MARKETS IN FOCUS

RESTAURANTS + DRINKING PLACES

Insurance Pricing & Market Update

Q4 2022

Introduction

While the restaurant and drinking place sector struggled as a whole during the pandemic, the expansion of some specific service channels during this period softened the blow for some. This is especially true for franchised operations as compared to independent establishments.

Franchised locations were relatively better prepared to weather mandated dine-in service shutdowns. Many already offered carryout, delivery and drive-thru services that could be scaled to offset the impact of their closed dining areas.

The independent establishments had been relatively less reliant on these options, and they improvised to reorient their operations to accommodate customer drive-up and delivery. Many were not able to scale these services sufficiently to remain viable.

Overall, nearly 80,000 (10%) of the food establishments in operation pre-pandemic have closed permanently.[1]

However, 2022 appears to be a pivot year for restaurants and drinking places. Restaurant sales in 2022 will be just under $900B, up more than 12% over 2021 and surpassing 2019 levels,[2] although this figure doesn't adjust for menu price increases.[3]

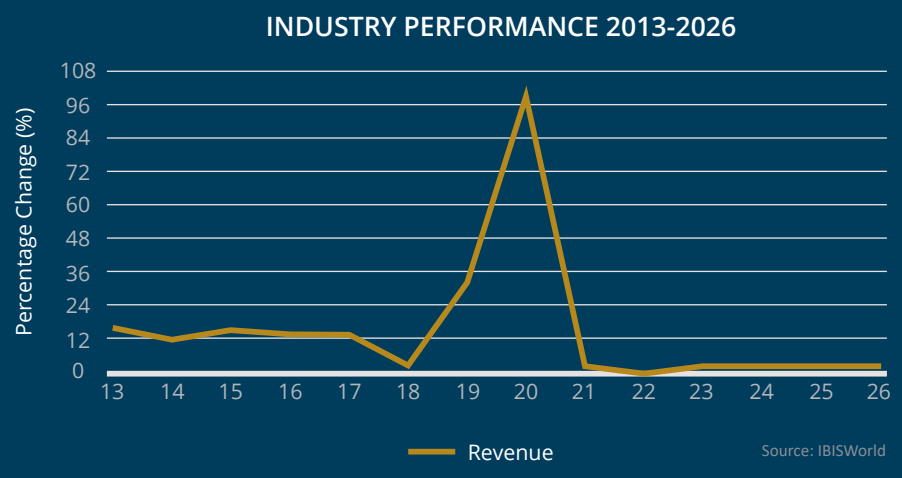
These gains likely would have been even more dramatic if it not for staffing and supply shortages. Based on an industry survey earlier this year, 40% of restaurants had not opened to full capacity; the majority of these cited staffing shortages as the reason.[4]

In an attempt to keep up with these rising costs, restaurants have increased menu prices significantly – they're up 8.8% annually in September 2022, although that represented a small decline from the previous month.[5]

Customer habits developed over the past three years are likely to remain in place. Drive-thru, carryout and delivery service will be prevalent moving forward. Food delivery services experienced nearly triple-digit annual growth at the tail end of the pandemic. Those sales will not subside. The food delivery industry is locking in these gains, even while their annual growth settles back to the low single digits moving forward.

Food Delivery Services in the U.S.

