MARKETS IN FOCUS

RESTAURANTS, DRINKING PLACES & RETAIL

Insurance Pricing & Market Update

Q3 2022

Introduction

RESTAURANTS AND DRINKING PLACES

The restaurant and drinking place sectors are booming in the United States after emerging from the two-year pandemic that shut down eateries and reduced revenue dramatically.[1]

+ According to a report from the Nation Restaurant Association, the U.S. dining industry is forecasted to generate $899 billion in revenues for 2022, up from $640 billion in 2020.[2]

Full-service chain restaurants will continue to experience rising competition from fast-food and fast-casual restaurants that offer more value-oriented products as a more difficult economic climate is expected in the next 6 to 12 months.[3]

Even with strong growth, all sectors of the restaurant industry are still facing several challenges such as labor shortages, profit margin depletion from inflation, inclement weather complications, problems with app-based delivery drivers and ongoing food and supply chain shortages.[4]

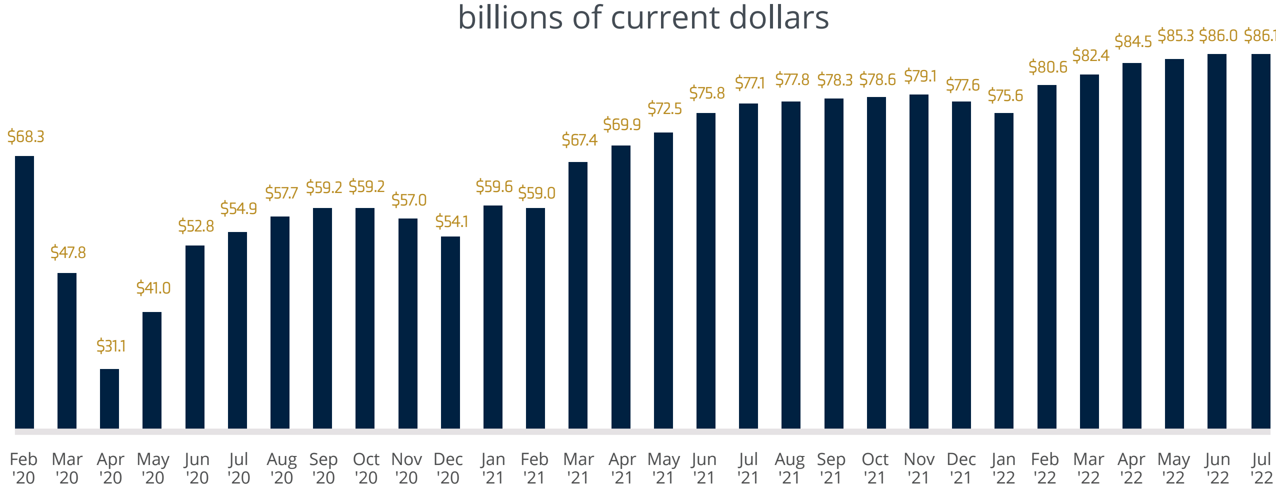
+ U.S. Restaurant industry employees totaled 14.5 million workers in 2021, down 1 million from pre-pandemic levels.[5] Additionally, 9 out of 10 restaurants have fewer than 50 employees.[6]
+ Most restaurants have utilized food delivery services like Uber Eats and Grubhub, which have helped build revenues but also have created new exposures with and for delivery drivers.[7]

It is also important to be mindful of posts on social media since underwriters are looking at these entries and reviews in their risk evaluation processes.[8] Having a proactive strategy to address this aspect of the business is also part of a holistic risk management program.

As restaurants and drinking places continue to grow and work through these challenges, it is vital for owners to maintain adequate coverage and be proactive in mitigating risk.[9]

Total Eating and Drinking Place Sales

billions of current dollars



Source: U.S. Census Bureau, National Restaurant Association; figures are seasonally adjusted and preliminary

RETAIL

Worldwide retail sales are expected to grow at a 5% year-over-year (YoY) rate, which will exceed $27.33 trillion this year.[10]

+ E-commerce spending is expected to slow down in 2022 due to the rebound of brick-and-mortar[11], but is still expected to account for 20% of global retail sales.[12]

With the acceleration of online commerce, brought on by responses to the pandemic, brands are increasingly turning to an omnichannel strategy to maximize their interactions with customers and create a holistic brand experience for their consumers.[13]

