

Markets in Focus

HOSPITALITY



Insurance Pricing & Market Update

Q2 2023



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INTRODUCTION

RESTAURANTS AND DRINKING ESTABLISHMENTS

In a survey in early 2022, restaurant owners predicted it would be another year or more until business conditions returned to normal. That estimate appears on target, even though these owners may ultimately find themselves operating in a new model of normalcy.

At this time, three out of four restaurant owners feel comfortable shifting from a survival/recovery mode to one of sustaining their business. There are major caveats to this relatively positive picture, however, as the new normal is likely to feature ongoing labor challenges and short-term inflationary pressures.¹

Restaurant food sales are expected to reach \$1 trillion in 2023 (up 11% from 2022 forecasts) spurred in part by higher food costs. Job growth in the industry is accelerating from 2022 levels with a predicted 500,000 new jobs compared to 400,000 last year. The labor supply will struggle to keep up, unfortunately; more than 60% of restaurants report being understaffed already. And whereas a year ago, food supply was a concern for 90%+ of owners, that same proportion are now challenged by rising food *prices*.^{1,2}

The National Restaurant Association suggests that many “pandemic pivots” – the business model shifts and improvisations dictated by the pandemic – are here to stay, including providing expanded outdoor dining, relying on customer-facing technology and offering to-go alcohol sales where allowed.¹

Delivery of prepared food is here to stay as well. Now that third-party delivery services have made the practice commonplace, more major brands will take delivery services in-house to better control product pricing, quality and the customer brand experience.³



HOTELS AND CASINOS

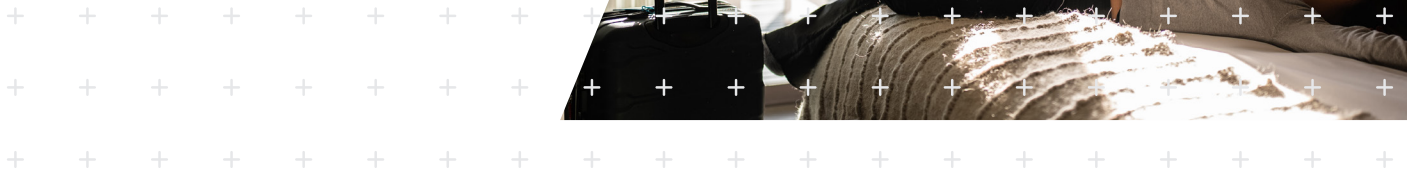
The hotel and casino industry has rebounded significantly from pandemic lows, and the recovery likely would be even stronger if not for labor shortages, relatively weak business travel and limited travel from Asia. These situations are slowly resolving.

Even so, hotel spending is expected to increase nearly 25% in 2023 compared to 2022. Subsequent year growth rates will quickly taper off, however, until the industry nears pre-pandemic levels in 2025.⁴

To make up for lower business and international travelers, some hotels and casinos are targeting the work-from-anywhere (WFA) business nomads who have the flexibility to combine working days with personal travel or who simply want to check in to work for a day outside the office or away from their cramped apartment.

These hotels are offering special day rates and modifying their rooms to add larger desks, higher-quality desk chairs, convenient power outlets and, of course, reliable high-speed Internet access. Some hotels are even converting larger rooms or conference rooms to shared team workspaces. An extended workday in a hotel setting can include time out for a swim, lunch and a workout before checking out.

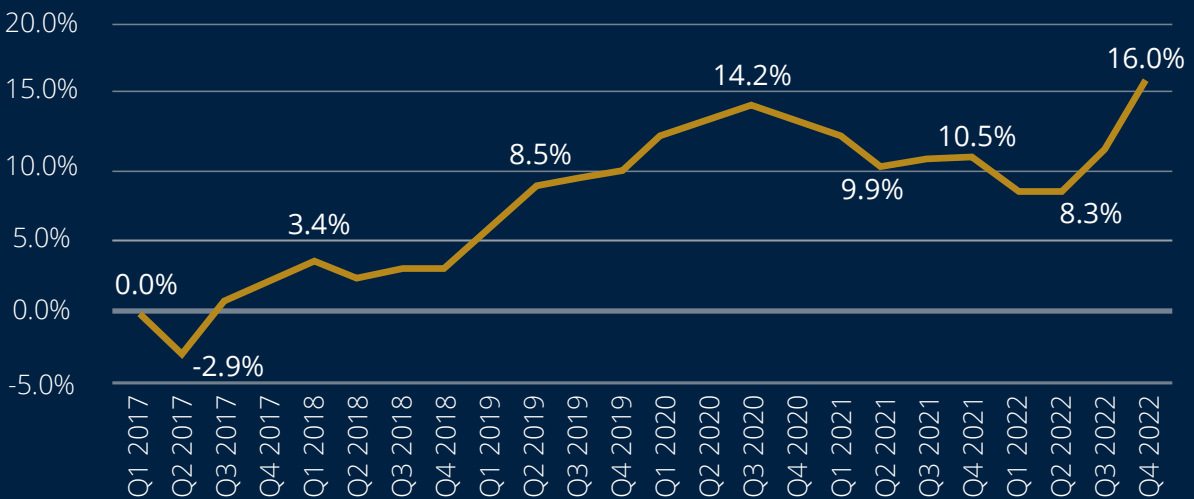
The hotel and casino industry has rebounded significantly from a **PANDEMIC LOW**





