AMWINS®

State of the Market Report: A Focus on the Hospitality Industry

The hospitality industry reached what it considers **full recovery in 2023**, with revenue per available room (RevPAR) exceeding pre-pandemic levels from 2019. And there is growing optimism that this positive **performance will continue through 2024** as inflationary pressures have eased, supply chain issues are diminished and the labor market remains stable. On the flip side, the rise in claims persists with social inflation driving not only liability rate increases but a tightening in underwriting guidelines.

In this report

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

LEGAL DISCLAIMER

Property

As expected, the **property market** has further stabilized in the first quarter of 2024. Rate increases for most hotels, motels and resorts have been moderate – especially for layered shared structured placements with higher premiums and the potential for quota sharing on the panel. While we have seen some additional capacity enter the market, several of the incumbent panel markets have been able to expand their capacity which has led to overlined subscriptions in both primary and excess layers. Some of the new entrants can afford to be a little more opportunistic, so finding coverage is not as much of a struggle as in years past.

Valuations are not as much of a hot button issue as last year as many insured have trended up their values over the past several years. That said, carriers and reinsurers are still carefully reviewing accounts to ensure valuations are deemed adequate and the shift towards higher attachment points within shared and layered programs continues. As carriers look to move away from blanket coverage and push for margin clauses, knowing a client's actual business income exposure, having up-to-date appraisals that justify value and providing accurate business interruption worksheets can help tell a better story.

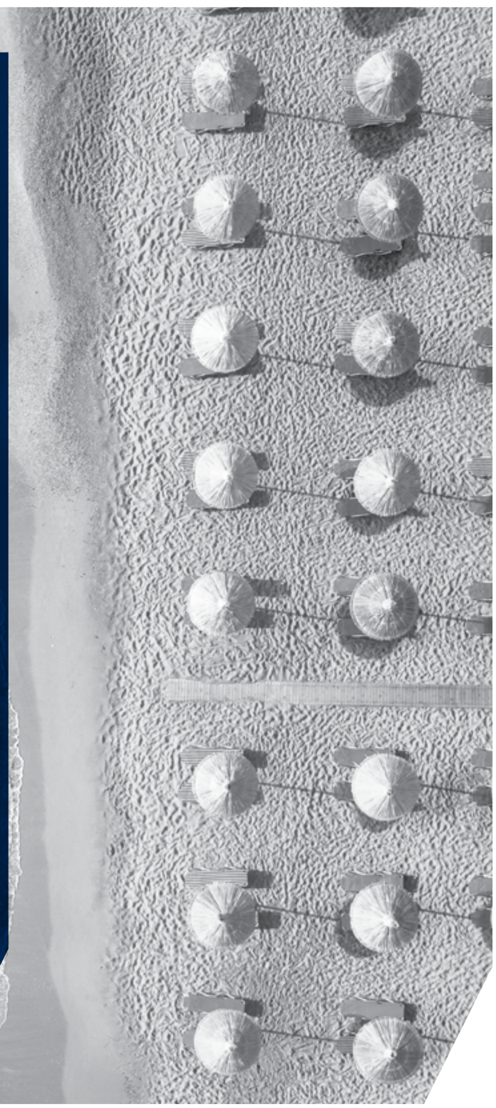
Perils that were once considered secondary (tornado/hail, flood and wildfire) continue to face higher scrutiny while the definition of CAT exposure across the U.S. is being re-examined. Water damage claims have risen exponentially, resulting in some carriers increasing deductibles while others may still be restricted in coastal and waterfront areas (Florida, Gulf area, North Carolina, South Carolina and Texas in particular).

Destination resorts and hotels

Destination hotels and resorts offer a total experience, including everything from water parks, golf courses, tennis and pickleball, to spas and wedding venues. Risks for this evolving portion of the hospitality industry are as diverse as the venues themselves and require different underwriting considerations than standard properties. For example, consider a ranch or ski resort which may be more remote or located in a wildfire zone, and therefore more challenging to cover.

At the same time, as travel continues to grow in a significant way, so too does exposure. This includes protection class ratings or construction type for destination establishments, which tend to be higher hazards than traditional hotels and therefore not as favorable for carriers. As a result, pricing more accurately reflects these exposures rather than meeting or coming in at less than expiring premium.