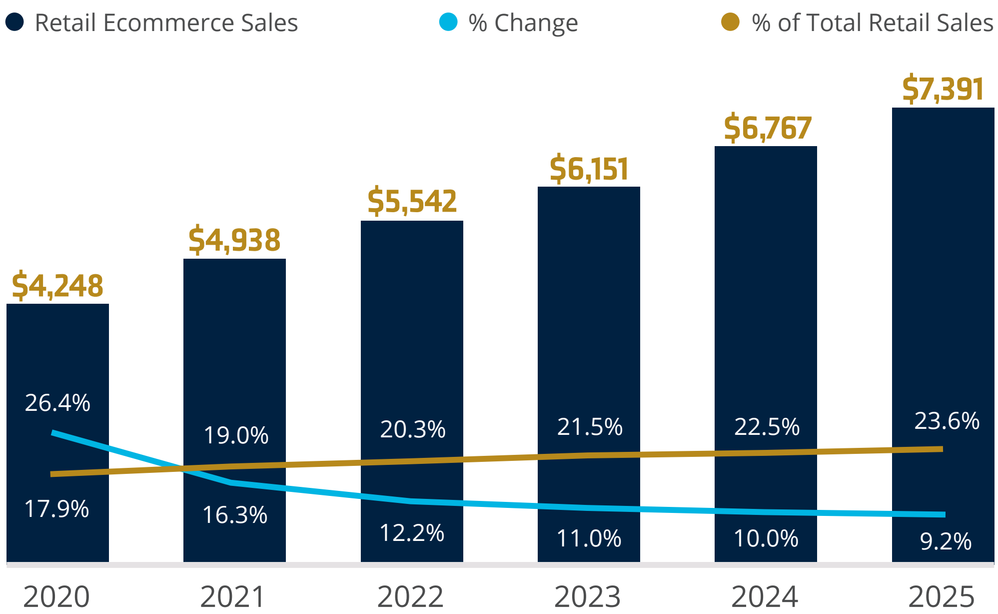
Like restaurants and drinking places, retailers may have higher sales figures in 2022 but are still seeing margins impacted by inflation and supply chain issues while also suffering from ongoing labor shortages.

Retailers are offering tools for consumers to connect digital and physical shopping experiences, like curbside click and collect, Metaverse shopping or QR code payment options.

+ A March 2022 survey conducted by Raydiant found that an enjoyable shopping experience is the reason why nearly 35% of U.S. respondents still prefer shopping at in-person locations.[14]
+ As retailers experiment with conducting business via the Metaverse or Augmented Reality, risk management programs must be adjusted to reflect these new perils.

Retail E-commerce Sales Worldwide, 2020-2025

trillions, % change, and % of total retail sales



Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice good sales.

Source: eMarketer, Jan 2022

2H Insurance Market Outlook

PROPERTY

The market continues to bifurcate between CAT exposed risk and non-CAT exposed risk.

+ The **Commercial Property** market continues to see a separation between catastrophic (CAT) and non-catastrophic (non-CAT) exposed risks. Generally speaking, competition is strong for favorable accounts with acceptable CAT exposures, but CAT-exposed property can be challenging to write due to recent loss history and a lack of reinsurance support.
    - **Facultative Reinsurance** and 7/1 treaty reinsurance rates are on the rise for heavily CAT-exposed properties, which is expected to impact primary rates moving forward.
    - With an anticipated 20 named-storm hurricane season in 2022[15], finding reinsurance and primary capacity could be challenging for coastal properties, effecting both commercial and residential risks.
+ Wildfire-exposed properties are also receiving extra scrutiny in western and southwestern states as losses have been occurring outside of normal "fire seasons."
+ Inflation and supply chain woes have resulted in a rise in demand for **Business Interruption** (BI) coverage, which has generally caused an increase in pricing and additional examination from underwriters.
+ Many underwriters are challenging valuations for properties and business interruptions due to recent deltas in reported property values and total claims costs.
    - Third-party valuation reports have become the norm for quotes.
+ Overall, pricing has declined but remains elevated with accounts generally seeing a 10% YOY rate increase.