MARKET OVERVIEW

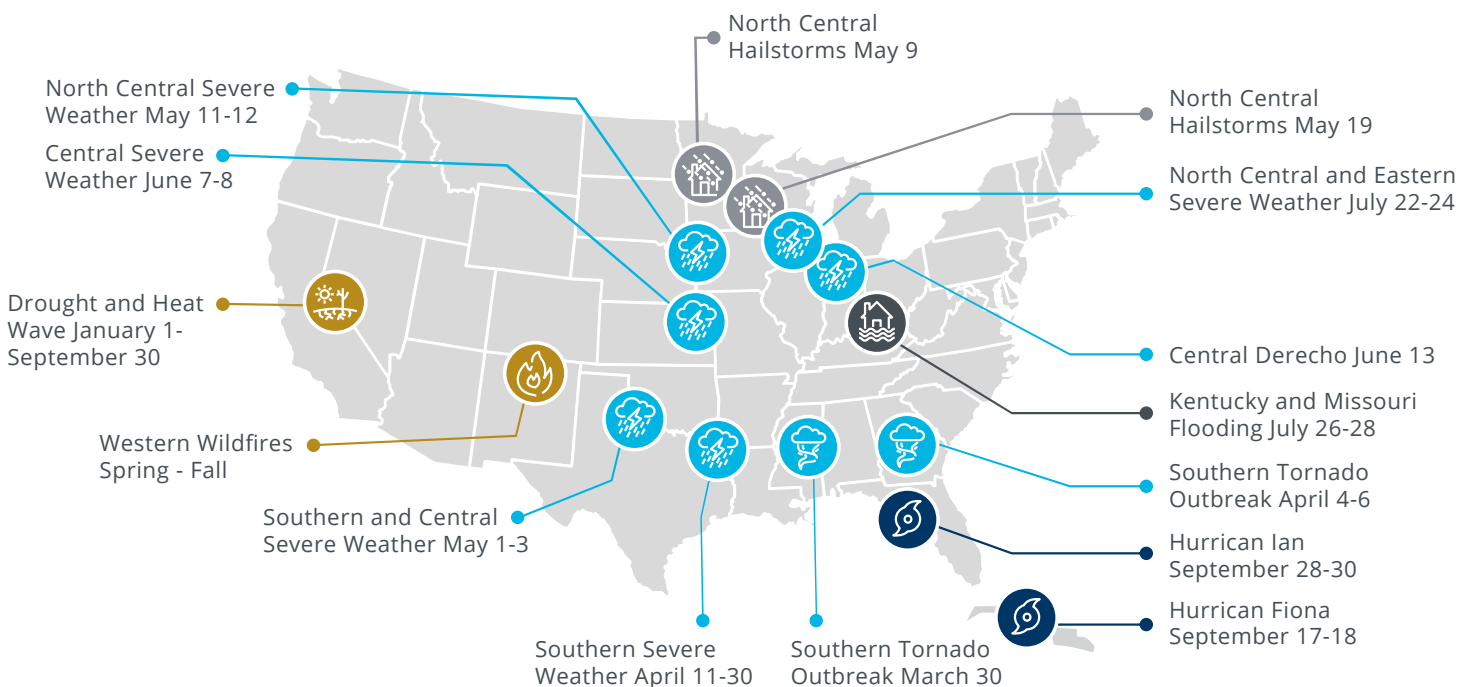
PREMIUM CHANGE FOR COMMERCIAL PROPERTY, 2017-2022