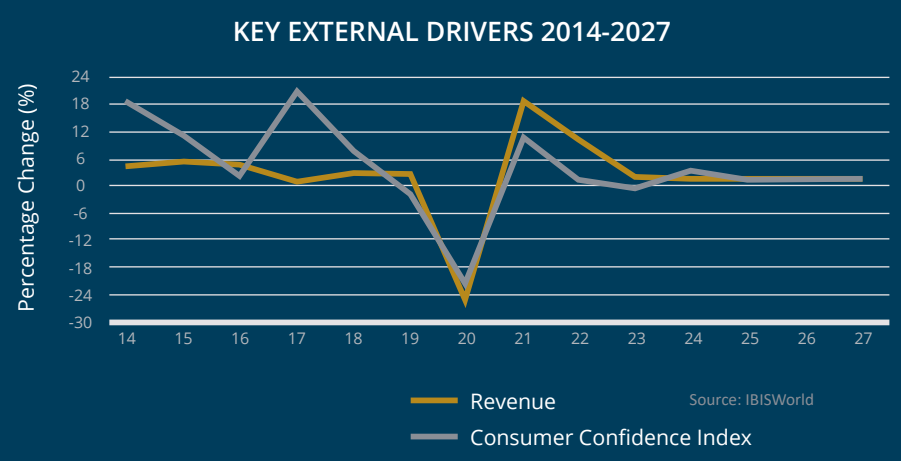
Report by: Thi Le | September 2021



As restaurants opened their doors to the public in 2021, the delivery service has taken a dip since in-person dining has returned. Some of these restaurants were able to stay viable by pivoting to delivery and take out service, but that only blunted the revenue impact. As we transition to a post-pandemic environment, full-service restaurants are returning to profitability; though as stated above, many were forced to close in the intervening years.

Single Location Full-Service Restaurants in the U.S.

Report by: Thi Le | June 2022



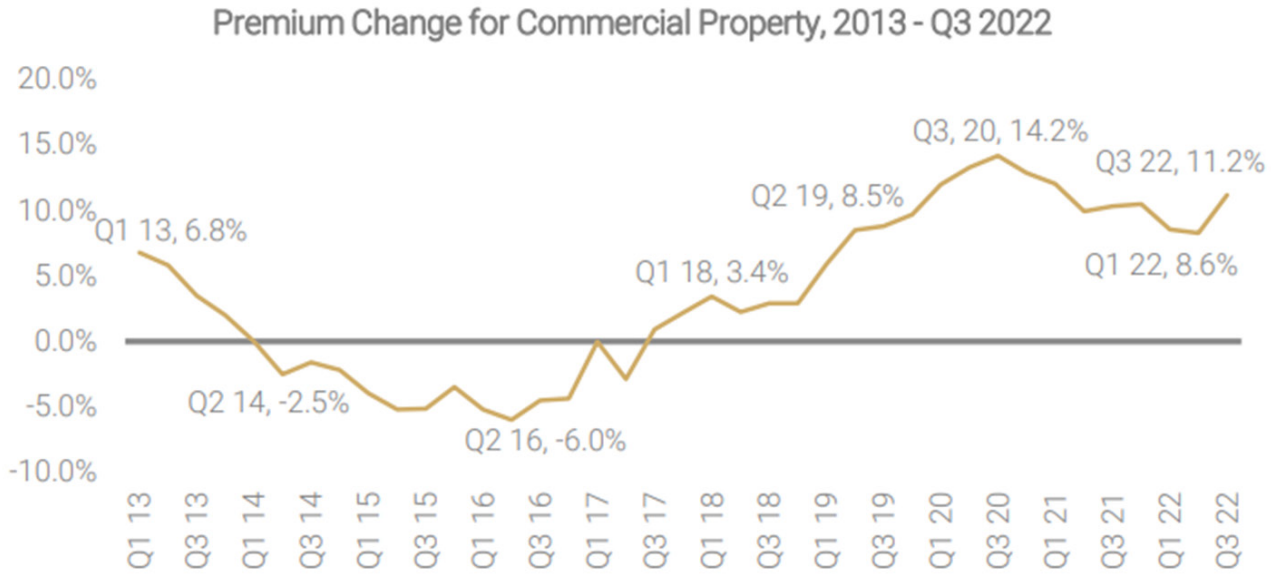
A key long-term impact of the pandemic for restaurants and bars is illustrated above, best described as the increased correlation between consumer confidence and restaurant revenue post-pandemic. If this correlation remains in the upcoming years restaurants should expect far more variability in revenue as it tracks more closely to the historically abrupt swings in consumer confidence. This variability means restaurants and bars should be ready to weather extended periods of depressed demand, and conversely be able to scale up staffing as demand swings back quickly (see current staffing issues holding back revenue acceleration). Operators can look toward either significant cash-on-hand or the availability of existing credit facilities to help survive and then thrive in a more cyclical future environment.