GENERAL PRICING ESTIMATES

Non-CAT exposed property with favorable loss history	Flat to single digit increases
CAT exposed property with favorable loss history	Flat to 10% increases
Property with unfavorable loss history and/or a lack of demonstrated commitment to risk improvement (unresolved recs, pattern of same issues, etc.)	10%+ increases for non-CAT 25%+ increases for CAT exposed accounts and higher depending on frequency/severity of losses and when there are limited markets for a risk due to occupancy/class of business or concerns related to loss control

CASUALTY

The global pandemic was the catalyst for dramatic rate increases and capacity reductions, but in recent months the market has moderated.

General Liability premiums are determined by several factors for restaurants, drinking places and retail, such as sales, square footage, risk management practices and loss history.

+ Despite higher sales figures not necessarily translating to better margins in the current environment, operators in these spaces should be prepared for overall costs of **General Liability** renewals to be higher YOY even if rates are flat.

Umbrella/Excess policies are also rated using many of the same factors as General Liability with the addition of **Auto** exposure, of which operators with (or those who are considering) delivery fleets should be cognizant. Excess capacity remains adequate but lead Umbrella underwriter offerings are being reduced from traditional $25 million layers to $15 million with some offering as little as $5 million. In turn, more carriers are generally needed to achieve desired limits.

+ Nuclear verdicts and claims inflation continue to be problems for umbrella underwriters as more claims continue to pierce higher layers.

Liquor Liability can be added by endorsement onto a general liability policy with an accompanying **Excess/Umbrella** tower providing additional coverage.

+ When a facility serves alcohol to others, they run the risk of being liable for injuries or damages resulting from an accident involving someone they served. These claims can be very costly, but Liquor Liability policies can provide coverage for the fees and judgments arising from these losses.
+ Liquor Liability is especially important for businesses in states with dram shop laws, present in 44 states and the District of Columbia. These states hold businesses liable for the actions of intoxicated individuals who were served or sold alcohol at their establishment.
+ Some ways to mitigate liquor liability risk can include:
    - Sending servers to training and education courses
    - Encourage customers not to become intoxicated
    - Promote the availability of non-alcoholic beverages
    - Ask a patron to take a breathalyzer test if there is any concern they are over the legal driving limit
    - Encourage patrons to take alternate transportation, like taxi, Ubers or rideshare services.

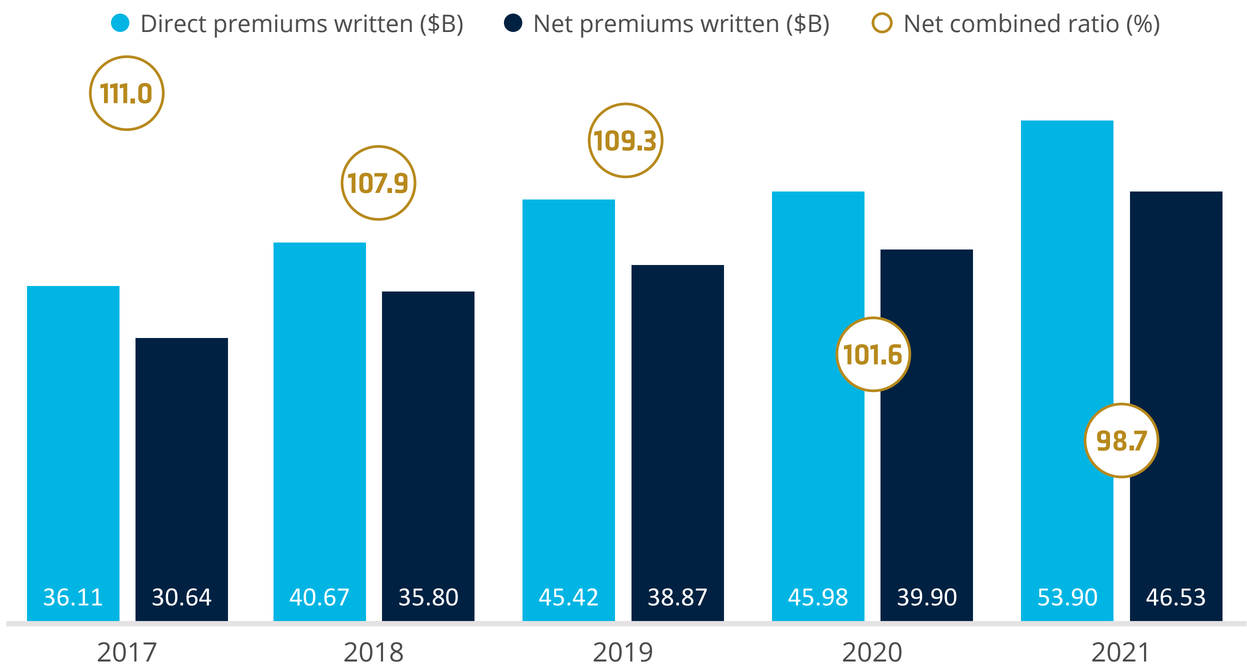
Franchisor Errors & Omissions has become a popular line of coverage for franchisors looking for protection from potential losses related to the professional services rendered to a franchisee such as financial assistance, location selection, training or advertising.

