	83.3	16.7	0.
Own Building, Own Contents			
Sole Proprietor (24)	50.0	45.8	04.2
Partnership (12)	33.3	25.0	41.7
Corporation (6)	33.3	66.7	0.
b. Furniture, fixtures and supplies--Total (108)	41.7	50.0	08.3
Lease Building, Own Contents			
Sole Proprietor (21)	33.3	61.9	04.8
Partnership (13)	23.1	76.9	0.
Corporation (5)	80.0	20.0	0.
Own Building, Own Contents			
Sole Proprietor (24)	37.5	50.0	12.5
Partnership (10)	0.	60.0	40.0
Corporation (6)	33.3	66.7	0.
29. Robbery--Total (111)	40.5	47.7	11.7
Lease Building, Own Contents			
Sole Proprietor (22)	27.3	68.2	14.5
Partnership (14)	21.4	78.6	0.
Corporation (6)	83.3	16.7	0.
Own Building, Own Contents			
Sole Proprietor (24)	45.8	45.8	08.3

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Partnership (12)	25.0	16.7	58.5
Corporation (6)	33.3	50.0	0.
30. Fidelity Bonds--Total (102)	15.7	55.9	28.4
Lease Building, Own Contents			
Sole Proprietor (22)	09.1	72.7	18.2
Partnership (14)	14.3	57.1	28.6
Corporation (6)	66.7	16.7	16.7
Own Building, Own Contents			
Sole Proprietor (19)	0.	68.4	31.6
Partnership (11)	09.1	27.3	63.6
Corporation (5)	60.0	40.0	0.
31. Forgery			
a. Incoming--Total (99)	12.1	65.7	22.2
Lease Building, Own Contents			
Sole Proprietor (21)	07.8	76.2	19.0
Partnership (13)	07.7	61.5	30.8
Corporation (3)	33.3	67.7	0.
Own Building, Own Contents			
Sole Proprietor (21)	09.5	52.4	38.1
Partnership (11)	09.1	36.4	54.5
Corporation (6)	16.7	66.7	16.7
b. Outgoing--Total (96)	12.5	60.4	26.1
Lease Building, Own Contents			
Sole Proprietor (20)	05.0	80.0	15.0
Partnership (12)	0.	66.7	33.3
Corporation (3)	33.3	67.7	0.
Own Building, Own Contents			
Sole Proprietor (20)	10.0	55.0	35.0
Partnership (11)	09.1	36.4	54.5
Corporation (6)	16.7	66.7	16.7
32. License and Permit Bonds--Total (95)	31.6	13.7	54.7
Lease Building, Own Contents			
Sole Proprietor (20)	20.0	10.0	70.0
Partnership (12)	33.3	16.6	50.0
Corporation (5)	60.0	0.	40.0
Own Building, Own Contents			
Sole Proprietor (19)	42.0	10.5	47.4
Partnership (11)	27.3	18.2	54.5
Corporation (4)	75.0	25.0	0.

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
33. Workmen's Compensation--Total (111)	88.3	03.6	08.1
Lease Building, Own Contents			
Sole Proprietor (22)	81.8	0.	18.2
Partnership (14)	92.9	0.	07.1
Corporation (5)	100.	0.	0.
Own Building, Own Contents			
Sole Proprietor (23)	100.	0.	0.
Partnership (12)	100.	0.	0.
Corporation (6)	83.3	16.7	0.
34. Death of Key Man--Total(105)	14.3	37.1	48.6
Lease Building, Own Contents			
Sole Proprietor (22)	09.1	22.7	68.2
Partnership (13)	07.7	61.5	30.8
Corporation (5)	60.0	20.0	20.0
Own Building, Own Contents			
Sole Proprietor (21)	0.	14.3	85.7
Partnership (11)	18.2	27.3	54.5
Corporation (6)	50.0	50.0	0.
35. Death of Sole Proprietor--Total (102)	15.7	49.0	34.3
Lease Building, Own Contents			
Sole Proprietor (22)	18.1	63.6	18.2
Partnership (13)	07.7	30.6	61.5
Corporation (4)	25.0	50.0	25.0
Own Building, Own Contents			
Sole Proprietor (21)	14.8	71.4	23.8
Partnership (11)	09.1	09.1	81.8
Corporation (5)	20.0	60.0	20.0
36. Death of Partner--Total (97)	11.3	23.7	64.9
Lease Building, Own Contents			
Sole Proprietor (18)	0.	0.	100.
Partnership (14)	28.6	50.0	21.4
Corporation (5)	20.0	0.	80.0
Own Building, Own Contents			
Sole Proprietor (21)	0.	09.5	09.5
Partnership (10)	0.	40.0	60.0
Corporation (5)	40.0	60.0	0.
37. Death of Close Corporation Member--Total (94)	07.4	06.4	86.2
Lease Building, Own Contents			
Sole Proprietor (19)	0.	0.	100.

Risks	Covered %	Have Risk But Not Covered %	Do Not Have Risk %
Partnership (11)	0.	18.2	81.8
Corporation (5)	60.0	20.0	20.0
Own Building, Own Contents			
Sole Proprietor (20)	0.	0.	100.
Partnership (10)	0.	10.0	90.0
Corporation (6)	50.0	16.7	33.3

38. Other Insurance Risks
None 8
Business Interruptions
Fine Arts Floater on various oil paintings.
"In my liability I am only covered up to $10,000 which I don't think is enough."

I. "Check the following so-called social insurance which you carry." (38)

1. Group Accident and Health Insurance. . . . 57.9%
2. Group Hospitalization Insurance 84.2%
3. Group Life Insurance. 28.9%
4. Group Pension 07.9%

TABLE III

COMPARISON BETWEEN ANNUAL SALES, FORM OF RESTAURANT OWNERSHIP, AND SOCIAL INSURANCE CARRIED

Annual Sales	Form of Owner-ship	Group Accident & Health	Group Hospital-ization	Group Life	Group Pension
Under $15,000	Sole Prop.				
	Partner.	2			
	Corp.				
$15,000-$ 24,999	Sole Prop.	2	2		
	Partner.	1	2	1	
	Corp.				
$25,000- 39,999	Sole Prop.	1			
	Partner.	2	1		
	Corp.				
$40,000- 59,999	Sole Prop.	4	4	2	

TABLE III--Continued

Annual Sales	Form of Owner-ship	Group Accident & Health	Group Hospital-ization	Group Life	Group Pension
$ 60,000-$ 99,999	Sole Prop.				
	Partner.	2	2		
	Corp.				
$100,000- 199,999	Sole Prop.	1	3	1	
	Partner.				
	Corp.	1	3		
$200,000- 299,999	Sole Prop.	1	1		
	Partner.		1		
	Corp.	1	2	2	2
$400,000-and over	Sole Prop.				
	Partner.				
	Corp.	4	7	5	1
No Annual Sales Given	Other	1			

J. "Without considering costs or amounts, what kind of insurance in addition to what you already have, do you think you might need to provide complete protection to your restaurant, guests, and employees?" (39)

None.	6
Business Interruption	6
Forgery.	4
Fidelity	4
Vandalism and Malicious Mischief	3
Products Liability	3
Comprehensive Dishonesty, Destruction and Disappearance.	3
Machinery Breakdown.	3
Robbery.	3
Partnership Insurance	3
Accident and Health.	2
Fire Legal Liability	2
Electric Sign.	2
Group Hospitalization Insurance.	2
Burglary	2
Owners', Landlords' and Tenants' Liability . .	2
Group Life Insurance	1
Death of Key Man Life Insurance.	1

Death of Sole Proprietor	1
Surgical and Hospitalization Insurance . .	1
Extended Coverage	1
Plate Glass	1
Consequential Loss or Damage (a) By Fire, (b) Breakdown of Equipment.	1
Extra Expense.	1
Liquor Liability.	1
Consequential Loss or Damage to Automobile, Except by Collision or Upset.	1
Dishonesty.	1
Floor Insurance	1

"Covering destruction of equipment other than fire."
"Covering customers while they are here--poisoning or other accidents."
"In my opinion, it would be impossible to carry complete protection for your restaurant, guests, and employees."
"I feel that we are well covered."
"I have just opened a new electric system and I do not know what insurance I need."
"For our type of operation, I think we are pretty well covered."
"I do need different ones, but I just take a chance and hope."
"I believe we have enough insurance without too great a risk."
"More liability, but I am changing insurance agents."

K. "For which of the following risks is insurance most important to your restaurant operation?" (113)

1.	Fire in restaurant.	92.0%
2.	Extended coverage	61.1%
3.	Accidents to others while on your premises	79.6%
4.	Accidents to employees	76.1%
5.	Loss due to claims from bodily injury or damage caused by consumption of food or beverage in your restaurant. . . .	51.3%
6.	Business Interruption.	34.5%
7.	Electric sign	21.1%
8.	Plate Glass	25.7%
9.	Employee dishonesty	18.7%
10.	Forgery	10.6%
11.	Theft including larceny, burglary, and robbery	37.2%
12.	Boiler and machinery breakdown. . . .	08.8%
13.	Automobile Liability	35.4%

14. License and permit bonds. 14.2%
15. Life Insurance 13.3%
16. None . . . . 0.
17. Other

"More liability, but I am changing insurance agents."
"Liquor Liability."
" Dishonesty."

L. "Additional Comments"

None. 2

"Many types of insurance listed are very desirable. However, cost would be prohibitive and is insurance against damages that are risks which would be rare in frequency and damages would be in civil suit to the filing plaintiff."

"My fire insurance is too high and I have no fire hazards, in fact, my business has been remodeled. My fire insurance has been raised since last year, it was $102 just on the building, no fixtures."

"I believe it is practical to carry insurance only on items which would put me completely out of business--items such as 6 through 14 above (Business Interruption, electric sign, plate glass, employee dishonesty, forgery, theft including larceny, burglary and robbery, boiler and machinery breakdown, automobile liability, license and permit bonds) can be absorbed by the business."

"This is a fine survey, and it would be interesting to get a cross section of operators."

"A very good coverage on all possibilities of running a business and their insurance conscious undertakings."

"Congratulations. . . on your restaurant insurance research project!"

"I have been very happy to fill out this information for you, but I feel the average restaurant operator will have trouble filling this out truthfully, without the presence of his insurance agent. I have filled out this to the best of my ability without checking with our agents. Personally, I have completed a two year certificate course at Pratt Institute, Brooklyn, N.Y., in Foods Management and appreciate these surveys and

> am interested in any new information in the restaurant field. I am very willing to help in any work necessary. In the majority of cases I am afraid you are going to get false information from many operators--not intentionally,--but of modesty alone, not wanting to admit their personal affairs to anyone, nor show that they are not doing the proper thing by not buying sufficient coverage. Plus the fact the law requires a certain amount of insurance to be had by every business. Quite a few, because of financial status don't have these insurances, and will be afraid someone is checking up on them. I have one suggestion, the major insurance companies have statistics on insurance averages on a national scale. If you know an insurance agent well enough, he can help you get the information, which is sometimes kept confidential. Good Luck to you on your thesis.

Analysis of Results

The first section of the study was designed to get factual information about the form of restaurant ownership, and the size of the operation. These facts should be kept in mind in reviewing and comparing the degree to which insurance is being used for protection against certain risks.

Forms of business organization. In general, over one-half (51.8%) of the operators responding to the questionnaire are sole proprietors, about one-third (32.5%) are partners, and about one out of seven (or 14.5%) are incorporated. One-half (50.0%) of the persons answering the questionnaire lease the building, while 38% indicated that they own the building, and 80.5% own the equipment.

Size of restaurant operation. On the average, about one-quarter (25.0%) of the operators answering the questionnaire had annual sales between $40,000 and $59,999 per year, while 17.7% of the operators reported sales from $60,000 to $99,999, and a slightly smaller per cent (15.9%) indicated sales of between $100,000 and $199,999. Over a quarter (26.6%) of the operators have between 45 to 84 seats, while a slightly smaller per cent (22.9) replied they had a seating capacity between 85 and 124. The answers indicate that nearly one-quarter (24.8%) of the restaurants have four to seven employees, 21% have under four employees, and that 18% of the operators that answered the questionnaire employ from eight to twelve persons.

<u>Amount spent for insurance</u>. As indicated by the answers almost one-third (31.3%) of the operators responding to the question spend between $250 and $499 a year for insurance pertaining to their business. Nearly one-fifth (19%) of the operators replying spend from $500 to $999 and 15% spend between $150 and $249 for insurance.

Comparisons between annual sales and the amount spent for insurance reveal that in the group with annual sales of less than $15,000 one-third of the operators indicate they spend between $75 and $149, and one-third spend between $150 to $249. The $15,000 to $24,999 annual sales group is more diversified as 27% spend under $75, 27% spend between $150 to $249, and another 27% spend between $250 to $499. The $25,000 to $39,999 annual sales classification has 40% spending between $250 to $499 and 33-1/3% spending between $150 to $249. The $40,000 to $59,999 size operations have 40% spending between

$500 and $999. The $60,000 to $99,999 annual sales classification indicates that 52% spend from $500 to $999 a year for insurance. The $100,000 to $199,999 annual sales group has 66.7% spending $250 to $499 a year for insurance. The $200,000 to $399,999 a year operation has 43% between $2,000 and $4,999, and 30% between $1,000 and $1,999. The $400,000 and over operation has 62% spending $5,000 and over a year for insurance.

On the average, answers indicate that restaurant operators expend betwen 0.5% and 1.5% of annual sales for insurance. The average is slightly under 1%. It appears as though both the under $15,000 and over $400,000 establishments spend over 1% of annual sales. The restaurants reporting annual sales of $25,000 to $39,999, $100,000 to $199,999, and $200,000 to $399,999 a year spend under 1%, and the other size restaurants spend about 1% of annual sales for insurance.