2H Outlook

PROPERTY

With the property markets experiencing unexpected late-year struggles, especially with CAT exposed areas, these performance factors have been exacerbated by underperformance, loss of confidence in modelling and, especially in the last six months, inflationary pressures.[6]

- Hurricane Ian caused up to $74B of insured losses in the southeast, though estimates vary widely, by up to $20B, inserting an extra layer of uncertainty for carriers when considering future pricing.
- Capacity for CAT-exposed insurance portfolios are expected to diminish in the next year, making various Florida exposures potentially unaffordable.[6] Post Hurricane Ian, rate increases for 2023 are expected from 30%-70% for U.S. wind risk, with CAT-focused cedants facing the least favorable pricing.[6] Premises which are exposed to wildfires and high winds (Western states and Midwest) are also receiving some additional scrutiny from underwriters.
- In late 2022 raw material prices began to plateau and even decrease, specifically lumber; that trend likely will reverse in upcoming months as demand increases to rebuild structures and renovate water-logged structures in the Southeast.
- With rising inflation, the overall cost of the insurance transactions will rise. Carriers are poised to seek better adjustments rather than incremental adjustments for valuations. Insureds should anticipate their abilities to articulate and support the actual data-based valuations for the coverages that their business is seeking.
- The delta between reported cost and the actual cost to rebuild will become more disconnected as the cost to rebuild and inability to seek skilled workers rise.



GENERAL PRICING ESTIMATES

Non-CAT exposed property with favorable loss history	10% to 15%+ increase
CAT exposed property with favorable loss history	15% to 25% 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

CASUALTY

- After 24 months of significant rate increases and capacity reductions, things have moderated in recent months.
- The Casualty market is in good standing with primary General Liability rates continuing to plateau in areas with favorable loss histories. Carriers are looking for more history of loss information, more detail related to past losses and any subsequent changes made to prevent future losses.
- As the court systems catch up to their pre-pandemic speed of operations, carriers are keeping a close eye on loss trends around the country. Carriers are planning for large settlements and judgements from sympathetic juries, compounded more than ever with the pressure from social inflation.[7]

UMBRELLA/EXCESS

Insurers are reducing their capacity to protect against potential risks, some companies are providing as little as $5M and up to $15M for limits, contrast to their traditional $25M. A stacking of insurance carrier tiers is generally required to achieve desired limits.

AUTO

Nuclear verdicts, social inflation and carrier combined ratios greater than 100 have resulted in challenges for those who have large vehicle fleets. There has been a rise in demand for fleet monitoring technology, and many auto carriers are investing in telematics implementation in hopes of improving loss ratios.[8]

WORKERS' COMPENSATION

Workers' Compensation is still a profitable line of coverage for carriers and pricing is fair for insurance purchasers with ample capacity. Loss history and Modification Factors are a large factor for pricing, but carrier competition over accounts with adequate to strong loss history continues to help pricing.

GENERAL PRICING ESTIMATES

General Liability	Up 5% to 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	Up 10% to 25%+

EXECUTIVE RISK

D&O:

- Rates began to decrease in mid-2022 but with the current economic conditions, we are starting to see signs of a hard market again for Directors and Officers coverage.
- There has been a large decrease in the number of traditional IPO's, SPAC IPO's and De-SPAC transactions. These areas are not demanding as much insurance capital, the insurers are competing more aggressively for traditional or mature companies.
- Despite the commentary above, there are some sectors that continue to be in a "hard" market, which includes SPAC's and De-SPAC's.