You can learn more about how to find optimal protection for insureds within this class of business here.



Casualty

We've seen significant dislocation in the marketplace over the past 12-18 months. Claims frequency and severity has driven long-standing programs out of business and forced key E&S players to re-think their strategy in this sector. Remaining players are taking an opportunistic approach to liquor driven risks (50% or more liquor receipts), implementing firearms/ weapons exclusions and offering terms with sub-limited coverages. We expect this to continue as many carriers believe rates are still inadequate for the exposures that many of these risks present.

In most cases, there is capacity within the E&S liability market to help fill gaps left by programs and standard markets exiting the space. However, these solutions typically don't have the capability of matching pricing/ coverage that was previously provided, and insureds are left with two choices: broad coverage at a much higher rate/retention or tighter coverage with a more moderate rate increase.

Larger insureds are putting more skin in the game and utilizing higher deductibles/SIRs, giving carriers the ability to offer broader coverage at a more reasonable rate. However, this requires review and acceptance of the insured's audited financial statements to ensure that when claims arise, funds are available.

We have also seen the request for monoline liquor become more popular. However, with limited markets writing monoline liquor, we find most E&S carriers require that they also write General Liability coverage. For those carriers willing to consider monoline liquor coverage, underwriting guidelines are very tight, leading to detailed and lengthy underwriting. Viability for these quotes hinges on favorable responses to a number of questions and one small detail can make a risk unacceptable.

Admitted carriers are routinely non-renewing or no longer offering liquor liability for hospitality risks but will remain on the General Liability in some cases. In those situations, many insureds are trying to place their liquor liability exposure separately, in the E&S market. This can prove problematic as placing monoline liquor is expensive and can result in complex claims scenarios where both the General Liability and Liquor Liability carriers deny a claim – arguing that the responsibility lies with the other policy.

Casualty (continued)

Liquor Liability

Liquor liability continues to be the most pressing challenge for the hospitality industry. Minimum premiums on liquor exposures are still rising and more carriers are pulling out of the class altogether. In states with tougher dram shop laws, insureds with liquor driven operations and revenues of $1.5M or less are consistently paying six figures and above to get full coverage.

In **South Carolina**, the cost of coverage is soaring. Unlike Georgia and Florida, who made changes to legal statutes in the past two years, South Carolina requires a $1M minimum in liability coverage – combined with what is known as a "joint and several" statute. This statute holds one business mostly responsible and the others only peripherally, often resulting in whomever is the best-insured becoming the focus in a lawsuit.[1]

And despite the South Carolina Department of Revenue recent announcement that insureds may satisfy the $1M limit requirement with $1M aggregate coverage, allowing insureds to bind per occurrence options as low as $25k, minimum premiums remain at nearly $100,000. There were a few months after the initial announcement during which policies were relatively affordable by historical standards, but those markets had to readjust quickly.

In 2023, the state's lawmakers asked the South Carolina Department of Insurance to look into why liquor liability insurance had become so cost-prohibitive. The **DOI recently confirmed what many in the industry already knew**: carriers are losing as much as $2.60 for every $1 of premium earned, making it unprofitable and therefore limiting coverage options.

Insureds in South Carolina are not alone in these battles. Establishments in North Dakota and Alaska are also finding it challenging to obtain coverage without having to reach deep into their pockets, as are destination resorts and hotels in Vermont and Michigan.

Special Events

For the past 18 months, special events placements have become more challenged. This is due in part to the insured's current CGL not willing to extend coverage to events, venue contracts setting limits, endorsement requirements, the types of activities or entertainment at the core of an event being scrutinized and the willingness (or lack thereof) of organizers to update/include safety protocols and emergency plans.

We have also seen market appetites change, those that have historically written large events are no longer willing to do so or are reducing coverages and limits. This comes as a result of both historical losses and susceptibility to future loss, and insureds should expect underwriting to be thorough and lengthy.

Retailers must be prepared to provide details on an event's safety measures, emergency plans and protocols. And be sure to plan accordingly – larger events are going to take longer to underwrite. We have seen markets decline to even consider an account if they don't think enough time has been allowed for review.