Per cent of actual cash value carried. Restaurant operators answering the questionnaire showed that the building was insured from 0 to 100% of the actual cash value. In answering, 42.9% said that the building was insured for 80% of the actual cash value, while 39% of those returning the questionnaires either did not have the risk or did not answer the question. In regard to the per cent of actual cash value insured for the contents, 37% of the operators reported that 80% of the actual value of the contents was carried. Again the range was from 0 to 100% of the actual cash value.

Even though management is free to set the per cent of full value figures, where the restaurant values are small it is felt that insurance should be equal to the full amount of the restaurant values. The chance of total or near-total loss is greater in the case of smaller establishments, unless they are of fire proof construction.[1] It is the heavy loss, less likely though it is, that the business is not able to assume which should be shifted to an insuring company. Furthermore, since rates for fire insurance are usually low, economizing on the size of the policy will save only a few dollars. For these reasons, it is recommended that insurance on small restaurants be equal to the full value of the restaurant.

The fire insurance on larger restaurants should total at least 80% of the full value of the property unless they are of fire proof construction. Here to, as in the case of the smaller restaurants, a great deal can be said for full-value insurance. There is always the risk of a total loss even on a larger restaurant. This hazard is increased, of course, in districts which are not within easy reach of regularly manned fire-fighting equipment.

Restaurants in more populous territories can be protected fairly adequately with insurance of 80% of the total value of the property covered. With rare exceptions, setting

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[1]The Michigan Inspection Rule Book, Detroit: Michigan Inspection Bureau, June 28, 1954, p. 29; defined fire proof construction as buildings with masonry exterior walls and with fireproof floors and roofs (or their equivalent), as defined in the rules for measurement of the relative fire hazard of such building, and when the class of construction is so certified by the Michigan Inspection Bureau.

the insurance figures at less that 80% is done with serious risk. However, questionnaire replies reveal that 35.2% insure less than 80% of the full value of the building, and that 48.7% insure less than 80% of the full value for contents.

It is important that restaurant operators who carry co-insurance keep certain points in mind. The co-insurance clause provides that the total amount of insurance must be equal to a certain amount of the actual cash value of the property insured at the time such loss should occur. If the agreed percentage is not carried, a penalty will result in the event of a partial loss. The amount of the penalty is proportionate to the amount of insurance in force as compared to the amount of insurance that should have been in force. It is possible to be adequately protected when the policy was drawn, but at a later date to be carrying an insufficient amount of insurance to offset increased values or a larger inventory. The best method of determining present value is by an appraisal made by a recognized company. However, carrying a slight extra amount of insurance is a wise precaution against unforeseen hazards of appreciated values or of exceptional instances when the value of inventory exceeds that which is ordinarily maintained. It is felt that the apparently large number of restaurants carrying 80% co-insurance should have appraisals made at frequent intervals and carry an extra amount of insurance, approximately 90% of value with the 80% co-insurance clause, as a safety measure.

Appraisal of building and contents. Total response indicated that 28% do, and 72% do not, have an appraisal of building and contents made at least once a year to arrive at insurable values. A comparison between annual sales shows that 50% of the six restaurants in the under $15,000 sales category have appraisals made at least once a year. The $400,000 and over annual sales group also shows 50% of its eight answers to have appraisals made, and the restaurants with annual sales between $200,000 and $399,999 indicated that 38% of the eight questionnaires have appraisals made at least once a year. Other size restaurants indicated a much lower per cent having appraisals made.

Generally speaking, this small percentage (28%) of up-to-date appraisals would indicate "under-insurance" for fire policies, because of building values in a rising price level.[1] On the average, a restaurant built at an approximate

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[1]A survey published by the Bankers Information Bureau of Kemper Insurance, Under Insurance in American Industry, 1948, includes the analysis of one hundred plants with total assets ranging from $50,000 to $3,000,000 and annual sales ranging from $10,200 to $1,350,000. Some of the revealing results follow:

(1) Plants having up-to-date appraisals--2 per cent.
(2) Plants having out-of-date appraisals--20 per cent.
(3) For fire insurance
  a. Plants under-insured--56 per cent.
  b. Amounts of loss recoverable in event of partial plant destruction--14 to 86 per cent.
  c. Average amount of loss recoverable in event of partial plant destruction--52 per cent.

cost of $50,000 in 1950 will cost $64,250 in 1956, an increase of 28.5%.[1] All fire insurance claims are adjusted on the actual cash value of the property at the time of loss. Actual cash value is replacement cost, less depreciation. To show what co-insurance may mean in the event of a partial loss, and also to illustrate the absolute necessity of knowing present day values and advantages of having up-to-date appraisals, the following hypothetical case is quoted: a restaurant built in 1950 at a cost of $50,000 has today an actual cash value, less depreciation, of $62,500. Assume that the restaurant owner carried $40,000 fire insurance to comply with the 80% co-insurance program based upon the owner's best estimate of $50,000 as to the present day value of the restaurant. The total damage amounted to $35,000; because of the rising values not taken into account by the operator the amount of recovery would be figured as follows:

$$\frac{\$40{,}000 \text{ (Amount of insurance carried)}}{\$50{,}000 \text{ (amount of insurance required}} \times \$35{,}000 \text{ (loss)} = \text{under 80\% co-insurance)}$$

$28,000 (Maximum amount of recovery)

This is a loss of $7,000 because of under insurance in a rising price level.

An appraisal will not only enable the operator to determine the proper amounts of insurance to carry, but will be of invaluable assistance in substantiating claims in the event of loss. Once such an appraisal is made it may be brought up-to-date annually at a fraction of the original cost.

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[1] Revised Schedule of Unit Costs Based on Cubical Contents of Building, Detroit Real Estate Board, January 1956.

Methods used to determine amount to spend for insurance. Replies show that 40% use more than one method to determine the amount spent for insurance. The answers indicate that more than half of the restaurant operators (54%) spend an amount for insurance necessary to cover what is considered to be the most serious risks of the business. Approximately one-third (34%) of the operators answering the questionnaires spend an amount recommended by an insurance agent, and 33% use a dollar amount not related to sales as the method to select the amount to spend on insurance. Over one out of five (22%) indicated the amount is determined by an insurance survey of their business. Other answers seemed to be of less significance.

Risks in the restaurant business and which risks are covered. Among the items suggested, the following risks are generally covered by insurance, and are ranked by per cent in decreasing order according to questionnaire replies:

1.	Fire--contents	94.6%
2.	Workman's Compensation	88.3%
3.	Extended Coverage	87.3%
4.	Owners', Landlords', and Tenants' Liability--bodily injury	86.5%
5.	Owners', Landlords', and Tenants' Liability--property damage	82.9%
6.	Owners', Landlords', and Tenants' Liability--medical payments	81.4%
7.	Fire--building	72.9%
8.	Comprehensive General Liability	70.6%

Risks less frequently covered by insurance are listed in order of their rank, as shown by restaurant operators responding to the questionnaire:

1.	Products Liability.	64.5%
2.	Automobile--bodily injury liability .	64.2%
3.	Automobile--property damage liability	63.6%
4.	Plate Glass	60.3%
5.	Automobile--medical payments . . .	59.8%
6.	Automobile--theft	59.0%
7.	Automobile--collision or upset. . .	58.3%
8.	Automobile--comprehensive loss of or damage to automobile, except collision or upset.	57.1%
9.	Automobile--towing and labor cost. .	55.4%
10.	Consequental Loss or Damage--by fire.	48.1%
11.	Burglary--money and securities. . .	45.9%
12.	Electric Sign	45.7%
13.	Vandalism and Malicious Mischief . .	45.5%
14.	Burglary--furniture, fixtures, and supplies	41.7%
15.	Robbery	40.5%

The majority of replying operators indicated they have the following risks, but do not protect them by insurance:

1.	Consequential Loss or Damage--by breakdown of equipment	75.0%
2.	Business Interruption.	66.0%
3.	Machinery Breakdown	62.8%
4.	Comprehensive Dishonesty, Destruction and Disappearance	61.9%
5.	Extra Expense	61.6%
6.	Forgery--outgoing	60.4%
7.	Fidelity Bonds	55.9%
8.	Burglary--furniture, fixtures, equipment.	50.0%

On the average, a moderate per cent of replying restaurant operators answered they have the following risks, but do not insure them:

1.	Death of Sole Proprietor.	49.0%
2.	Robbery	47.7%
3.	Burglary--money and securities. . .	45.9%
4.	Demolition	42.7%
5.	Consequential Loss or Damage--by fire	41.3%
6.	Steam boiler explosion.	40.8%
7.	Vandalism and Malicious Mischief . .	39.6%
8.	Fire-legal liability	39.4%
9.	Death of Key Man	37.1%

10.	Rents or Rental Value	35.4%
11.	Leasehold Interest	32.3%
12.	Electric Sign.	29.5%
13.	Bailees Liability	29.5%
14.	Earthquake.	28.1%

Replying operators generally indicated not having the following risks:

1.	Elevator collision	97.0%
2.	Elevator Liability	90.0%
3.	Death of Close Corporation Member	86.2%
4.	Contractual Liability	82.8%
5.	Sprinkler Leakage	82.3%
6.	Civil Liability	73.5%
7.	Non-Ownership Auto Liability--medical payments.	72.6%
8.	Non-Ownership Auto Liability--bodily injury	71.4%
9.	Non-Ownership Auto Liability--property damage	70.8%

Answers indicated that a moderate per cent of restaurant operators do not have the following risks:

1.	Bailees Liability	68.0%
2.	Death of Partner.	64.9%
3.	Leasehold Interest	56.7%
4.	License and Permit Bonds	54.7%
5.	Flood	52.6%
6.	Improvements and Betterments.	52.4%
7.	Death of Key Man.	48.6%
8.	Steam Boiler Explosion.	45.9%
9.	Earthquake.	45.6%
10.	Rents or Rental Value	44.4%
11.	Demolition.	42.7%

Answers to some of the questions indicated one of two factors occurred (1) the question was not understood by the recipient of the questionnaire, (2) the individual in answering did not sufficiently analyze the risk exposure of the restaurant. For example, 3.6% answering the questionnaire said they did not have the risk of extended coverage. While

10.	Rents or Rental Value	35.4%
11.	Leasehold Interest	32.3%
12.	Electric Sign.	29.5%
13.	Bailees Liability	29.5%
14.	Earthquake.	28.1%

Replying operators generally indicated not having the following risks:

1.	Elevator collision	97.0%
2.	Elevator Liability	90.0%
3.	Death of Close Corporation Member . .	86.2%
4.	Contractual Liability	82.8%
5.	Sprinkler Leakage	82.3%
6.	Civil Liability	73.5%
7.	Non-Ownership Auto Liability--medical payments.	72.6%
8.	Non-Ownership Auto Liability--bodily injury	71.4%
9.	Non-Ownership Auto Liability--property damage	70.8%

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8.	Steam Boiler Explosion.	45.9%
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10.	Rents or Rental Value	44.4%
11.	Demolition.	42.7%

Answers to some of the questions indicated one of two factors occurred (1) the question was not understood by the recipient of the questionnaire, (2) the individual in answering did not sufficiently analyze the risk exposure of the restaurant. For example, 3.6% answering the questionnaire said they did not have the risk of extended coverage. While they may not have the risk of all parts of extended coverage, they have the risk of wind and hail. This is true in practically any conceivable situation.

Below will be found a list of risks with the per cent given where it was declared by respondents that no risk existed, but where the risk in probability does exist wherever a restaurant is owned, rented, or operated.

1.	Death of Key Man.	48.6%
2.	Earthquake.	45.8%
3.	Fidelity Bonds	28.4%
4.	Forgery--outgoing	26.6%
5.	Extra Expense.	25.3%
6.	Forgery--incoming	22.2%
7.	Comprehensive Dishonesty, Destruction, and Disappearance.	18.1%
8.	Vandalism and Malicious Mischief	12.9%
9.	Robbery	11.7%
10.	Business Interruption	11.3%
11.	Products Liability	10.9%
12.	Consequential Loss or Damage--by fire. . .	10.6%
13.	Burglary--furniture, fixtures and supplies.	08.3%
14.	Burglary--money and security.	08.2%
15.	Comprehensive General Liability.	07.8%
16.	Extended Coverage	03.6%
17.	Owners', Landlords', and Tenants' Liability--a. Medical payments	02.9%
	b. Property damage. . . .	01.0%
	c. Bodily injury	01.0%

The order in which risks should logically be covered by insurance in the author's opinion are as follows:

I. Statutory requirement

II. Liability

A. Products

B. Owners', Landlords', and Tenants' Liability

1. Bodily injury

2. Property damage

3. Medical payments

C. Automobile Liability including non-ownership

III. Coverages against natural hazards

IV. Risks that would provide shock to the financial structure of the business.

First and above all, the statutory requirements must be met in risk management. The first principle of risk coverage does not rest with the individual. Workman's Compensation coverage or a satisfactory financial statement filed with the Michigan Department of Labor and Industry is mandatory in Michigan, when four or more people are employed. Although this item ranked second for risks that are covered, questionnaire replies show that there is 100% coverage in restaurants of over three employees. Answers show that 21.1% of returned questionnaires employ under four employees, making it optional coverage by law. Only 51% of the operators carry this insurance when it is optional. As this is a mandatory item for the majority of restaurant operators, this risk should be the first covered by insurance.

When a claim arises under a liability, it is impossible to determine in advance the extent of such a claim. This is particularly true of a restaurant operation, since consumption of food always presents a hazard. A restaurant is subject to a catastrophe loss under this item. Fifty, one-hundred, five-hundred people can be poisoned from one meal, and this is not an infrequent occurrence in the food business.