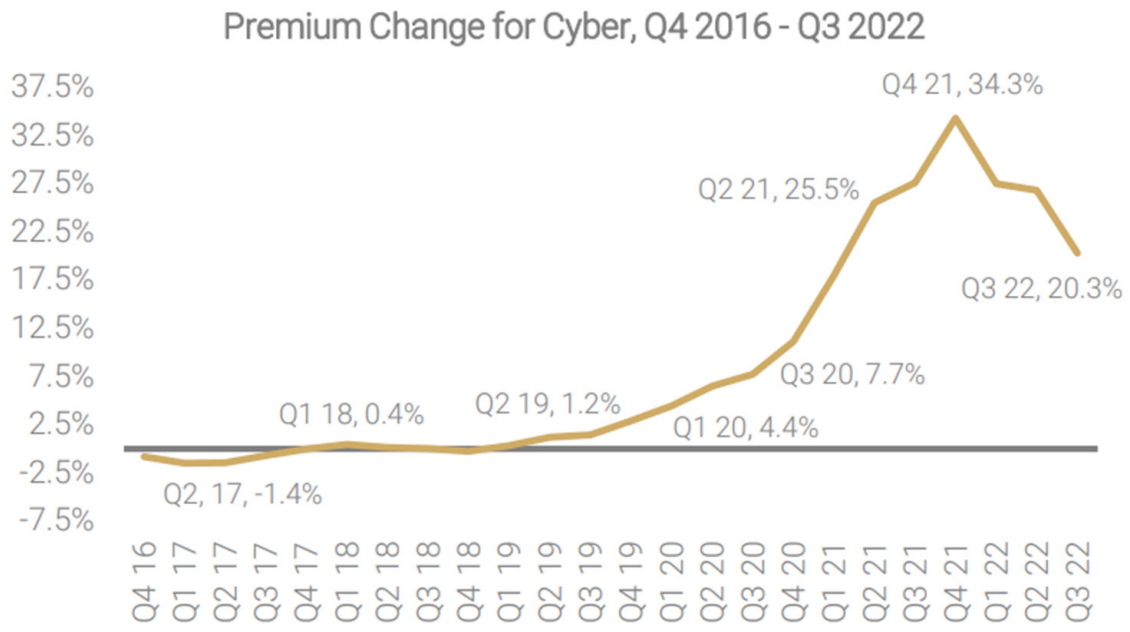
Cyber:

The Cyber insurance market has been defined as "transitioning out of a hard market". Carriers are continuing to look reallocation for their portfolios considering the claims result from 2020 and 2021. There is an ongoing trend with rate increases and "must have" technical controls. The frequency of ransomware claims has slowed but there is still a trend towards severity and other exposures. While the underlying risks pose a volatile class, we continue to see the coverage evolve and now deemed critical to every organization's overall risk management strategy.

- Pricing increases are decelerating
- Increased Carrier competition over accounts
- Carriers are focusing on "must have" controls and increasingly reliant on external scanning technologies in risk assessment
- Specific areas of focus:
  - Multi-Factor Authentication (MFA)
  - Remote Access
  - Privileged users
- Enterprise implementation of Endpoint Detection & Response (EDR) solution
- Data backup procedures:
  - Detection from the network or cloud-based
  - Encrypted
  - Restricted Access
  - Tested
  - Multiple Copies
- Software patch management to ensure critical security patches are made within 30 days
- Insureds that do not have satisfactory control in place may see non-renewals or reduction in coverage. This reduction comes in the form of sub-limits or co-insurance provisions.
- Carriers looking to reduce exposure to business interruption by reducing limits and increasing waiting periods – particularly true on contingent business interruption

Average and Median Ransom Payments in 2022:

- Average Ransom Payment: $211,529 (-34% from Q4 2021)[9]
- Median Ransom Payment: $73,906 (-37% from Q4 2021)[10]
- We continue to see a change in tactics amongst attackers. Due to improvements in data backups, the attackers are avoiding the encryption step altogether but 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 risk assessment
- Pricing increases are still the norm
- Predictions indicate that the average premium increase in Q4 was flat to 25%



Major Claims in the Sector

- January 18, 2022: A glass of water that Plaintiff was served at dinner seemed normal until he started to drink it and then allegedly found himself having problems breathing and felt a burning sensation.[11] His lawyer claims this happened because they were given cleaning solution, which caused an extreme allergic reaction in their client's stomachs resulting into days filled with pain and distress. The juries awarded $9.3M, including $5M worth against punitive damages.[11]

- December 15, 2021: A Texas jury awarded a largely symbolic settlement of more than $301B in a lawsuit against a bar in Corpus Christi, TX to the family of a woman and her 16-year-old daughter who was killed in a car crash with a drunken driver.[12] The drunken driver ran a red light going 91 mph, causing the fatal crash.[12] This jaw-dropping dollar amount is not expected to be paid in full, the attorney on the case claims that “the jury sent a very loud message that if alcohol providers trade money for the safety of their patrons and the public, there must be accountability.”[12]

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 risk, and partner with your operations, is more important than ever during this disciplined market we are experiencing.

HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

Frequent 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 systems protocol cannot be overstates.**

ENGAGE 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. We work 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.

Sources

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More Than Just Insurance

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