The Commercial Auto industry had loss ratios above 100.0 for the 10 years prior to 2021, which now has resulted in challenges for those who have large fleets. Social inflation and nuclear verdicts have hit this sector hard, and carriers have taken note. The demand for fleet monitoring technology is on the rise, and many auto carriers are investing in telematics in hopes of improving loss ratios.[16] New "insurtech" entrants are driving the trend toward telematics implementation and adoption in the auto industry, which will allow underwriters more rate flexibility on new business, but also help insure less favorable drivers.[17]

+ **Auto physical damage (APD)** coverages are seeing scrutiny from underwriters due to the difficulty of assessing vehicle valuations.[18] For the first time in the recent past, the values on in-use tractors and trailers have been on a steep incline as supply chain issues cause delays and an increased demand for equipment and critical components.[19] A trusted broker should advise their clients to carefully appraise their fleets, as actual cash value of their units listed on the policy may not be sufficient to replace with a comparable unit in their marketplace if they were to experience a loss.[20]

Industry's combined ratio under 100% for first time in at least 5 years

Industry's commercial auto combined ratio dropped below 100% in 2021



Date compiled April 25, 2022.

Data reflects the aggregation of all individual property and casualty filers that submit regulatory statements to the NAIC. Based on the annual NAIC statutory property and casualty statements. U.S. filers only. May include business written outside of U.S., if reported in NAIC statement. Direct data is derived from exhibit of premiums and losses, prior to consideration of reinsurance for commercial auto physical damage, commercial auto liability, and commercial auto no fault reported lines of business. Net data is derived from insurance expense exhibit, after consideration of reinsurance for commercial auto physical damage in commercial auto liability reported lines of business. It was common practice to ensure premium credits during 2020 for auto insurers, but there was no standard practice for this among insurers. No effort was made in the exhibit to fully adjust the premiums for year over year premium growth beyond what was reported by each company. Combined ratios displayed hour before policyholder dividends. Source: S&P Global Market Intelligence.

+ **Workers' Compensation –** This line of coverage continues to be a bright spot for insurance purchasers, which has been a profitable line of business for many carriers and capacity remains stable. Pricing is still dependent on loss history and Modification Factors, but carrier competition over accounts with adequate to strong loss history continues to help pricing.

GENERAL PRICING ESTIMATES

General Liability	Up 5% - 15%
Workers' Compensation	Flat to Up 5%
Auto	Up 10% to 25% Up 30% if large fleet and/or poor loss history
Umbrella & Excess Liability – Middle Market	Up 10% to 25% +

EXECUTIVE RISK

D&O and Cyber markets are seeing their own set of unique challenges.

D&O – After a very hard market in 2020 and much of 2021, rates stabilized in early 2022 and there now appears to a slight downward pressure on rates for the second half of this year.

+ Multiple years of substantial rate increases have lowered the insurers' loss ratios, returning them to profitability, broadly speaking.
+ Because of the attractive rates in the D&O space from the insurers' point of view, additional insurance capital has entered the market over the last 6 – 12 months.
+ At the same time, there has been a large decrease in the number of traditional IPO's, SPAC IPO's and De-SPAC transactions. With these areas no longer demanding insurance capital, the insurers are competing more aggressively for traditional and mature companies. This, in addition to the reasons mentioned above, has shifted the supply and demand dynamic and created a more favorable market for policyholders over the last few months.
+ Despite the comments above, there are certain sectors that continue to be in a "hard" market, including certain industries (i.e., Crypto, Cannabis, etc.) and certain risks such as SPAC's and De-SPAC's.
+ Firms with deteriorating financials as a result of inflation or are operating in a sector with heavy M&A are also seeing upward pricing pressure due to the perceived increased likelihood of claims.