In the case of property loss, by reason of natural or unnatural causes, (wind or fire), the limit of the loss is well established in advance. A building and contents is worth $50,000 and it is a total loss. That is the loss. Whereas, if 200 people receive contaminated food, each individual might sue for $10,000 for bodily injury caused by the consumption of the food. The potential loss in that event is $2,000,000. Therefore, products liability should be the second insurance coverage considered. Replies voted this risk number nine in frequency of coverage, voting fire for contents number one, wind and hail under extended coverage number three, and fire for the building number seven.[1]

What is true of products liability is likewise true of Owners', Landlords', and Tenants' Liability, automobile liability and non-ownership liability, but to a lesser degree. These liabilities are not subject to a catastrophe loss, except the Owners', Landlords', and Tenants' Liability. A catastrophe loss could very well occur under Owners', Landlords', and Tenants' Liability.

Liability claims are likely to arise at any time from a variety of sources and for large awards against the restaurant operator. The amount of the damages for which the owner may be held responsible bears little relationship to the

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[1]Only one-third of the operators who leased the building indicated they had the risk of fire on the building. Otherwise the ranking would have been much higher.

value of the property. A person's entire property can be attached to pay a liability judgment unless the business is incorporated. Even the person who is free of property is not immune to liability claims. There is the future to consider. Garnishment of wages to be received and rights of liens against any future property acquired make the chances of financial growth slim. Furthermore, the manager may be called on to spend considerable time and money defending against suits of this kind. Liability insurance is designed to protect the restaurant operator against these hazards. While such losses may not be too prevalent, the sums involved can be quite large. Therefore, liability insurance is essential, and should be carried. The second principle developed here is that whenever the loss is quite indeterminate, such loss should first be covered before other risks are considered.

Third in importance, after Workmen's Compensation and Liability, are coverages against natural hazards. Natural hazards include wind, hail, flood, and earthquake.[1] Lightning

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[1] S. B. Ackerman, Insurance (New York: The Ronald Press Company, 1951), p. 174, claims that no section of the United States is entirely immune from the possibility of earthquakes. Robert I. Mehr and Emmerson Cammock, Principles of Insurance (Homewood, Illinois: Richard D. Irwin, Inc., 1954), p. 310, states that earthquakes causing no little damage have been felt in the parts of the Middle West. Even though the probability of a severe earthquake in Michigan is remote, the destruction involved could be great. Therefore, earthquake insurance is essential.

is covered under the fire policy. These losses differ from the liability losses in that they are quite determinative. However, when such a loss occurs there is no place to go for help. When a fire loss occurs, the fire department may be called and help to reduce the loss and prevent it's spread. In the case of windstorm, hail, flood, or earthquake, very little help can be obtained to prevent or reduce the loss. This is especially true of wind and hail. The one thing that can be done prior to the loss is to take all reasonable construction precaution. When one of these natural losses occur about all the property owner can do is suffer the loss. Wind and hail cannot be stopped. Nothing can be done about an earthquake. Flood can be stopped to a certain extent. Therefore, the third principle is that where little or no help can be secured to reduce the loss or prevent its spread, those coverages should be purchased second in importance to liability.

The fourth principle involved in the covering of risk revolves itself around shock. A risk should be covered whenever a loss would result in a shock to the financial structure of the business. Shock is a relative term. What would be a shock to one, may be inconsequential to another. To illustrate, a 100 dollar plate glass loss to one restaurant might be considered a severe shock to the financial structure of the business. To another restaurant it would be postage stamp money, so to speak. What a shock loss would be to a restaurant must be determined by that restaurant. The question must be asked, "How much of a loss can be assumed without being hurt financially?" Obviously, such an answer must come from the restaurant operator or owner, and his risks covered accordingly. The author believes that such items as plate glass (12th), automobile towing and labor cost (17th), and electric sign insurance (20th) would not provide a shock to the financial structure of most restaurants, and therefore does not warrant as high a rank as operators indicate. Whereas, well down the list of coverages is steam boiler explosion. Only 13.3% carry steam boiler explosion insurance, and 40.8% say they have this risk, but do not have it covered by insurance. The potential size of loss from explosion is extremely high, yet it is covered by only a few restaurant operators.

One of the most common errors, and certainly one which is leaving restaurant men exposed to serious loss is failure to transfer business interruption and extra expense to a professional risk-bearer. These are particularly true of business interruptions where 66% of the answered questionnaires show they have the risk of business interruption, but do not protect their risk by insurance. The reason for this is that business interruption is an intangible loss (the potential loss can be found only from bookkeeping before the loss). It cannot be seen or felt like building and fixtures, and the restaurant man cannot see the necessity for this coverage. This form of insurance will do just as much for the insured as the business itself would have done, had operations not been interrupted. Experience indicates that many businesses never resume operation after their earnings have been interrupted by a severe fire or other catastrophe.[1] Therefore, business interruption insurance is an essential coverage in the arrangement of an adequate insurance program. However, restaurant men have not generally accepted business interruption as essential to the risk program.

Restaurant men are not inclined to include life insurance in their plans when they are arranging insurance for their business. On the average only 14% of the restaurants carried Key Man Life Insurance. About one out of ten sole proprietors carried insurance for sole proprietor; 12% of the partners carried partnership insurance.

Not only are many restaurant men without life insurance protection, but a surprising number said they do not have the risk. Approximately 50% indicated they did not have the risk of Key Man Insurance, 20% of the sole proprietors said they did not have the risk of sole proprietors insurance, and about 40% of partnerships showed they did not have the

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[1]R. S. Bass, "Insurance As Respects Its Importance to Credit," The National Insurance Buyer, Vol. 1, September 1954, p. 20, states: "It isn't difficult to believe the report furnished by Dunnand Bradstreet, that 43 per cent--nearly half of all firms suffering serious fire losses never re-open after such a fire loss." Suppose Your Business is Interrupted (Indianapolis: The Rough Notes Co., Inc., 1948) shows that 43% never reopen after a serious loss by fire--or other catastrophe--, 40% go back into business with impaired credit or greatly reduced income, and only 17% or one out of 6 re-enter business with safety.

risk for insurance. All these facts indicate that an insufficient number of businessmen are convinced of the need for life insurance. Thus, the restaurant man has not generally accepted life insurance as essential to his risk management, or provided cash to assist operators' heirs or partners in continuing of business without sacrifice, in the event of death of the owner.

<u>Social insurance.</u> One-third of the operators reported they carried some kind of social insurance. Of those that carried some form of social insurance, hospitalization insurance was generally covered (84.2%), group accident and health insurance was carried by a moderate number of operators (57.9%), group life was mentioned by about one-quarter of the operators (28.9%), and group pension was carried by only a few (07.9%) of the restaurant operators.

Seventy-five per cent of the corporations carry one or more types of social insurance mentioned in the questionnaire, while only 30% of the partnerships, and 25% of the sole proprietors carry one or more types of social insurance. Of the thirty-eight operators carrying social insurance, 45% have annual sales of less than $60,000, and 55% have sales of over $60,000. All of the corporations having social insurance have annual sales of $60,000 or more. In relation to the total number of restaurants with annual sales under $60,000, 29% carry one or more types of social insurance, and 39% of the restaurants with annual sales over $60,000 carry one or more types of social insurance.

Other insurance needed for complete protection. The purpose of the question "Without considering costs or amounts, what kind of insurance in addition to what you already have, do you think you might need to provide complete protection to your restaurant, guests, and employees?" was to learn the restaurant operator's consciousness of the need for additional insurance. Nearly 75% did not answer this question, while 5% felt that none was required.

The answers indicated that in addition to the insurance now owned more operators feel the need for business interruption, followed by forgery and fidelity insurance.

Risks that are most important to the restaurant operator. To the question of "For which of the following risks is insurance most important to your restaurant operation?" the largest portion voted for fire in the restaurant (91.7%), which is the number one risk listed in the questionnaire. The second most popular item was, "accidents to others while on your premises" (78.9%). The third most important risk is "accidents to employees" (75.2%) followed by "extended coverage" (59.6%) and "loss due to claims from bodily injury or property damage caused by consumption of food or beverage in your restaurant" (51.4%). The vote then skips about among the remaining items listed.

It seems significant that the answers to this question are generally consistent with, and confirm the answers to, preceding questions inquiring first what risks are covered, and second what insurance is needed in addition to what is now carried. However, there are exceptions. Extended coverage was considered important by 61.1% of the operators, yet 87.3% have this risk insured. Risk of plate glass and electric sign was considered important by 25.7% and 21.1% of the replies, but this risk was insured by 60.2% and 45.7% of the restaurant operators responding to the questionnaire. Automobile liability was considered important to 35.4% of the operators, although approximately 64.0% carried automobile liability insurance and 24.0% carried non-ownership automobile liability. Again a moderate number considered products liability (51.4%), and business interruption (34.5%) as important. However, products liability insurance was carried by 64.5% of the operators replying and business interruption insurance was carried by only 22.6% of the operators replying. Business interruption insurance was named most frequently as that needed in addition to what is now carried.

CHAPTER IV

ADMINISTERING THE RESTAURANT INSURANCE PROGRAM

The purpose of this chapter is to review insurance administration as a management function. Factors explored include a discussion of the principle of insurance buying, types of insurance carriers, insurance administration today in the restaurant industry, considerations in putting the insurance program into effect, and the duties of the insurance administrator. This chapter is not intended to cover comprehensively the subject of administrating the restaurant insurance program, but it is hoped that it will serve as a guide and point the way to further study.

Principles of Insurance Buying[1]

The basic principle in good insurance purchasing is to cover first things first. The insurance buyer must first obtain those coverages required by law or contract. Workmen's compensation insurance is statutory in Michigan. Leases, purchase orders, and permits may call for insurance. Pensions, group life, and group disability insurance become contractual if required in union contracts. Mortgages generally require insurance to protect their collateral.

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[1]Adapted from Robert I. Mehr and Emmerson Cammock, Principles of Insurance (Homewood, Illinois: Richard D. Irwin, Inc., 1954), pp. 527-530.

The insurance buyer should purchase protection secondly against all losses--probable or otherwise--which are potentially so large as to be financially disastrous. Insurance against such losses is <u>essential</u>. Severity of a possible loss, not its frequency, should be the determining factor. The many small losses, part of any business process, should be considered as an expense of doing business and payed out of current income. Insurance should be used as protection against the large, uncertain losses which are not predictable and would be financially disastrous.

Some losses, although not financially disastrous, are serious enough to make insurance against them <u>desirable</u>. These are losses that cannot be handled out of current income, but are not so great as to bankrupt the business. They are losses that may seriously reduce accumulated savings or reserves or burden the business with debt. If the insurance budget is large enough to stand more than just the essential coverage, this class of insurance should be purchased.

If after the purchase of required, essential, and desirable insurance, the business still has money left in the insurance budget, other pertinent coverages should be purchased. These are in the <u>available</u> class. This class includes small losses which can be paid out of current income or surplus without seriously impairing savings or reserve funds or incurring burdensome debts.

The boundaries between classes are not fixed; they are highly variable. The boundaries depend not only upon the amount of property owned but also upon such things as income, financial status, size and location of operation, ability to secure loans, etc.

The factor determining whether or not an item should be insured is determined simply by the principle--if any loss which can be covered by insurance would produce a shock to the financial structure of the insured, then such possible loss should be covered by insurance.

To some restaurant people a theft of $300 from their restaurant might be serious enough to place theft insurance in the desirable class. Others may be able to handle this loss out of current income.

Paradoxical as it may appear, the weaker the financial structure of the restaurant, the greater the number of desirable coverages; also, the smaller the insurance budget. This creates a difficult planning problem in order to get the most out of an insurance program. For certain kinds of policies it can be said that those who need the coverage cannot afford it; whereas those who can afford it do not need it as much.

Proper insurance buymanship considers each individual case separately in determining whether a given line is essential, desirable, or simply available. Also this program needs constant review, for what is put into one classification last year may logically fall into another classification this year.