[1] South Carolina Bars, Eateries Closing Down for Lack of Affordable Liability Coverage (insurancejournal.com)

Limitations and exclusions

We've seen claims rise across the hospitality industry and expect additional sublimits as a result – particularly when it comes to assault and battery (A&B) coverage. For insureds utilizing contract security, it's important to ensure that the contractor has strong A&B coverage of their own and accepts full risk transfer.

Firearms exclusions are also being added to renewals, as well as exclusions for human trafficking on hotel/motel risks and sexual abuse/molestation.

While geography and risk characteristics will still dictate terms, carriers are also reviewing crime scores, hours of operation, types of entertainment, target customers, security, online reviews and websites. They may even check online photos and call front desk staff to verify security protocols. Hotels/motels that have exterior corridors and entry, allow smoking or have in-room kitchenettes have seen new limits as a result and we expect this will continue into the foreseeable future.

Parametric structures for hospitality accounts

Resort and leisure-style hospitality programs tend to be situated in the same geographical region. As a result, natural catastrophes often become widespread industry events. This creates a ripple effect across the industry, putting pressure on supply chains and delaying re-openings of hotels, as well as implicating business interruption (BI) coverages.

As a result, there has been a meaningful uptick in the utilization of parametric structures within the hospitality industry. Under a traditional property program, without physical damage the insured would have no business interruption coverage as the result of a CAT event. With parametric insurance, the trigger event is followed by a simplified proof of loss process. This process certifies actual financial impacts allowing for rapid payment (under three weeks in most cases) that can enable a business to recover faster from an event.

We've also seen a jump in the number of resorts looking for adequate wind coverage as it has become either non-existent or so eroded in terms of value, that the business opts for parametric coverage. The parametric policy indemnifies the insured against the circumstances around an event; everything is predefined in the contract so there's no ambiguity over when, how and how much the contract is going to pay out.

With the speed of recovery and the freedom to deploy recovered capital as an insured sees fit, parametric structures offer a level of clarity and certainty that the traditional market can't match. And, as property rates continue to moderate and risk evolves, we expect we will see even more businesses move to parametric solutions.

You can **learn more about how these custom structures work here**.

The importance of risk management programs

Underwriters continue to stress the importance of a robust risk management strategy for hospitality insureds. Risk management practices should be appropriately vigilant, with written safety plans and monitored by safety committees in which management is highly invested. Retailers should communicate best practices, including not only maintenance of properties to prevent slips and falls, but securing waivers for any activities on premises.

When it comes time for renewal, retailers should be prepared to not only understand the insured's risk management program but provide full details with as much lead time as possible – especially for properties in high-risk areas which may require a pre-inspection.

Retailers should also be prepared to help insureds complete a supplemental questionnaire. Given the nuances of this business segment, insureds will want to be seen as a "good performer" and highlighting updates to the property – a new roof, additional smoke detectors, sprinklers, debris removal, etc. – can help. Additionally, the transferring of risk through subcontracted operations with additional insured status and mutual hold harmless agreements can also help.

We help you win

In this competitive market, specialization is key. The exposures inherent in large or diverse property schedules and risks with hundreds to thousands of patrons, call for product and industry expertise.

When coupled with the vagaries of state of geographic laws and tough venues, you need a wholesaler who specializes in hospitality and entertainment. Our team of brokers has the market partnerships necessary to secure coverage for your clients' more challenging risks.

Amwins' specialists collaborate to bring an in-depth understanding of hospitality risk. Our brokers, underwriters and global risk specialists work together to deliver complete commercial packages and competitive small business solutions – exercising all options to solve your clients' challenges.

Having a partner that understands the market – as well as the hospitality industry as a whole – gives you a competitive advantage. We help you win.

Insight provided by:

- Geion Bright, EVP, Amwins Brokerage
- John Fitzgerald, Senior Program Underwriter, Amwins Program Underwriters
- Alex Kaplan, EVP, Amwins Brokerage
- Lindsay Moore, SVP, Amwins Brokerage
- Kim Rydzewski, Underwriting Specialist, Amwins Program Underwriters
- Joey Shapiro, SVP, Amwins Brokerage
- Tyler Thiede, SVP, Amwins Brokerage
- Nate Walker, SVP, SMIC Insurance
- Lynne Weeks, AVP, Amwins Program Underwriters