PROPERTY

- + Property repairs and replacements are becoming more costly and taking significantly longer to complete due to inflation, supply chain disruptions and labor shortages.⁵ To avert the risk of being underinsured, businesses must take steps now to ensure their property valuations remain accurate while fully evaluating their exposure levels for business interruption losses.⁵
- + Since Q4 of 2022, Commercial Property lines saw premiums soar to new heights. With an average increase of 16%, it was a definitive leader among all lines of business for this period.⁶ In addition to pricing increases, carriers are increasing deductibles for claims arising from water damage, wind/hail and named windstorm events as another way to try to return work towards profitability.
- + Natural catastrophes continue to be a leading cause of turbulence in the Commercial Property market.
- + Carriers are now mandating that building values be raised, especially if they have not been adjusted in some time. With costs of Commercial Property on the rise, Insurance to Value (ITV) has become a top priority as damage may result in insurers needing to pay out more than before with replacement or rebuilding.⁶
- + Lastly, the age of buildings can make a demonstrable difference in property pricing. Carriers are more frequently unwilling to quote on properties that are 20+ years old or even in some cases prior to being built in 2010. Complete updates to roofs, electrical and plumbing can sometimes make a case to convince underwriters why older portfolios may still be a good risk.

U.S. 2022 BILLION-DOLLAR WEATHER + CLIMATE DISASTERS



This map denotes the approximate location for each of the 15 separate billion-dollar weather and climate disasters that impacted the United States January-September 2022.



GENERAL PRICING ESTIMATES

Non-CAT exposed property with favorable loss history	10% to 15% increases
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.)	25%+ increases for non-CATASTROPHE 30% to 50%+ increases for CATASTROPHE exposed accounts and higher depending on frequency/severity of losses and when there are limited markets for a hospitality risk that is located in a high-hazard zone.



CASUALTY

General Liability

- + The cost of wages, medical care and materials are driving up the amount of damages businesses are incurring. Investing in effective safety regulations and maintenance procedures can help safeguard your business against these rising costs.⁵
- + Despite stability in the Primary General Liability market, buyers are facing a more conservative insurance environment as insurers demand greater insight into prior losses and any steps taken to prevent similar events.
- + In the U.S., we are seeing an increasing tendency towards litigation and unprecedented "nuclear verdicts" of seven figures or more – a worrying trend that is putting immense strain on Casualty insurance lines.

Excess Liability

- + To reduce potential losses, carriers have now begun providing additional coverage tiers lower than the usual \$25M, ranging from \$5M to \$15M. Consequently, it is essential to combine multiple insurance carriers to achieve the desired coverage limit.
- + The market is beginning to see carrier participation with these smaller layers of excess liability coverage a bit more readily available year-over-year.

GENERAL PRICING ESTIMATES

General Liability	Up 5% to 10%
Umbrella & Excess Liability – Middle Market	Up 10% to 25%+
Umbrella & Excess Liability – Higher Risk & with Amenities	Up 25% to 100%





Auto

- + The commercial auto industry has had a turbulent time lately, with settlements and claim payments proving to be far more impactful than profits.⁷ In response, many carriers have been turning to telematics in an effort to reduce their losses.
- + Non-owned liability for auto coverage has been facing difficult challenges over the last year due to a continued limited marketplace. Some key components for non-owned operations that can help with underwriter scrutiny include driver trainings courses, consistent vehicle maintenance, MVR reviews along with continual monitoring, charge-back programs to incentivize improved behaviors and consideration of larger deductibles or self-insured components.

Workers' Compensation

- + Carriers have seen profitability in providing Workers' Compensation coverage, meaning buyers can anticipate competitive rates, contingent on Experience Modification Factors and prior loss history. Accounts with good loss histories can benefit from the rivalry between carriers, leading to more affordable premiums.

GENERAL PRICING ESTIMATES	
Workers' Compensation	Flat to Down 5%
Auto	Up 10% to 25%
	Up 25% to 100%+ for Non-owned Auto Liability

Cyber Statistics

- + Number of U.S. travelers victimized by cybercrime through hotels:
423 MILLION IMPACTED
- + Average cost per hospitality breach:
\$1.72 MILLION COST
- + Largest penalty for a hotel data breach (to date):
\$23.8 MILLION
- + Percentage of travelers influenced by a hotel's cyber defense when deciding where to stay:
50%

<https://www.venzagroup.com/hospitality-cyber-security-risks-for-2023/>

CYBER RISKS FOR HOSPITALITY

External Threats

- + Point-of-Sale Attack
- + Distributed Denial-of-Service (DDoS) Attack
- + Customer Data Breach
- + Social Engineering