A list of insurance coverages given hereafter will serve to indicate the major classifications under which the individual buyers may group the coverages of the restaurant. It is based on the classes of required, essential, desirable, and available. The coverages have been sorted under the subheads of building and contents and business operation. As mentioned above, the boundaries are not fixed, and are highly variable. The following is intended to serve as a guide, but may need revision for individual restaurant operations:

I. Required
    A. Building and Contents
        1. Contractual liability
            a. Leases
            b. Mortgages
    B. Business Operation
        1. Contractual or by law
            a. Workmen's compensation
            b. Permits and licenses
            c. Pensions, group life, and group disability
II. Essential
    A. Building and Contents
        1. Fire insurance on building
        2. Fire insurance on contents
        3. Extended coverage endorsement
        4. Boiler and machinery insurance if an owner, and non-ownership (boiler) if a tenant
        5. Earthquake
        6. Flood (if locations require it)

B. Business Operation

1. Business interrution from
    a. Fire
    b. Extended coverage
    c. Boiler
2. Motor Vehicle Bodily Injury, property damage liability and medical payments, (even if the owner does not use the automobile in business, this type of insurance should be carried to protect the sole proprietor or partner)
3. Non-Ownership Bodily Injury and property damage motor vehicle liability (if any employee uses an automobile frequently, occasionally, or ever, on business for the restaurant)
4. Comprehensive General Liability which includes
    a. Owners', Landlords', and Tenants'
    b. Elevator Liability and Property Damage (if the restaurant has an elevator)
    c. Elevator Liability and Collision (if elevator is provided)
5. Products Liability
6. Civil Liability (if the restaurant serves liquor)

7. Fire Legal Liability, (insures a tenant for liability to the landlord if a fire originates in or on the property due to the negligence of the tenant. This liability is not covered under the property damage section of the Owners', Landlords,' and Tenants' portion of the Comprehensive General Liability because this policy excludes damage to property in the care, control, or custody of the insured. Fire Legal Liability is also needed by both the tenant and landlord if there are connecting or nearby buildings not covered, or not covered for high enough limits under the property damage section of the Owners', Landlords,' and Tenants' section of the Comprehensive General Liability Policy)

III. Desirable

A. Building and Contents

1. Contingent Liability from operation of Building Laws Form (demolition insurance is desirable when city laws require complete removal of a building which is partly destroyed by fire)
2. Rental value insurance (for owners of buildings)
3. Improvements and Betterments Form (for tenants)

4. Mercantile open stock burglary

B. Business Operation

1. Sprinkler Leakage (if have sprinkler)
2. Life insurance
   a. Sole proprietorship
   b. Partnership
   c. Key man
   d. Close corporation
3. Storekeepers Burglary, Theft and Robbery for small operations or comprehensive Dishonesty, Destruction and Disappearance Policy for sizable operations.
4. Fidelity Bond
5. Automobile Insurance
   a. Collision or upset
   b. Non-ownership medical payments

IV. Available

A. Building and Contents

1. Vandalism and Malicious Mischief
2. Leasehold Interest (for tenants)
3. Consequential Loss or Damage Form (on fire forms at no charge but must be endorsed on machinery breakdown insurance and a premium charged)
4. Extra Expense (generally at a lower cost than business interruption insurance, but pays only the differences in operation

costs in the restaurant under consideration, and what it costs to produce elsewhere)

5. Electrical Signs Insurance
6. Glass Insurance

B. Business Operation

1. Bailees Liability
2. Burglary
3. Robbery
4. Forgery--incoming and outgoing
5. Social Insurance
    a. Group Accident and Health Insurance
    b. Group Hospitalization Insurance
    c. Group Life Insurance
    d. Group Pension
6. Automobile Insurance
    a. Comprehensive loss of or damage to automobile except collision
    b. Theft
    c. Towing and labor costs.

Types of Insurance Carriers

A number of different types of carriers operate in the insurance market. In the broad sense, carriers of insurance are either proprietary, co-operative, state, or self insurers. However, within this broad general breakdown, there are many variations. The classification of carriers are as follows:

I. Proprietary Carriers

A. Lloyds Association are composed of a group of individual underwriters.

B. Capital Stock Associations are corporations typical of any business corporation. The stockholders, operating through the company, assume the risk of loss and, in return, are entitled to the profits.

II. Co-operative Carriers

A. Reciprocals are unincorporated associations for the exchange of insurance among its members.

B. Mutuals are incorporated.

1. Assessment mutuals require that an insured pay an additional amount to meet losses greater than those anticipated.

2. Factory mutuals charge in advance larger premiums than expected losses, which are turned back as dividends if not needed.

3. Non-assessable mutuals charge the same rate or less than capital stock companies, and returns to the policy holders as dividends any excesses over expenses, losses, and a reasonable contribution to surplus.

III. State Carriers (social security)

A. Federal

1. Social Security fund

B. State

1. Life insurance

2. Workmen's compensation

3. Unemployment insurance

4. Cash sickness benefits

IV. Self Insurers

A. Large business concerns may be able to carry some of their exposures themselves. This is especially true when they have a larger number of homogeneous and independent exposure units.

Opinion on mutual vs stock companies. A survey of customers was conducted by the Division of Commercial Research of the Curtis Publishing Company.[1] Opinions in this survey are based on personal interviews with 2,374 men in urban areas only. Of the men interviewed, 44.7 per cent favored mutual and 27.6 per cent favored stock companies; 27.7 per cent either said, "I don't know," or did not indicate any preference.

Meriting consideration are the reasons for their preference.

Mutual Companies:[2]

Share in profits.	48.0%
Rates are lower	26.6%
Mutuals are safer	11.8%

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[1] Fire-Automobile and Casualty Insurance Survey (New York: The Curtis Publishing Company, Division of Commercial Research, 1943), pp. 38-40.

[2] Some gave more than one reason.

Policy holder is a partner in company. . . .	6.0%
Consider welfare of policy holder	5.7%
Stock companies think only of their own interests.	1.4%
Miscellaneous.	7.7%

Stock Companies:[1]

Stock companies are more reliable-safer . .	38.2%
No liability or assessments	29.0%
Better management	16.9%
Rates are definite	9.4%
More surplus to back them.	5.5%
Miscellaneous.	7.3%

Almost seventy-five per cent of the men who favored mutual companies gave as the more important reasons for their preference "share in profit" and "rates are lower."

Of those favoring stock companies the reasons given by the largest per cent, 38.2, is that "stock companies are more reliable--safer." Additional answers seem to imply more confidence in stock company management and freedom from liability or assessment.

From these answers it seems reasonable to believe that the trend of men's thinking is toward lower rate or premium. Yet, while answers indicate that more of the men interviewed favor mutual type of organization at the time of the survey, twice as many had all their insurance in a stock company.

Insurance Administration Today in the Restaurant Industry

In most cases restaurant insurance matters are handled by executive officers, accountants, managers, or others as a supplementary duty. As is pointed out by Lundberg and Kane,

[1]Some gave more than one reason.

the strictly commercial type of eating and drinking place is small. The 55,000 leading restaurants out of 346,566 establishments in 1948 had about eighty per cent of the dollar volume.[1] In the smaller enterprises, handling insurance matters as a supplementary duty is justified, because of financial necessity, or because the work just does not require the entire time of one person. In the larger chains, with numerous units, it is felt that a full-time insurance manager is justified. In this case the creation and direction of a broad insurance program must be based on knowledge of insurance and experience of which an untrained subordinate is incapable of handling.

Considerations in Putting the Insurance Program into Effect

Insurance administration is an important function of top management because inadequate coverage may mean, in the event of a loss, the difference between success and failure of a restaurant. The problem of setting up a program to cover all eventualities economically and efficiently is a big one and, as such, requires diligent application of executive ability, coupled with specialized knowledge. Consequently, the individual charged with the responsibility of administrating the insurance program must do more than pass on the suggestions of the insurance agent to the superior officers.

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[1] Donald E. Lundberg and C. Vernon Kane, Business Management: Hotels, Motels and Restaurants (Tallahassee, Florida: Peninsular Publishing Company, 1952), p. 17.

The insurance administrator must devote considerable time, effort, and analysis to the application of sound insurance principles to his particular restaurant. However, the administrator should have certain aids at his disposal. These are discussed below under the following headings: (1) establishment of management policies, (2) securing competent advice, and (3) use of insurance publications.

Establishment of management policies. Frequently, management policies on the subject of insurance are not clearly crystalized, except perhaps in the larger business. Gallager[1] points out that the basic reason for this is that insurance premium costs are a very small part of general business costs, and the whole subject is considered from a relative cost standpoint. Gallagher cites the reason this is unwise by an example.

> Proper insurance administration acts to make possible the replacement of the whole of the physical structure of the business--building, equipment, inventory--if a disastrous fire occurs. It acts to guarantee earnings in event of casualty, and to prevent the loss of business funds through attack by employees or third parties, through either lawsuits or illegal activities.[2]

Management policy should be developed according to basic principles with regard to insurance for either the large or small restaurant. The problems of the largest restaurants are, to some extent, only expansions of those of the smallest.

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[1]Russell B. Gallagher, Buying and Administering Corporate Insurance, Research Report No. 15 (New York: American Management Association, 1948), p. 8.

[2]Ibid.

Management policies should cover all of the important factors of insurance administration, such as:

1. Determine which risks the restaurant will assume by a reserve fund (self-insurance), or without a reserve fund (not insured).

2. Determine exposures to be transferred to a risk carrier.

3. Investigate contractual agreements, leases, etc., and the implications of insurance in connection with them.

4. Determine the values of physical properties (replacement value less depreciation), limits of liability, and the amounts of insurance to be carried.

5. Selection of agents.

6. The use of consultants and other experts.

7. Investigate types of carriers and analysis of their financial stability.

The first step of the insurance administrator, then, is to help establish a sound insurance policy. The insurance administrator should submit results of studies in such a form that all the officers to whom he reports need to do is to indicate approval or disapproval. A complete policy will not be determined in a single report or study. It may require several years of actual experience before a well-defined usable management policy is available. When such management policy is clearly determined, the insurance administrator can then operate in accordance with the policy determined by management.

Securing competent advice. The second basic aid is the advice and counsel of agents, companies, or licensed insurance consultants. This is particularly useful in the smaller restaurants where the insurance administrator has many other duties. It is helpful to have an extremely well-informed and responsible agent or consultant to analyze risks to which the restaurant is exposed. Some business men feel that insurance is an excellent medium to spread their insurance among a number of friends. This may result in far too many policies with a greatly increased chance for error, serious gaps in protection as well as overlapping coverages, excessive bookkeeping, and handling costs. It also has the effect of reducing the means of securing competent outside help and advice at no cost to the business, because if the account is not worth very much to any one agent, no one agent will pay much attention to it.

Use of insurance publications. The third important aid is to subscribe to and use the various means of self-education so that the insurance administrator will thoroughly understand the theories and principles by which he is expected to guide his company.

An insurance questionnaire compiled by Russel B. Gallagher[1] found from the replies the following insurance publications in order of prominence (other than AMA insurance

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[1] Ibid., Appendix I.

coverage) useful in insurance administration: (1) Best's Insurance News, (2) Fire Casualty and Surety Bulletins, (3) Spectator, (4) National Underwriter, (5) Weekly Underwriters, (6) Journal of Commerce, (7) National Fire Protection Association, and (8) Insurance Buyer.

Appendix C lists a number of additional insurance papers, magazines, and services.

Duties of the Insurance Administrator

The job of the insurance administrator is basically protecting, to the degree outlined by management, the assets of the restaurant against known exposures and also protecting the restaurant against known liabilities. Specifically, the duties might include the following:

1. Initiate through studies the company policy on insurance matters.
2. Determine change in insurable values.
3. Select policy forms and endorsements.
4. Manage the self-insurance fund.
5. Aid in loss prevention.
6. Policy audits, recording, and arranging continuity of coverage through expiration records.
7. Report losses, conduct investigations, and arrange loss adjustments.
8. Keep real estate and other fixed asset records.
9. Maintain liason between insurance company and management on matters of safety and security.

10. Study new exposures

11. Review insurance program.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Risk management is a business function of primary importance. Failure to adequately protect property or to provide adequate indemnification for a large loss may be financially disastrous or seriously impair accumulated savings. Insurance is one method of dealing with risk.

Insurance is essentially protective and insures the continuation of the business. The benefits rendered by insurance are:

1. A definite sum available for uncertain losses--the insured eliminates the danger of large uncertain losses by voluntarily assuming a small certain loss (the premium).

2. Certainty substituted for uncertainty--by accepting risks on a sufficiently large number of properties, insurance companies are able to forecast scientifically the cost of carrying all risks.

3. Equitable distribution of cost losses--the insurance companies have built up a large and well-organized system for the proper determination of premium charges, and thus they make possible not only the transfer of losses to the central organization for a small premium, but also, by

means of the premiums, an equitable measurement of the hazards that are connected with a particular risk.

4. Elimination of worry.

5. Improvement in credit rating.

6. Protection of invested capital.

7. Retention of customers' good will by protecting them against loss.

The insurance business has a number of extra and supplementary services:

1. Physical inspection of property, including boilers and machinery.

2. Payroll auditing for those classes of coverage requiring premium adjustments at expiration date.

3. Safety and accident prevention.

4. Fire prevention and protection.

5. Loss adjusting--by salaried employee or by independent organizations and association bureaus.

6. Third party claim adjusters and legal staffs.

7. Actuarial service for pension programs.

8. Promotion of general education concerning protection against losses.

A greater per cent of respondents to the questionnaire concerning restaurant operations submitted by the author were sole proprietors, who leased the building and owned the contents, with annual sales ranging between $40,000 and $59,999, having 45 to 84 seats,4 to 7 full time employees, and spending between $250 to $499 a year for insurance pertaining to their business. Almost 65% of the operators insured their building for 80% or more of the actual cash value and over 50% insured the contents for 80% more of the cash value. These figures indicate that many restaurant operators are setting the insurance figure at less than 80%. It is felt in most cases this is done with serious risk to the business. Where co-insurance is carried, a 10% extra amount of insurance is a wise precaution against unforeseen hazards of appreciated values or of exceptional instances when the values of inventory exceed that which is ordinarily maintained. The small number (28%) with up-to-date appraisals indicate under-insurance for fire policies because of building values in a rising price level. Over one-half of the restaurant operators replying spend an amount for insurance necessary to cover what are considered by them to be the most serious risks of the business. This raises the question "Do restaurant operators correctly analyze the most serious risks of their businesses?"

The insurance questionnaire indicates that most restaurant operators seem to be well aware of some of the property and liability hazards that face their businesses. They apparently realize the effects which fire, risks covered by extended coverage, public and automobile bodily injury, and property damage will have on their capital position and earning potential. Property and liability insurance protection to offset these losses consequently is a well-accepted practice of most of the operators answering the survey. However, there is a need for protection against other large, unpredictable losses which could be financially disastrous. Restaurant operators are not generally aware of the full effect of products liability, business interruption, fire legal liability, boiler explosion, or the possibility of earthquake. A very desirable coverage not generally carried is crime protection which includes comprehensive dishonesty, destruction, disappearance, burglary, robbery, and fidelity bonds. Risks generally covered, but which would probably not provide a financial shock to most restaurants are plate glass, electric sign, and automobile labor costs. Nearly one-half of the respondents declared that no risk existed for death of key man and earthquake. Approximately one-quarter indicated no risk existed for fidelity bonds, forgery, and comprehensive dishonesty, destruction and disappearance. In all probability these risks do exist. Although only one out of ten indicated they do not have the risk of business interruption or products liability, these two risks leave the business exposed to serious potential loss. Life insurance is not accepted as essential to risk management by many, and only a moderate number carry social insurance (which includes group accident and health insurance, group hospitalization insurance, group life insurance, and group pension). Answers indicate that in addition to the insurance now owned more operators feel the need for business interruption insurance.