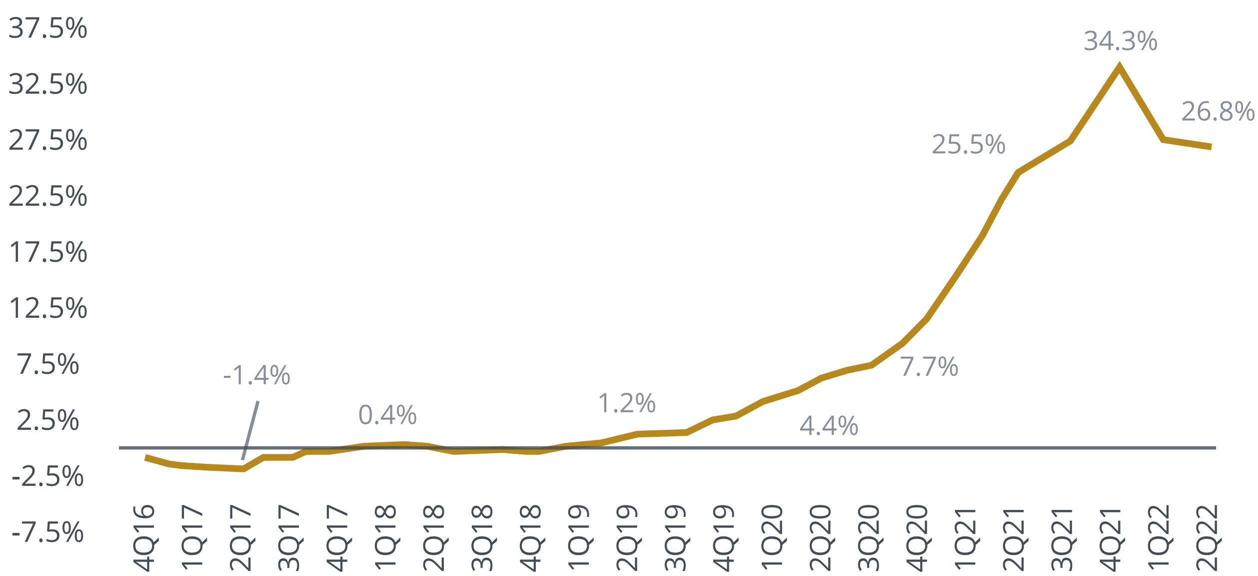
Cyber – The Cyber insurance market is best categorized as "transitioning out of a hard market".

+ Loss activity has decreased in the aggregate
+ According to Moody's Investor Service, the sector's loss ratio improved to 62% in 2021 from 65% in 2020
+ Frequency has decreased but severity remains an issue

Average and Median Ransom Payments in Q1 2022

+ Average Ransom Payment: $211,529 (-34% from Q4 2021)
+ Median Ransom Payment: $73,906 (-37% from Q4 2021)
+ We continue to see a change in tactics amongst cyber attackers. Due to improvements in data backups, the attackers are avoiding the encryption step altogether and instead focusing exclusively on stealing data and demanding payment to prevent disclosure of that data
+ Carriers are still focused on "must have" controls and increasingly reliant on external scanning technology in their risk assessment
+ Pricing increases are still the norm
+ According to the CIAB, the average premium increase in Q1 was 27%
    – However, the caveat is that this is an average and certain industry groups continue to see substantially higher increases

Premium Change for Cyber, Q4 2016 - Q2 2022



Source: https://www.ciab.com/wp-content/uploads/dlm_uploads/2022/05/Q1-2022-PC_FINAL.pdf

Major Claims

AUTO ACCIDENT

A Miami-Dade jury recently returned one of the largest verdicts ever in an automobile accident, which awarded $95 million in damages, plus attorney fees, to a South Florida family whose daughter was killed and whose son was severely injured by a drunken driver in 2015. The business that employed the driver was ordered to pay out almost $59 million for the medical care of the son and $37 million in damages to the parents.[21]

COMPROMISED ACCOUNTS

In September 2021, upscale retailer Neiman Marcus notified 4.6 million customers that a hacker had compromised online accounts in May 2020, gaining access to personal data such as usernames and passwords, customer names, contact information, credit card numbers, as well as expiration dates and virtual card numbers.[22] The company has not disclosed the cost of this claim.