Internal Threats

- + Employee Turnover
- + Insider Threats
- + Data Privacy Compliance

When considering cyber risk in hospitality one of the key factors to determining the risk profile is the interconnectivity between various entities. The industry consists of property managers, property owners and franchisors, knowing who bears the burden of guest and data security can be a tangled web to unweave. It's important to understand this prior to a cyber incident occurring. **To properly evaluate, cyber carriers take into account the following:**

- + Overview of ownership structure
- + Summary of network connectivity
- + Verification of who controls the management of data and privacy security

Once connectivity is determined, underwriters then look into security controls of the organization. **Key controls for the hospitality industry include:**

- + Data management and encryption
- + Payment card processing controls
- + Firewalls, network monitoring, email filtering, multi-factor authentication, back-up strategy
- + Continual employee privacy and security training inclusive of phishing simulations
- + Adherence to data and privacy regulations

IN THE NEWS

InterContinental Hotels Group (IHG)

- + A class-action lawsuit filed against InterContinental Hotels Group (IHG) by a group of franchisees in response to a ransomware attack that occurred in 2016.⁸ The franchisees claim that IHG was aware of security vulnerabilities in their payment processing systems but failed to take appropriate action, resulting in the theft of customers' credit card information.⁸ The lawsuit seeks damages and compensation for the franchisees' losses as a result of the attack.

Crime

- + **Focus on employee training and risk management:** Insurance companies are placing more emphasis on employee training and risk management strategies to help prevent crime from occurring in the first place. By taking proactive measures to mitigate risk, businesses can help reduce their exposure to losses and potentially lower their insurance premiums.
- + **Growing importance of a reputational risk:** In today's digital age, a company's reputation can be severely damaged by even a single incident of criminal activity. As a result, many crime insurance policies now include coverage for reputational harm.

MAJOR CLAIMS IN THE HOSPITALITY SECTOR

EMPLOYMENT PRACTICES LIABILITY - \$25.1M VERDICT

The plaintiff, who worked at multiple branches of a hotel, began as a server and later became a food and beverage director, but was paid less than men in similar positions. The jury awarded her \$25.1 million in damages after she brought a lawsuit against her employers.⁹

GENERAL LIABILITY NEGLIGENCE - \$177M VERDICT

While the plaintiff was asleep in her hotel room, a security guard employed by the hotel entered and attacked her.⁹ It was later discovered that the security guard had a history of arrests, including one for alleged sexual assault, which the hotel had failed to uncover.⁹ As a result, the jury awarded the plaintiff \$28 million in compensatory damages and \$149 million in punitive damages.⁹

LIQUOR LIABILITY - \$27M VERDICT

Following her consumption of alcohol at a nearby nightclub, a 20-year-old individual was responsible for a car accident that resulted in the death of one person and injuries to two others in a separate vehicle.¹⁰ The spouse of the deceased individual and father of one of the injured parties, along with the other injured individual, initiated legal action against the nightclub that served the 20-year-old.¹⁰ The claim alleged that the establishment failed to verify the individual's age and persisted in serving her despite visible signs of intoxication.¹⁰



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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 these lines of business, brokers are swamped with marketing their insureds who want to seek alternatives 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

The 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 systems protocol cannot be overstated.**



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.



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.

1 <https://restaurant.org/research-and-media/media/press-releases/2023-national-restaurant-association-state-of-the-industry-report-a-new-normal/>
2 <https://restaurant.org/research-and-media/media/press-releases/association-releases-2022-state-of-the-restaurant-industry-report/>
3 <https://onfleet.com/blog/food-delivery-trends-2023/>
4 <https://eglobaltravelmedia.com.au/2022/08/17/business-travel-spending-is-coming-back-but-recent-headwinds-push-anticipated-full-recovery-into-2025-and-2026/>

5 11 ways inflation and economic volatility are influencing insurance in 2023 - Liberty Mutual Business Insurance
6 <https://www.ciab.com/download/36848/?tmstv=1677010755>
7 What is a nuclear verdict and should you care? | CaseGlide
8 Bill Bosch Discusses IHG Ransomware Attack; Class Action By Franchisees (pillsburylaw.com)
9 Nuclear Verdicts | Tyson & Mendes (tysonmendes.com)
10 Top Workplace Negligence Judgments | Travelers Insurance



More Than Just Insurance

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