The sound and economical purchase of insurance to properly protect invested capital, safeguard credit, and insure the continuation of the business depends on the following:

1. A proper determination of the most important needs for coverage, based on a careful study of all property values and all of the different loss exposures to which the restaurant is subject.

2. Selection of proper insurers to handle the risk. This does not mean that all insurance should be placed with one company, although this may be the best arrangement from the standpoint of protection. If insurance is allocated to several agents, one man should be responsible for one complete phase of insurance, such as fire insurance, and another be held responsible for casualty coverage. The advantages of stock company insurance coverage should be compared in detail to the advantages of mutual insurance coverage.

3. Selection of policy forms and endorsements which best serve the interests of the restaurant.

4. A consideration of all possible alternatives in the combination of insurable risks.

To obtain these objectives there must be an established insurance policy and clear-cut delegation of responsibility and authority. Management must show an active interest in all problems relating to risk. The administrator must be qualified for his job or must employ the counsel of competent insurance advisors and use various means of self-education. Proper attention to the principles of insurance buying and to the details of coverage are the most basic ingredients of a sound insurance program.

Recommendations

Type of company to purchase insurance from. The author recommends that insurance be placed in a mutual dividend-paying company for fire and allied lines (extended coverage, windstorm insurance, explosion insurance, riot and civil commotion, vandalism and malicious mischief, aircraft and vehicle damage, smoke and smudge damage, earthquake insurance, sprinkler leakage) and workmen's compensation. The other lines should be open to competitive bidding.

The insurance rate for any risk is standard in Michigan and any deviation must be filed with the State Insurance Department. The most common device for estimating the degree of hazard is some central rating organization to which companies in particular areas subscribe voluntarily, which in Michigan is the Michigan Inspection Bureau. There is no variation among the companies in the rates, policy, or forms attached thereto used for fire and allied lines and for workmen's compensation insurance. A buyer of insurance is likely to find the base rates quoted by all companies for the location to be uniform, regardless of whether the company is a mutual or a capital stock organization.

In a mutual company, which has no stockholders, the policyholders share in profits earned. Excess earnings are divided among the policyholders in the form of unabsorbed premiums which are commonly called dividends. These dividends are usually apportioned at the end of the policy period. A few companies allow a reduction at the time the policy is written. These are called deviating companies. There are also some stock companies which allow for dividends to their clientele, but this is very uncommon.

Since fire insurance rates are fairly standard, buying insurance in a dividend-paying company is a simple and effective way of reducing insurance costs by approximately 15% to 30% for fire and allied lines and workmen's compensation. It should be noted, however, that these dividends depend on the experience of the company during the policy period and are not and cannot be guaranteed by law. So many mutual insurance companies, however, show an unbroken record of regular dividend payments, that it is reasonably sound to anticipate savings on insurance costs in this type of organization. Based on past experience and present financial condition, in all probability the company would pay a saving during the current policy period.

In other lines of insurance such as bailee's insurance, electrical sign, plate glass, all types of liability, automobile, burglary, hold-up, boiler, bonds, and so forth, there is a national board which prepares manuals, policies, endorsements, and rates. However, it is not compulsory on the part of the company to follow the manual, policies, endorsements, or the rates although a company may use them as guides, deviating anyway it sees fit. For example, the national board for automobile insurance in a given classification of driver and territory might ask $22 for public liability and $18 for property damage. Company X could sell the same coverage for $8 and $4 if it saw fit to do so. This opens up the situation in the lines mentioned above for competitive bids, but it is very important that the assured knows exactly what is being covered and exactly what the exclusions are. When there is a departure from the standard manual, policy, endorsements, and rates, very close scrutiny should be given to the coverage provided and exclusions included.

<u>Suggestions to reduce insurance costs.</u> Policies should be written for at least three years. The rate for three years is only two and one-half times the annual rate, a saving of a half year's premium every three years. This represents a saving of 16-2/3% of the total cost of three one year policies. Even after the interest on the additional sum advanced is taken into account, the business is still substantially ahead.

As was mentioned earlier, buying insurance in a dividend-paying company is an effective way of reducing insurance costs by approximately 15% to 30% for fire and allied lines. Other insurance lines are open to competitive bidding.

If a policy is being purchased for the first time, or if it is time to renew a policy, it is possible to utilize the recommendations above. The chances are great, of course, that there is already a policy in effect, and the odds are about two to one that a mercantile business is not receiving any dividends.[1] However, it cannot be recommended to drop present policies to change from a one year to a three year policy or from a stock company to a mutual without qualifications.

It is recommended that a present one-year policy be rewritten for three years by the same insurance company. Many insurance companies will issue an endorsement extending the policy term to three years at the reduced rate. Some companies may cancel the present policy pro rata, which means the insured will be charged only for the period that has already gone by at the proportionate rates. Regardless of how the change-over to a three-year policy is effected by the company, the restaurant will immediately begin to receive the benefit of the reduced rates.

It is not possible to follow the same procedure with the same success in changing from a stock company to a dividend paying company when there is a policy in effect. To replace a stock company policy with a mutual company policy, except at expiration date, it would be necessary to cancel the stock policy short rate. Because the rule[2] provides that if a

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[1]Russell B. Gallager, Buying and Administering Corporate Insurance, Research Report No. 15 (New York: American Management Association, 1948), Appendix I.

[2]Rules of Practice Covering Rate Information and Make-Ups and Credit (Detroit: Michigan Inspection Bureau) Short Rates and Cancellation of Policies, June 28, 1954, pp. 93-95.

policy is cancelled the short rate cancellations apply,unless such policy is replaced in the same company, for not less than the same amount, and for not less than the same term, and in the same company, and on the same property. Likewise, if the assured changed from one stock company to another stock company this same rule would apply. The insurance company will cancel the present policy but it would be necessary to compute the earned portion of the premium according to a special table, the short rate table. Under this table, the company is allowed to retain a larger part of the premium than has been earned on a proportionate basis. This extra charge upon cancellation will offset most of the savings possible under a mutual dividend-paying policy, so it will be just as well to wait until the policy comes up for renewal before replacing it in a mutual company.

It is possible for a restaurant to replace a one-year policy with a three-year policy in a mutual company that pays dividends of 20%. The following calculations show the advantage of buying insurance on a three-year plan and placing it in a dividend-paying company.

Annual Premium.	$100
3 year premium for insurance bought on an annual term	300
3 year term premium.	250

	Payment on Principal[1]	Payment of Interest[2]	Dividend[3]	Total Charges
Beginning 1st yr.	$100.00	none	none	$100.00
Beginning 2nd yr.	75.00	$9.00	$ 20	64.00
Beginning 3rd yr.	75.00	4.50	15	64.50
Total	$250.00	$13.50	$ 35	$228.50
Beginning 4th yr.[4]			$ 15	$213.50

3 year cost on annual basis	$300.00
3 year cost on term basis in a mutual company	213.50
Savings--3 years	86.50

This represents a saving of 29 per cent. Some mutual companies write insurance using the five year rate with the premium payable annually. That is to say, four times the rate, divided by five, becomes the annual rate. This gives all the advantage of the five year term, but only one year's premium paid in advance, and savings becoming effective at the end of each year. The stock companies write insurance, charging 100% of the premium the first year, and 78% of the premium the next two or four years, but revert to the 100% premium on the fourth or sixth years, depending whether it is a three or five year policy.

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[1]Full 100% payment the 1st year, 75% charge second and third year.

[2]Payment of 6% interest.

[3]Dividend estimated at 20%.

[4]Fourth year dividend is credited to the account if policy is renewed, otherwise the dividend is sent by check.

Another method to reduce the cost of insurance is to reduce the insurance rate. The insured makes the initial step by giving a "Letter of Record" to the insurance agent, which is forwarded to the Michigan Inspection Bureau, and is returned with the rate make-up for the restaurant under consideration. This rate make-up shows in detail all the charges that have gone into the rate. An analysis of the rate make-up made at the property involved will show what can be done to (1) hold the rate at the present level, (2) prevent an increase in rate, and (3) reduce the rate. It is, of course, possible to reduce a rate, but the cost of structural changes, etc., frequently make it unwise to make the change in order to get the reduction in the rate.

In purchasing straight insurance, the same rate per hundred dollars of insurance is used, regardless of whether there is complete coverage or only partial coverage. For example, if a person buys a straight insurance policy covering 100 per cent of the value of the property, the same rate per hundred is paid when a person carried a small per cent of value. There is very little likelihood, however, that the former will ever have a total loss.

Under co-insurance the amount of insurance carried is stated in terms of a percentage of the total insurable value of the property. For instance, if it can be assumed only eighty per cent of the property is destructable by fire (a certain proportion of the masonry and concrete work being indestructible) the policy should carry an eighty per cent co-insurance clause and thereby provide insurance covering eighty per cent of the value of the property. The rate is calculated on the basis of 80% co-insurance. The premium rate on buildings is reduced all the way from 10% to 70% by the 80% co-insurance credits depending on the construction of the building, and slightly higher for the 90% co-insurance clause.[1]

A recommended insurance program with estimated costs. It is the purpose of these recommendations to substitute a small, certain loss for a large, uncertain one, and to do it as economically as possible. The recommendations are intended to protect all losses which are potentially so large as to be financially disastrous, or required by contract or law.

Because of the many variables entering into the rate and the premium, see Appendix D, it is rather difficult to determine a rate or premium except through a typical case, which follows.

The hypothetical restaurant to be insured is located in a town of approximately 20,000 population in Michigan. The restaurant is managed by a sole proprietor who has a fifteen year lease on the building. The lease guarantees the building will be returned in the same condition as he received it other than normal depreciation. The proprietor owns the equipment in the building. This sixty seat establishment has

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[1]Rules of Practice Covering Rate Information and Make-Ups and Credit (Detroit: Michigan Inspection Bureau) effective May 28, 1956, p. 32.

an annual sales of $60,000. The cost of food sold is 40% of gross sales. Besides the proprietor (age 35) and his wife (age 34), who works in the business, there are four other employees. The building was designed for a restaurant and was constructed in 1948 at a cost of $18,000. It is a brick building, with wood joists, 30 feet wide, 60 feet long, and 12 feet above the ground with an eight foot basement, located in the main business district between a drug store on one side and a grocery store on the other side. There are no front or rear exposures. The proprietor equipped the restaurant in 1948 at a cost of $9,000. The restaurant has a Crane low pressure cast iron, boiler used for heating only and having a measurement of 125,000 cubic inches. A contractual obligation requires insurance for the sign that hangs over the side walk. An Olds 88 automobile is used for both pleasure and business in territory 10. Occasionally an employee uses his car to pick up materials, drive to the bank, etc.

The restaurant is not located in a flood area, and the town is reasonably free of vandalism and malicious mischief. The establishment does not have an automatic sprinkler system and does not have an electric sign, road sign, checkroom, or elevator. The restaurant does not serve liquor. There is no ordinance that requires the complete removal of a building which is partially destroyed by fire, windstorm, or flood.

The recommended insurance program for this restaurant is as follows:

I. Required

A. Building and contents--workmen's compensation

B. Business operation--contractual liability for sign hanging over the sidewalk.[1]

II. Essential

A. Building and contents

1. Fire insurance on building and contents

2. Extended coverage endorsement

3. Boiler insurance

4. Earthquake insurance

B. Business operations

1. Comprehensive general liability

2. Products liability

3. Business interruption

(a) fire

(b) extended coverage

(c) boiler

4. Motor vehicle and automobile non-ownership

All estimates for items in the proposed insurance program were collected from rate manuals, and experienced, reputable sources. The estimates are based upon coverage contained in the previous section as applied to the outline of the problem supplied by the author.

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[1]Nearly all cities require by ordinance that when a sign hangs over the sidewalk, or otherwise, that the owner of the sign agree in event of injury to people or property, the city will be held harmless.

I. Workmen's Compensation

Assume a sole proprietor working as manager and head cook, wife working as hostess, cashier and bookkeeper, one employee working as kitchen helper and dishwasher, and three waitresses. In this case workmen's compensation is required by law and therefore must be carried.

Salary of manager and head cook. . . .	$5,200
Salary of wife	2,700
Salary of kitchen helper and dishwasher .	2,400
Salary of three waitresses	6,480
Total .	$16,780

Payroll division Code #9079[1] applies to a restaurant, excluding musicians, entertainers, or clerical office employees--Rate 70¢ per $100 payroll--$21. minimum premium.[2]

$16,680 at 70¢ equals $117.46.

Estimate of total cost for Workmen's Compensation annual premium	$117.46
Less estimated dividend of 10% from a dividend paying insurance company	11.75
Total	$105.71

2. Fire and Extended Coverage Endorsement

The author recommends:

1. Property insurance written subject to the 80% co-insurance clause.

2. Extended coverage endorsement attached to the fire policy.

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[1] The Basic Manual of Rules, Classification and Rates for Workmen's Compensation and Employer's Liability Insurance (New York: National Council on Compensation Insurance, April 15, 1956), p. C48.

[2] *Ibid.*, Mich. Rate Section, effective October 1,1955,p.5.

3. Policies written for a three year term, at 2-1/2 times annual premiums paid in advance.
4. Placed with a dividend paying insurance company.
5. Present rates checked for reduction by letter of record.