Guidance

BEGIN THE RENEWAL PROCESS EARLY

The **General Liability**, **Cyber**, **Excess/Umbrella** and **Property** markets are constrained and more challenging to navigate in the disciplined market. With an outcome of increasing prices across all lines of business and in every industry sector, brokers are being swamped with submissions from their insureds who want to minimize these additional costs.

PARTNER WITH INDUSTRY EXPERTS

It is important to work with your broker's industry experts who truly understand the business and the market for placing the specific risk. Collaborating with a team who can best represent your risks, and partner with your operations, is more important than ever during this disciplined market we are experiencing.

HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

Frequency and severity of cyber claims are constantly on the rise, resulting in more underwriter scrutiny of companies' cybersecurity hygiene. The importance of **highlighting any additions in cybersecurity staffing or updated system protocols cannot be overstated.**

ENGAGING LOSS CONTROL TEAMS

Frequent communication with your broker's loss control team is a top priority, especially when a claim arises. Engaging your loss control team in the event of a claim can help reduce the impacts to your business financially and operationally. IMA works with you to understand your financial goals and operational challenges so we can identify, develop and deliver Risk Control Solutions that strategically mesh with your objectives.

CONTRACT REVIEW

Our **Contract Review** teams add value to our clients' overall risk management program by making sure the indemnity language is market standard and doesn't expose our clients to unforeseen losses that may not be insurable.

Sources

1 2022 Restaurant Insurance Update | Modern Restaurant Management | The Business of Eating & Restaurant Management News
2 National Restaurant Association Releases 2021 State of the Restaurant Industry Report | National Restaurant Association
3 Industry Outlook - 72211a Chain Restaurants in the US - MyIBISWorld
4 2022 Restaurant Insurance Update | Modern Restaurant Management | The Business of Eating & Restaurant Management News
5 National Statistics | National Restaurant Association
6 National Statistics | National Restaurant Association
7 2022 Restaurant Insurance Update | Modern Restaurant Management | The Business of Eating & Restaurant Management News
8 2022 Restaurant Insurance Update | Modern Restaurant Management | The Business of Eating & Restaurant Management News
9 2022 Restaurant Insurance Update | Modern Restaurant Management | The Business of Eating & Restaurant Management News
10 Retail trends that will shape 2022 (insiderintelligence.com)
11 Retail trends that will shape 2022 (insiderintelligence.com)
12 Retail trends that will shape 2022 (insiderintelligence.com)
13 Retail Industry Trends for 2022 and Beyond | Silicon Valley Bank (svb.com)
14 Retail trends that will shape 2022 (insiderintelligence.com)
15 https://engr.source.colostate.edu/csu-researchers-increase-forecast-now-predict-very-active-2022-atlantic-hurricane-season/#:~:text=The%20CSU%20Tropical%20Meteorology%20Project,miles%20per%20hour%20or%20greater
16 Commercial Auto Insurance Market 2022 Demand Statistics by Regions - Developments In Manufacturing Technology, Regional Growth Overview, Recent Trends and Analysis Forecast 2029 - MarketWatch
17 Q2/Q3 2022 State of the Market (amwins.com)
18 Q2/Q3 2022 State of the Market (amwins.com)
19 Q2/Q3 2022 State of the Market (amwins.com)
20 Q2/Q3 2022 State of the Market (amwins.com)
21 Miami Jury Returns $95M Verdict Against Bar that Served Drunken Driver (claimsjournal.com)
22 https://arcticwolf.com/resources/blog/10-major-retail-industry-cyber-attacks/

More Than Just Insurance

IMA is an integrated financial services company specializing in risk management, insurance, employee benefits and wealth management. It is one of the top ten largest privately-held and employee-owned insurance broker in the country and employs more than 1,800 associates.

Editor-in-Chief

JOHN SEEGER, *Director of Marketing, Market Intelligence & Insight*

Markets in Focus Contributors

KARIE BELL, *Account Executive*

TIM BURKE, *EVP, Head of Cyber*

SUSAN DeVAUGHN, *Vice President, National Accounts Hospitality*

ALEX FULLERTON, *Marketing Specialist*

LORI KILIAN, *Vice President*

ANDREA KRUEGER, *Strategic Risk Advisor*

TIM SMITH, *Vice President, National Hospitality Practice Director*

SHANE VALPEY, *Senior Vice President*

NPN 1316541 | IMA, Inc dba IMA Insurance Services
California Lic #0H64724

CT-MiF-IMA-RD-082622

IMACORP.COM/MIF