Assume a restaurant located on 316 Y Street in Town Y with a population of 20,000. It is a brick building with wood joists 30 feet wide, 60 feet long, and 12 feet above ground with an eight foot basement. It was built in 1948 at a cost of $18,000. The Michigan Inspection Bureau shows the following rate schedule.[1]

Fire-- 3a .91 Extended Coverage-- 2b 1.14

These rates reflect all the hazards (see variables) of the building (deficiency structural charges) and all the charges for contents (see variables). They include any exposure charges by reason of a drug store on one side and a grocery store on the other. There are no front or rear exposures.

A. Computation of Values

1. Present value of the building.[2]

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[1]Rate Card, Michigan Inspection Bureau, Detroit, No. 27840, dated October 11, 1954.

[2]Normally, certain other exclusions such as footings below the lowest surface of the ground, pipes and wiring below the surface of the ground, excavation, and architect fees may be excluded in determining the replacement cost, or the insurable value of the building. Since the insured carries only the minimum amount required, these exclusions have not entered into the computation of the building value. This is a safety measure to provide more insurance in force where no co-insurance is carried, and a safety value when co-insurance

a. Cost of $18,000 in 1948 at 50¢ per cubic foot[1]

b. 1956 per cubic foot cost is 65¢[2]

c. Per cent increase is 65/50 or 30%

d. 30% of $18,000 is $5,400

e. Present replacement cost of building is $23,400

2. Present value of equipment

a. Equipment cost in 1948 was $9,000

b. Per cent increased cost of 1956 compared to 1948 is 33-1/3%[3]

c. Present replacement cost of equipment is $12,000

3. Depreciation values

a. One per cent a year for building, and 2% for equipment. Building and equipment eight years old

(1) Present 100% building value $21,528

(2) Present 100% equipment value $10,080

4. Present inventory value is $1,400.

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is carried. On the average, these exclusions will run approximately 10% of the value of the building and in event of loss would be used at arriving at the insurable value of the building.

[1]*Revised Schedule of Unit Costs Based on Cubical Contents of Building*, Detroit Real Estate Board, January 1956.

[2]*Ibid.*

[3]"Machinery and Equipment Costs," *Factory Mutual Index*, Factory Mutual Division, Boston, January 1955, Data Sheet 9-3.

The rate possibilities given below followed by the total premium cost on the next page definitely reveal the cost reduction of 80% co-insurance, and the saving of a three year term policy.

RATE COMPUTATION[1]

Basis of Payment	No Co-Insurance				80% Co-Insurance			
	Building		Contents		Building		Contents	
	Fire	E.C.[2]	Fire	E.C.[2]	Fire	E.C.[2]	Fire	E.C.[2]
One year	.91	.24	1.14	.24	.683	.084	.969	.084
Three years	2.275	.60	2.85	.60	1.708	.21	2.423	.21
Five Years	3.64	.96	4.56	.96	2.532	.336	3.876	.336

[1]Fractions are figures to the fourth decimal place. See Rule Book Affecting the Writing of Fire and Lightning, Extended Coverage Endorsement, Windstorm and Hail Insurance, etc. in Michigan (Detroit: Michigan Inspection Bureau) effective June 28, 1954, p. 83.

[2]Extended Coverage.

PREMIUM COMPUTATION[1]

Items and Amounts of Insurance	One Year Premium				Three Year Premium				Five Year Premium			
	No Co-Ins.[2]		80% Co-Ins.[3]		No Co-Ins.		80% Co-Ins.		No Co-Ins.		80% Co-Ins.	
	Fire	E.C.	Fire	E.C.	Fire	E.C.	Fire	E.C.	Fire	E.C.	Fire	E.C.
1. Building No Co-Ins. $10,764	$ 97.95	$25.83			$244.87	$64.58			$391.80	$103.32		
80% co-ins. $17,222			$117.63	$14.47			$294.08	$36.18			$470.52	$57.88
2. Contents[4] No Co-ins. $5,740	65.44	13.78			163.60	34.45			261.76	55.12		
80% co-ins. $9,184			88.99	7.71			222.48	19.28			355.96	30.84
Totals	$163.39	$39.61	$206.62	$22.18	$408.47	$99.03	$516.56	$55.46	$653.56	$158.44	$826.48	$88.72

[1]Fractions figured to fourth decimal place. If the fourth decimal place is 5 or more the third decimal place is increased 1 mill. See Michigan Fire Manual, p. 83.

[2]No co-insurance is figured at 50% of present insurable value.

[3]Co-insurance credits of 25% for building and 15% for contents. See Rule Book Affecting the Writing of Fire and Lightning, Extended Coverage Endorsement, Windstorm and Hail Insurance, etc., in Michigan (Detroit: Michigan Inspection Bureau) effective May 28, 1956, p. 32.

[4]For insurance purposes the equipment and the inventory are insured as one item.

Total premiums for Fire and Extended Coverage

Annual premium, 50% of present value, no co-insurance.	$203.00
Annual premium, 80% of present value, co-insurance. .	228.80
3 year term, 50% of present value, no co-insurance. .	507.50
Average cost per year	169.17
3 year term, 80% of present value, co-insurance. . .	572.02
Average cost per year	190.17
5 year term, 50% of present value, no co-insurance . .	812.00
Average cost per year	162.40
5 year term, 80% of present value, co-insurance. . .	915.20
Average cost per year	183.04

Carrying 80% co-insurance calls for $26,406 of insurance for a total annual premium of $228.80. No co-insurance (but 50% of present value)calls for $16,504 of insurance at an annual premium of $203.00. With 80% co-insurance this is about 40% more insurance in force or $9,902 more insurance for an annual increase in premium of $25.80 or about 13%. What is true of the annual premium is relatively true of the three or five year premiums, i.e., the increased amounts of insurance would be about 40%, and increased costs would be 13%. The three year cost on the annual basis is $686.40, while the three year cost on the term basis is $572.38, a three year saving of $114.38, or $38.12 a year. The five year term has a slightly greater saving, but requires a much greater outlay of money at one time.

Estimate of Total Cost for Fire and Extended Coverage

3 year term, 80% of present value, co-insurance. . . .	$572.02
Estimated dividends of 20% from dividend paying insurance company.	114.40
Total	$457.62
Average net cost per year	$152.54

3. Steam Boiler Insurance

The author recommends:

1. The limit per accident be $50,000 in view of the possibilities of damage to the object insured, other property of the insured, the property of others, and bodily injury which may arise from such an accident.
2. Broad coverage to cover burning, bulging, cracking and crushing.[1]
3. That the policy be purchased from a dividend paying insurance company.

Assume the restaurant has a Crane, low pressure cast iron, boiler used for heating only and having a measurement of 125,000 cubic inches rated as a Class 1 Boiler.[2] No other steam vessels are involved.

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[1] Manual of Boiler and Machinery Insurance (New York: National Bureau of Casualty and Surety Underwriters) effective October 1, 1951, p. 301. "Broad coverage insures against the hazard of loss stated for limited coverage, and in addition against loss due to cracking of any cast metal part, burning or bulging under specified conditions and the crushing inward of a cylindrical furnace or flue of the object."

[2] Ibid., p. 107.

1.	Location charge--$50,000 limits[1] . . .	$40.00
2.	Object charge--broad coverage[2] . . .	80.00
3.	Piping charge[3].	6.00
4.	Automatic coverage[4]	5.00
5.	Bodily injury[5].	4.00
	Total . .	$135.00

These are three year premiums. This policy can be purchased on an annual basis by paying 40% of the three year premium each year.

Estimate of total cost for steam boiler insurance:

3 year premium.	$135.00
Estimated dividends of 20% from dividend paying insurance company.	20.25
Total.	$114.75
Average cost per year	$ 38.25

4. Earthquake Insurance

The author recommends:

1. Property insurance written subject to the 80% co-insurance clause.
2. A policy written for a three-year term, at 2-1/2 times the annual premium paid in advance.
3. That the policy be placed with a dividend paying insurance company.

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[1] *Ibid.*, p. 101. [2] *Ibid.*, p. 107. [3] *Ibid.*
[4] *Ibid.*, p. 13. [5] *Ibid.*, p. 13.

Assuming a Zone 3, Class E building (brick and wood joist) the 80% co-insurance rate is 7¢ per $100.[1]

Present 80% value of building	$17,222 x	$.07	=	$12.06
Present 80% value of contents	$ 9,184 x	$.07	=	$ 6.13
			Total	$18.49

Rate for three years is .175

Premium for 3 years:

Building:	$17,222 x .175	=	$30.14
Contents:	$ 9,184 x .175	=	$16.07

Estimate of total cost of earthquake insurance for building and contents:

3 year term, 80% of present value, co-insurance.	$46.21
Estimated dividend of 20% from a dividend paying company	9.20
Total	$37.01
Average net cost per year.	$12.34

5. Comprehensive General Liability

The author recommends:

1. Coverage of $50,000 for injury to any one person and $100,000 for injuries to any one group involved in one accident in view of the verdicts rendered by the courts for bodily injury.

2. Property damage limits of $25,000. Accidents which cause bodily injury often cause damages to the property of others. If by negligence several

[1] Manual of Rates, Rules and Clauses for Michigan (Detroit: Michigan Inspection Bureau) effective Sept. 18, 1950, pp. 6-7.

of the buildings surrounding the restaurant were to burn, this coverage would protect the business in this situation.

3. Medical payments of $1,000 per person and $50,000 per accident. Under this coverage voluntary payment is made regardless of legal liability. This is valuable in protecting and creating good will.
4. Products liability limits of $100,000 for injury to one person, $300,000 to more than one person arising from the same accident, and property damage of $5,000. These bodily injury limits are the highest limits in the rate manual. Higher limits must be authorized by the insurance company for rates and acceptability.
5. Insurance written under the comprehensive form. The comprehensive insurance automatically covers the insured on new liability, except products, occurring after the inception date of the policy. It also covers unknown liability.
6. That the policy be purchased from a dividend paying insurance company.
7. A three year term policy is not recommended. There is only a 10% reduction provided the entire three year premium is paid in advance.

A. Rates and Premiums

1. Contractual--a sign hangs over the side walk. Minimum premium.[1]-- $10.00

2. Owners', Landlords', and Tenants'[2]--Code #1715 applies to restaurants but excludes coverage for products liability.

Minimum Premium: Bodily injury $15.00; Property Damage $25.00. (Area Territory II)

Building: 30 feet x 60 feet = 1800 sq. ft. (public not permitted in the basement)

Rate for standard limits of 5/10/5:

Public Liability.	$1.77[3]
Property Damage	.23[4]

Public Liability:	1800 sq. feet at $1.77 =	$31.78
Property Damage:	1800 sq. feet at .23 =	$ 4.14 (exact minim.)$25.00

Increase limits to 50/100/25:

Public Liability:	172%[5] of $31.78. .	$54.66
Property Damage:	116%[6] of $25.00. .	$29.00
	Total. .	$83.66

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[1]No classification. This is a company figure. (Michigan Mutual Fire Insurance Company, Lansing, Michigan).

[2]Owners', Landlords', and Tenants' Liability Manual New York: National Bureau of Casualty and Surety Underwriters) issued March 14, 1956, p. 74. "Restaurants excluding handling or use of or existence of any considerations in goods or products sold or handled after assured or any concessionaire of the assureds has relinquished possession thereof to others."

[3]Owners', Landlords', and Tenants' Liability Manual, Michigan Mutual Insurance Rating Bureau, Exceptions to Manuals of Liability Insurance: Michigan, issued February 8, 1956, p.2.

[4]Ibid. [5]Ibid.(Increased Limits,effective July 6,1955) p. 165.

[6]Ibid.,p.167.

3. Products

Assume gross sales of $60,000 a year; the base rate is $1,000 of sales.

The code is 11225[1]-- Restaurants not otherwise classified--including the handling or uses of or existence of any condition in foods or products sold or handled, after the insured or any concessionaire of the insured has relinquished possession thereof to others.

Rate for Code #11225--standard 5/10/5:

Public Liability: $.26[2] Minimum premium. . . $20.00
Property Damage: $.03[3] Minimum premium. . . $ 5.00

Public Liability: 60 x $.26 = 15.60 (exact) min. of $20.00

Property Damage: 60 x .02 = 1.20 (exact) min. of $ 5.00

Increase Public Liability limits to 100/300:[4]

1.88% of $20.00 = $37.60

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[1] <u>Products Liability Manual</u> (New York: National Bureau of Casualty Underwriters, New York) effective January 12, 1955, p. 37.

[2] <u>Ibid</u>. Rates, issued July 6, 1955, p. 50.

[3] <u>Ibid</u>.

[4] <u>Ibid</u>. Increased Limits, effective July 6, 1955, p.45.

There is no item rule saving. The only advantage of a three year policy is that the rate is frozen for the three years and audited at the end of each year.[1]

Add $5.00 for bodily injury and $2.50 for property damage for general liability comprehensive coverage.[2]

Estimate of Total cost for Comprehensive General Liability

Contractual.	$10.00
Owners', Landlords', and Tenants'	
Public Liability Limits of 50/100 . . .	54.66
Property damage limits $25,000	29.00
Products	
Public Liability limits of 100/300. . .	37.60
Property damage limits of $4,000 . . .	5.00
Comprehensive	
Bodily injury.	5.00
Property damage	2.50
TOTAL ANNUAL PREMIUM.	$93.26
Estimated dividend of 15% from dividend paying company.	$13.99
NET ANNUAL COST	$79.27

6. Business Interruption

The author recommends:

1. Purchase on the 50% gross earnings form. Normally the 50% gross earnings form would allow the assured approximately six months to resume business, which

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[1] Automobile Casualty Manual and Manual of Liability Insurance (Supplement) (New York: National Bureau of Casualty Underwriters, October 1, 1953), p. 5.

[2] Ibid.

in all probability could be done in this size establishment.

2. That an extended coverage endorsement be attached to the policy.
3. That boiler coverage be attached to the policy for a period of 50 days with credit from the first midnight following boiler explosion.
4. That insurance be written on a three year term basis, at 2-1/2 with annual premiums paid in advance.
5. That insurance be placed with a dividend paying company.
6. That rates be checked for reduction by Letter of Record.

1. Fire and Extended Coverage:

Assuming a gross income of $60,000 per year and that the cost of food sold is 40% of gross sales, the 100% business interruption value is $60,000 less $24,000 (40%) or $36,000.

If purchased on the 50% gross earnings form this policy provides $18,000 of insurance.

The 50% gross earnings form rate (mercantile or manufacturing) is 80% of the 80% co-insurance building rate and 80% of the 80% extended coverage rate.[1]

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[1]Rule Book Affecting the Writing of Fire and Lightning Extended Coverage Endorsement, Windstorm and Hail Insurance etc., in Michigan (Detroit: Michigan Inspection Bureau) effective June 28, 1954, pp. 12-13.

RATE COMPUTATION OF 50% GROSS EARNINGS BUSINESS INTERRUPTION FORM

Basis of Premium	Fire	Extended Coverage
One year	.546	.067
Three years	1.365	.168
Five years	2.184	.226

PREMIUM COMPUTATION OF 50% GROSS EARNINGS-BUSINESS INTERRUPTION FORM

Amount of Insurance	One Year		Three Yrs.		Five Yrs.	
	Fire	E.C.	Fire	E.C.	Fire	E.C.
$18,000	98.28	12.26	345.70	30.15	393.12	48.24

2. Boiler

a. 50 days. . . . . $154.00[1]

b. Credit--collection under the policy starts after the second midnight . . 13.00[2]

c. Total $141.00

The figures above are for three year premiums. This premium is for $1,000 daily indemnity, if the loss is that much. In this case it would not be, since the average daily loss is about $100.

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[1] Manual of Boiler and Machinery Insurance (New York: National Bureau of Casualty and Surety Underwriters) effective January 5, 1955, p. 210.

[2] Ibid.

Estimate of total cost for Business Interruption insurance:

3 year term, fire and extended coverage. . . .	$275.85
3 year term, boiler (credit for first midnight)	141.00
	$416.85
Estimated dividends of 20% from a dividend payment insurance company.	$ 83.70
Total.	$333.15
Average Cost per year	$111.05

7. Motor Vehicle Insurance

The author recommends that automobile liability protection be secured to avoid financial loss, the possibility of inconvenience, and the loss of a customer's good will. Adequate limits of liability for the business should not be less than $100,000 for injury to any one person involved in an accident, $300,000 for injuries to any group of persons involved in one accident, $25,000 for property damage caused in any one accident, and $2,000 for medical payments.

Assume an Olds 88 is used for both pleasure and business. The age of the named insured is 35 and his spouse 34. Territory 10 is used for computation.

	Bodily Injury	Property Damage
Class 3[1]		
Standard limits 5/10/5[2]	$21.00	$ 28.00

[1] Automobile Casualty Manual (New York: Mutual Insurance Rating Bureau) September 1, 1956, p. 31.

[2] Ibid., Michigan Rates, September 19, 1956, p. 3.

Estimated total cost of motor vehicle insurance:

$100,000/300,000 bodily injury limits[1] . . .	$35.28
$ 25,000 property damage limits[2].	33.60
$ 2,000 medical payments[3].	10.00
	$68.88
Estimated dividends of 15% from dividend paying insurance company	$10.33
TOTAL for one year	$58.55

These policies can be written for one year only. There is no provision for item rate or premium.

The restaurant should be protected against bodily injury or property damage claims arising out of the use of non-owned cars of employees in its operation. Very often employees use their cars on business errands to pick up materials, drive to the bank, etc., even against specific instructions not to do so. Regardless of the fact that the employee was not authorized to use his car, the employer still has a legal liability in connection with such operations of the employee's car. The writer recommends that a non-ownership liability endorsement be attached to the policy to provide this coverage.

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[1] *Ibid.*, Michigan Rates, November 2, 1955, p. 12.

[2] *Ibid.*, Michigan Rates, November 2, 1955, p. 17.

[3] *Ibid.*, Michigan Rates, November 2, 1955, p. 2.

Non-Ownership[1]--Class 1 only	Bodily Injury	Property Damage
Standard 5/10/5[2]	$ 2.00	$ 2.00

Estimate of total cost for Non-Ownership

Liability Endorsement:

$100,000/300,000 bodily injury limits[3]
1.88% x $2.00 = $3.08

$ 25,000 property damage limits[4]
1.20% x $2.00 = $2.40

Total. . . . $4.66

These polices can be written for one year only. There is no provision for item rate or premium.

---

[1]*Automobile Casualty Manual* (New York: Mutual Insurance Bureau) *Non-Owned Automobile* Section, September 1, 1955, p. 136.

[2]*Ibid.*, Michigan Rates, September 19, 1955, p. 3.

[3]*Ibid.*, Michigan Rates, Increased Limits, November 2, 1955, p. 7.

[4]*Ibid.*, Michigan Rates,Increased Limits, November 2, 1955, p. 17.

SUMMARY OF ESTIMATED COST OF PROPOSED INSURANCE

Type of Coverage	Three Years	Estimated Dividend	3 Years Net
Workmen's Compensation (117.46 per year less 11.75 dividend annually)	$ 352.38	$ 35.25	$317.13
Fire and extended coverage--80% co-insurance	572.02	114.40	457.62
Steam boiler insurance--$50,000 limits, broad coverage, piping, automatic coverage bodily injury	135.00	20.25	114.75
Earthquake insurance--80% co-insurance	46.21	9.20	37.01
Comprehensive general liability --contractual, O.L.& T. 50/100/25, products 100/300/5 (93.26 per yr. less 13.99 dividend annually)	279.78	41.97	237.81
Business Interruption--five, extended coverage, and boiler insurance (credit for first midnight)	416.85	83.70	333.15
Motor Vehicle--100/300/25 and $2,000 medical (68.88 per yr. less 10.33 dividend annually)	206.64	30.99	175.65
Automobile non-ownership--100/300/25 (5.48 a yr.less $.82 dividend annually)	16.44	2.46	13.98
Total	$2,025.32	$338.22	$1,687.10

Average net cost per year $559.69

Policy payments should be arranged so that all of the three year policies do not fall due the same year. The payments should be spread over the year, i.e.,so some payments are due in January, April, July, October, or in the months best suited according to the income of the restaurant.

APPENDICES

APPENDIX A

MICHIGAN STATE UNIVERSITY

OF AGRICULTURE AND APPLIED SCIENCE • EAST LANSING

SCHOOL OF HOTEL • RESTAURANT AND INSTITUTIONAL MANAGEMENT • KELLOGG CENTER

August 6, 1956

Dear Restaurant Operator:

Under the direction of the School of Hotel, Restaurant and Institutional Management at Michigan State University I am conducting an extensive restaurant insurance research project, which will benefit operators like yourself.

Many of the restaurant operators I have recently spoken with have expressed a decided interested in knowing how other restaurant owners protect themselves from business risks through the use of insurance, and how the insurance program for their business compares to other restaurants. They wonder how much insurance is desirable. Most important, they wonder if they should increase or decrease this type of business expense.

Right now there is no way you can find the answers to many of these questions. In consequence, we are sponsoring this survey to collect such information for you. This survey will show you what restaurant men are thinking and doing about insurance. Information to be gained will greatly benefit you. Also, the questionnaire will give you an opportunity to review and appraise your own restaurant insurance program.

The answers to the enclosed survey will also contribute materially to an authentic, down to earth study I am preparing as one of the requirements for the Master's degree in Hotel, Restaurant and Institutional Management. The finished thesis, will be filed and available to you in the University library. It will include a recommended insurance program for a restaurant with estimated costs.

The information you give will be kept confidential. Results from individual restaurants will not be identified.

To make sure the results are reliable, we would like a 100% response. The success of the project depends upon YOUR cooperation. YOU are the one to benefit most. Therefore, to help me and YOURSELF, would you please take a few minutes now to fill out the questionnaire?

Sincerely,

Robert Buchanan

Robert Buchanan

P. S. It isn't as long as it looks; should take only 15-20 minutes.

(Do not sign

The following
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August 6, 1956

RESTAURANT INSURANCE SURVEY

(Do not sign this survey or identify the restaurant in any way.)

<u>The following questions are about insurance in your restaurant operation.</u>

A. Check your form of restaurant ownership.

( ) 1. Sole proprietor ( ) 3. Corporation
( ) 2. Partnership ( ) 4. Other

B. Check whether you lease, are buying, or own your (1) building, (2) equipment.

1. Building -- ( ) Lease, ( ) Buying, ( ) Own
2. Contents -- ( ) Lease, ( ) Buying, ( ) Own

C. Check the size of your restaurant operation for annual sales, seating capacity, and the average number of full time employees.

Annual Sales	No. of Seats	No. of Employees
( ) 1. Under $15,000	( ) 1. Under 15	( ) 1. Under 4
( ) 2. $15,000-24,999	( ) 2. 15-24	( ) 2. 4-7
( ) 3. $25,000-39,999	( ) 3. 25-44	( ) 3. 8-12
( ) 4. $40,000-59,999	( ) 4. 45-84	( ) 4. 13-19
( ) 5. $60,000-99,999	( ) 5. 85-124	( ) 5. 20-29
( ) 6. $100,000-199,999	( ) 6. 125-199	( ) 6. 30-49
( ) 7. $200,000-399,999	( ) 7. 200-299	( ) 7. 50-79
( ) 8. $400,000 and over	( ) 8. 300 and over	( ) 8. 80 and over

D. How much do you spend per year for insurance pertaining to your business? (This does not include personal insurance.)

( ) 1. Under $75 ( ) 5. $500-999
( ) 2. $75-149 ( ) 6. $1,000-1,999
( ) 3. $150-249 ( ) 7. $2,000-4,999
( ) 4. $250-499 ( ) 8. $5,000 and over

E. My building is insured for ________% of the actual cash value, and my contents are insured for ________% of the actual cash value.

F. I, do ( ), do not ( ), have an appraisal of my building and contents made at least once a year to arrive at insurable value.

G. How do you determine how much your business should spend for insurance? You may want to check several of the following:

( ) 1. A percentage of total sales.
( ) 2. A fixed amount per seat.
( ) 3. A dollar amount not related to the size of the operation.

G. (Continued)
( ) 4. An amount necessary to cover what you consider to be the most serious risks of the business.
( ) 5. The amount recommended by an insurance agent.
( ) 6. The amount determined by an insurance survey of your business.
( ) 7. Am self insured.
( ) 8. Other methods (Explain) ____________________

H. What risks do you have in your restaurant, and which are covered now? (You should check one of the three columns for each item.)

	Covered	Have risk* but not covered	Do not have risk
1. Fire			
a. Building	( )	( )	( )
b. Contents	( )	( )	( )
2. Extended Coverage (This includes risks of windstorm, hail, explosion - except steam boiler, riot and civil commotion, damage by aircraft or by vehicle, and smoke damage.)	( )	( )	( )
3. Vandalism and Malicious Mischief	( )	( )	( )
4. Flood	( )	( )	( )
5. Earthquake	( )	( )	( )
6. Demolition (You have at risk compliance with state or city laws requiring the complete removal of a building which is partially destroyed by fire, windstorm or flood.)	( )	( )	( )
7. Rents or Rental Value (You are liable if the lease requires that rent continue even though the building is untenable after a fire loss. If you are the owner and occupy the building, your risk is the loss of rental value of the building while you are unable to occupy it.)	( )	( )	( )

*Some risks like elevator, sprinkler leakage, steam boiler explosion, etc., may not apply to your restaurant operation.

H. (Continued)

	Covered	Have risk but not covered	Do not have risk
8. Leasehold Interest (If your lease is terminated by fire or other peril, you might have to rent property at a higher cost.)	( )	( )	( )
9. Improvements and Betterments (If you lease, you have at risk money spent on alterations, changes and improvements made at your expense.)	( )	( )	( )
10. Consequential Loss or Damage (Losses caused to products by a change in temperature which results from the partial or complete destruction of refrigeration or cooling apparatus.)			
a. By fire	( )	( )	( )
b. By breakdown of equipment	( )	( )	( )
11. Extra Expense (You are liable for the added cost of doing business under unfavorable conditions or in temporary quarters due to damage to building or contents or other insured hazards.)	( )	( )	( )
12. Sprinkler Leakage (Your property is subject to damage caused by the discharge of water or other fluid from automatic sprinkler system when there is no fire.)	( )	( )	( )
13. Electric Sign	( )	( )	( )
14. Plate Glass	( )	( )	( )
15. Boiler and Machinery			
a. Steam boiler explosion	( )	( )	( )
b. Machinery breakdown (not ordinary wear and tear.)	( )	( )	( )
16. Business Interruption (You have at risk profits you would have earned if fire or some other hazard had not occured, including continuing expenses such as taxes, payroll, etc.)	( )	( )	( )

H. (continued)

	Covered	Have risk but not Covered	Do not have Risk
17. Bailees Liability (Liability for customers articles which have been checked in your checkroom.)	( )	( )	( )
18. Owners', Landlords', and Tenants' Liability (You are liable for persons who sustain injury in and about your restaurant or premises arising out of your negligence.)			
a. Bodily injury	( )	( )	( )
b. Property damage	( )	( )	( )
c. Medical payments	( )	( )	( )
d. Comprehensive General Liability (You have at risk all declared existing liability hazards as above and <u>any additional hazards which may occur</u> arising out of your business operations, building or premises.)	( )	( )	( )
19. Products Liability (You are liable for claims arising out of the foods you sell which result in sickness, disease, or death.)	( )	( )	( )
20. Elevator Liability (Includes elevators, escalators, and hoists, but does not include dumbwaiters or special platform lifts. You are liable for bodily injury and property damage of people or property in your elevator caused by your negligence.)	( )	( )	( )
21. Elevator Collision (Liability for damage that may be done to the elevator, elevator shaft, or loading platform.)	( )	( )	( )
22. Contractual Liability (Liability you assume from another, which, except for the contract, will not be your liability, but his liability. Example: a public utility may be required to erect on your premises a transformer or a pole on which to string wires. It will do so only if the restaurant owner will pay the liability which arises out of the existence of such equipment.)	( )	( )	( )

H. (continued)

	Covered	Have risk but not Covered	Do not have Risk
23. Fire Legal Liability (You are liable for damage of others property by fire originating within your restaurant caused by your negligence.)	( )	( )	( )
24. Civil Liability (Actual damage which an injured person may collect from an individual who sells liquor to the party or parties responsible for the damage. Injury may be to the person, to property, or to means of support.	( )	( )	( )
25. Automobile Insurance (Covering automobile for business functions, pick-up, delivery, and other.			
a. Bodily injury liability	( )	( )	( )
b. Property damage liability	( )	( )	( )
c. Medical payments	( )	( )	( )
d. Comprehensive loss of or damage to automobile, except by collision or upset	( )	( )	( )
e. Collision or upset	( )	( )	( )
f. Theft	( )	( )	( )
g. Towing and labor costs	( )	( )	( )
26. Non-Ownership Auto Liability (You have the risk of any automobile operated in your behalf which is not owned by you or your restaurant.)			
a. Bodily injury	( )	( )	( )
b. Property damage	( )	( )	( )
c. Medical payments	( )	( )	( )
27. Comprehensive Dishonesty, Destruction and Disappearance (You have at risk all money and securities on and off the premises. You have potential loss due to dishonesty of employees, loss of money and securities within or without the premises, damage done to premises and equipment, loss of securities in safety deposit or forging of outgoing instruments.)	( )	( )	( )

NOTE: If you have the broad "comprehensive crime policy" you will want to check items 28 through 31 as covered. However, burglary, robbery, employee dishonesty, and forgery may be purchased separately, if you do not have comprehensive coverage.

1. (continued)

28. Burglary (Br
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a. Money a
b. Furnitu
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29. Robbery (The
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violence or

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31. Forgery
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36. Death of
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H. (continued)

	Covered	Have risk but not Covered	Do not have Risk
28. Burglary (Breaking and entering into your premises, with felonious intent, and with visible marks of the forced entry.)			
a. Money and securities	( )	( )	( )
b. Furniture, fixtures and supplies.	( )	( )	( )
29. Robbery (The felonious taking of money from a person by either violence or threat of violence.)	( )	( )	( )
30. Fidelity Bonds (You have at risk loss by embezzlement or wrongful abstraction of money, securities or other property by employees.)	( )	( )	( )
31. Forgery			
a. Incoming	( )	( )	( )
b. Outgoing	( )	( )	( )
32. License and Permit Bonds (These may be required by state law, by municipal ordinance, or by regulation as a condition to be filled before the granting of a permit to exercise a particular privilege.)	( )	( )	( )
33. Workmen's Compensation	( )	( )	( )
34. Death of Key Man (Business has at risk financial loss resulting from death of an important man in the business.)	( )	( )	( )
35. Death of Sole Proprietor (Operator's heirs have risk in continuing or disposing of business without sacrifice, in event of death of owner.)	( )	( )	( )
36. Death of Partner (In case of one of the owner-partners death, the other has the risk to carry out buy-or-sell agreement.)	( )	( )	( )

H. (continued)

	Covered	Have risk but not Covered	Do not have Risk
37. Death of Close Corporation Member (Liability of remaining members to purchase stock of deceased.)	( )	( )	( )

38. Other Insurance risks of your business______________________________
____
____

I. Check the following so-called social insurance which you carry.
( ) 1. Group Accident and Health Insurance
( ) 2. Group Hospitalization Insurance
( ) 3. Group Life Insurance
( ) 4. Group Pension

J. Without considering costs or amounts, what kind of insurance in addition to what you already have, do you think you might need to provide complete protection to your restaurant, guests, and employees? (You may want to refer to question H, items 1-38, and question I, items 1-4).

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K. For which of the following risks is insurance most important to your restaurant operation? (There may be more than one answer to this question, so place a check before all items which apply.)

( ) 1. Fire in restaurant
( ) 2. Extended Coverage (Risks of windstorm, hail, explosion except steam boiler, riot and civil commotion, damage by aircraft or vehicle, and smoke damage.)
( ) 3. Accidents to others while on your premises.
( ) 4. Accidents to employees.
( ) 5. Loss due to claims from bodily injury or property damage caused by consumption of food or beverage sold in your restaurant.
( ) 6. Business Interruption.
( ) 7. Electric Sign.

K. (Continued)

( ) 8. Plate Glass
( ) 9. Employee dishonesty
( ) 10. Forgery
( ) 11. Theft including larceny, burglary and robbery
( ) 12. Boiler and machinery breakdown (not wear and tear)
( ) 13. Automobile Liability
( ) 14. License and Permit Bonds
( ) 15. Life Insurance
( ) 16. None
( ) 17. Other important risks ______________________________
____
____

L. Additional Comments ______________________________________
____
____
____
____
____

Thank you for your cooperation. Please return this material in the enclosed, stamped, addressed envelope.

APPENDIX B

QUESTIONNAIRE RETURNS BY CITIES

Number of Returns	City or Village Replying to the Questionnaire[1]	Number of Eating and Drinking Places[2]	Population[3]
1	Ada	--	Under 1,000
3	Adrian	39	18,393
2	Albion	31	10,406
2	Ann Arbor	85	48,251
1	Bad Axe	9	2,973
1	Baldwin	--	835
5	Battle Creek	112	48,666
2	Belleville	--	1,722
2	Birmingham	20	15,467
1	Boyne City	6	3,028
1	Buchanan	13	5,224
1	Cadillac	14	10,425
1	Calumet	--	1,256
1	Caro	13	3,464
1	Charlotte	21	6,606
1	Cheboygan	22	5,687
1	Chelsea	7	2,580
1	Coloma	--	1,041
1	Dearborn	237	94,994
18	Detroit	4,206	1,849,568
1	East Lansing	9	20,325
1	Escanaba	54	15,170
1	Flat Rock	--	1,931
2	Flint	421	163,143
1	Frankenmuth	--	1,208
8	Grand Rapids	364	176,515
1	Hancock	22	5,223
1	Harbor Springs	--	1,626
1	Hastings	15	6,096
1	Hazel Park	20	17,770
1	Iron Mountain	31	9,679
5	Jackson	162	51,088
3	Kalamazoo	142	57,704
6	Lansing	197	92,129
1	Mackinaw City	--	970
1	Marquette	31	17,202
1	Monroe	60	21,467
1	Montague	--	1,530
1	Mount Clemens	--	17,027
2	Muskegon	105	48,429
1	Otsego	8	3,990

Number of Returns	City or Village Replying to the Questionnaire[1]	Number of Eating and Drinking Places[2]	Population[3]
1	Pinconning	--	1,223
1	Round Lake	--	Under 1,000
2	Royal Oak	72	46,898
7	Saginaw	195	92,918
1	South Haven	14	5,629
2	Sturgis	23	7,786
1	Utica	--	1,196
1	Wells	--	Under 1,000
1	West Branch	--	2,098
1	Whitmore Lake	--	1,385
1	Ypsilanti	41	18,302
3	Unidentified		

[1]Taken from the city post marks on returned envelopes.

[2]U. S. Bureau of Census, Census of Business: 1954, Vol. I, Retail Trade, Chapter 22: Michigan (Washington, D.C.: Government Printing Office).

[3]U. S. Bureau of Census, U. S. Census of Population: 1950, Vol. I, Number of Inhabitants, Chapter 22: Michigan (Washington, D.C.: Government Printing Office).

APPENDIX C

SOURCES OF FURTHER INFORMATION CONCERNING INSURANCE

Daily Papers

American Insurance Digest and Insurance Monitor (Chicago)
Eastern Underwriter, The (New York)
Journal of Commerce and Commercial, The (New York Weekly, Bi-Weekly, and Semi-Monthly Papers)
Insurance Advocate (New York)
Insurance Field, The (Louisville)
Insurance Graphic, The (Dallas)
Insurance Journal, The (Los Angeles)
Insurance Record, The (Dallas)
National Underwriter, The (Chicago)
Standard, The (Boston)
Underwriter's Report (San Francisco)
United States Review (Philadelphia)
Weekly Underwriter, The (New York)

Monthly and Bi-Monthly Magazines

Accident and Health Review (Chicago)
American Agency Bulletin, The (New York)
American Underwriter (Philadelphia)
Best's Insurance News (New York)
Fraternal Age, The (Rochester)
Fraternal Field, The (Cedar Rapids)
Fraternal Monitor (Rochester)
Insurance Broker-Age, The (New York)
Insurance Buyer, The (New York)
Insurance Index, The (Louisville)
Insurance Law Journal, The (Chicago)
Insurance Magazine, The (Kansas City, Mo.)
Insurance Press, The (New York)
Insurance Salesman, The (Indianapolis)
Leader's Magazine (Des Moines)
Life Association News (New York)
Life Insurance Courant (Oak Park)
Life Insurance Digest (Louisville)
Life Insurance Selling (St. Louis)
Life Insurer, The (Indianapolis)
Local Agent, The (St. Louis)
Mutual Underwriter (Rochester)
National Insurance Leader, The (Chicago)
National Safety News (Chicago)
Northwest Agency Bulletin (Seattle)
Northwest Insurance (Minneapolis)

Northwest Insurance News (Portland, Oregon)
Pacific Northwest Underwriter (Seattle)
Rough Notes (Indianapolis)
Safety Maintenance and Production (New York)
Southern Insurance (New Orleans)
Southern Insurer (New Orleans)
Spectator, The-Life Insurance in Action (Philadelphia)
Spectator, The- Property Insurance Review (Philadelphia)
Underwriters Review (Des Moines)
Western Underwriter (San Francisco)

Services

Fire, Casualty and Surety Bulletins. National Underwriter Company, Cincinnati. A compilation of policy forms, endorsements, underwriting rules, and rates for practically all forms of insurance except life and disability. A loose-leaf reference work, revised monthly.

Insurance Decisions. Alfred M. Best Company, New York. Three annual reports: Fire and Marine, Life, and Casualty. Reports of financial conditions, operations, and history of individual companies.

Best's News. Alfred M. Best Company, New York. Monthly publications principally devoted to current news of conditions of companies.

Libraries

Insurance libraries have been established in several centers, principally by organization members of the Insurance Institute of America. The following organizations are said to have particularly useful collections:

Insurance Library Association of Atlanta
Insurance Library Association of Boston
Insurance Library of Chicago
Insurance Society of Chicago
Insurance Society of Baltimore
Insurance Society of New York
Fire Underwriters' Association of the Pacific (San Francisco)

APPENDIX D

VARIABLES DETERMINING RATES AND PREMIUMS FOR COVERAGE LISTED AS REQUIRED OR ESSENTIAL

I. Variables for rates

   A. Building and contents

      1. Fire-building and contents

         a. Class of town - 1 to 10 or unprotected

         b. Construction of the building--frame, masonry, fire resistive, fire proof, or some combination of these.

         c. Exposures--one each side and in the rear

         d. First aid in the property--fire extinguisher, or sprinklers in the building

         e. Deficiencies in construction--chimney, electrical wiring, heating and cooking units, clearances to combustible material

         f. Amount of inflammable material in the property

         g. Other conditions set up by the Michigan Inspection Bureau in determining the rate, such as general housekeeping

      2. Extended coverage--the only variable is whether no co-insurance or 80% or higher co-insurahce is carried

      3. Boiler

         a. Low pressure boiler or high pressure boiler

         b. Cast iron boiler or steel boiler

c. Number of pounds pressure carried

d. Standard or broad coverage

e. Seasonal coverage or year around

f. Whether more than one boiler is involved

(1) If more than one boiler is involved there is but one location charge made

(2) If the second boiler is used as a stand-by boiler, there is a reduction in the premium

4. Earthquake

a. Section of the country

b. Construction of the building

B. Business Operation

1. Comprehensive general liability

a. The area and/or frontage or receipts

b. The coverage carried

(1) Contractual

(2) Elevator

(3) Owners', Landlords', and Tenants'

(4) Owners protective

(5) Products

(6) Automobile public liability and property damage

(7) Automobile non-owned public liability and property damage

2. Product liability--the variable in this item is the dollar volume of business

3. Business interruption--the variables on this coverage are the same as the variables on the building and contents
4. Motor vehicle--bodily injury, property damage, and medical expense
    a. Use classification of automobile--private, passenger, or commercial
    b. If commercial automobile, the radius in which used
    c. Class of driver--3 classes of drivers
        (1) Class 1--non-business use; no male operator under age 25
        (2) Class 2--male operator under age 25; business and non-business use
        (3) Class 3--business and non-business use
    d. Territory in which vehicle is located (11 territorial ratings in Michigan)

II. The only variable for premiums is the amount of insurance carried, because it is the rate times the amount of insurance carried which produces the premium (A.I. x R. = Premium).

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Manual of Boiler and Machinery Insurance. New York: National Bureau of Casualty and Surety Underwriters, January 5, 1955.

Manual of Rates, Rules, and Clauses for Michigan. Detroit: Michigan Inspection Bureau. Effective September 18, 1950.

Owners', Landlords', and Tenants' Liability Manual. New York: National Bureau of Casualty and Surety Underwriters. Issued March 14, 1956.

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