Hospitality Practice Group – Hotel Sector

H2 2022 Market Update

Insurers are questioning the dates of latest valuations and potential underinsurance is now a major issue for some hotels, mainly due to building/labour cost inflation.

Property Damage & Business Interruption

The insurance market for hotel property risks is seeing a stabilising of rates, with the key markets for the sector being Zurich, AIG, Chubb, AFM, and the recent addition of Protector.

While rates are stabilising, premiums are being driven by the increased sums insured resulting from re-valuations. The 15-20% rate increases witnessed two years ago have now gone, and we are typically seeing single digit rate increases. However, increasing inflation and its impact on claims costs is putting pressure on insurers.

Areas that insurers are focusing on include:

- Inflation and adequacy of asset values, whereby some insurers are loading the rate if they feel that the hotel is under declaring values. Insurers are questioning the dates of latest valuations and potential underinsurance is now a major issue for some hotels, mainly due to building/ labour cost inflation. For hoteliers, up to date valuations are now critical to avoid under-insurance and a potential Average Condition applying.

- Inadequate declarations also apply to Business Interruption exposures. The cost of staying in some hotels has seen a significant increase in the last 12 months. This may have been driven by the industry wanting to recuperate the losses experienced during lockdowns and travel restrictions. Insurers are therefore expecting hotelier revenues and profits to increase.

- Insurers looking at a new hotel risks will want to adopt a multi-line approach, to spread capacity, protect their balance sheet, and create more leverage in this space.

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- Insurers are trying to minimise the coverage in areas such as loss of attraction, non-damage denial of access, area wide damage etc, but brokers should be pushing the boundaries to find additional coverage. Disease cover has been stripped out of all coverage due to the pandemic and resultant claims cost.

- Insurers are also becoming more sophisticated around flood modelling. Flood risk is now playing a major part of an insurer's decision in their rating. Where a hotel is deemed to be in a high hazard flood risk, increased excesses, reduced limits of cover and greater scrutiny over Business Continuity Plans, is to be expected by insurers.

- Construction remains a key driver for insurer appetite, with cladding continuing to cause challenges for some UK hotels. Where a hotel cannot confirm the type of cladding used in the construction of the property, insurers assume the worst, and will either charge substantially higher rates or in some cases refuse to provide cover.

Liability

Insurers' appetite for hotel risks is broad, with most insurers having the ability to underwrite risks in the sector. However, the market is restricted where there is a need to issue local paper. The key insurers (including AIG, Zurich and Chubb) offer the broadest solutions, which include key coverage within the local policy and handle losses in certain geographies. That said, we are now seeing a restriction in capacity, with insurers looking to manage their limits across the portfolio. Typical limits are restricted to £25m, with the exception of the key insurers, where £50m is more common. This change in capacity does not have a material impact on the hospitality sector, as there is still enough appetite and capacity. In addition, there are new markets entering the sector such as Sompo and Everest.

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One of the key challenges for the sector is tour operators' liability. Insurance cover needs to take into consideration the ever-growing range of activities taking place, from spa treatments, water sports, excursions, food hygiene and customers' belongings – hoteliers are held liable and strict liability exists. There is also an increasing frequency of abuse towards employees and hotel customers, and any childcare facilities further increase the risk in this area. The challenge for some hotels will be having a complete understanding of all their risk exposures, as well as their contractual management with concessionaires to enable the underwriter to adapt the coverage to meet the hoteliers demand and needs.

For those hotels with US exposure, significant limits are purchased. Losses as a result of the MGM Grand active shooter in July 2022 are believed to be around $750m. There are further issues around security and evacuation procedures following the Surfside building collapse in Florida.

Premium rates in the UK market for hotel risks remain stable, but for those with US exposures, there has been a significant increase in rates of around three times the previous rate. However, both hotel management and ownership play a significant role in what cover/cost is available. Recently, we successfully included Punitive Damage in the UK for a multinational hotel client with a US exposure, obtaining a limit of $250m. Previously this was only available for US domiciled Insureds.

Challenges also include the focus around territorial exclusions and sanctions as a result of the Ukraine/Russia war, as well as data protection and the potential cross with cyber exposures.

Directors' & Officers' Liability

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Two years ago, in the midst of lockdowns, and coinciding with a hardening D&O market, the hotel sector was extremely challenging. D&O insurance capacity was significantly restricted, and premiums increased more than other sectors. Consequently, many clients were unable to renew their prior limits, and when they did, it was at vast extra cost.

Today, the hotel sector has largely bounced back, and with the D&O market improving at the same time, we are seeing hotel clients being able to buy higher limits again, at more attractive premium levels than last year. In some cases, insolvency-related restrictions that were imposed over the last two years are now being removed by insurers.

Those hotel clients that paid significantly higher premiums are generally seeing costs come back down more quickly than other sectors, possibly indicating that insurers over-corrected in 2020/21 for the sector? However, this depends on the hotel being able to demonstrate good recovery, financial resilience, and good occupancy rates etc. Hotel owners that cannot give such comfort around the long-term outlook for their assets, may still see punitive D&O insurance terms and some coverage restrictions as insurers look to mitigate their risk exposure.

Employment and recruitment challenges persist, and we are seeing insurer interest in how clients are handling this, as well as a focus on sustainability issues and global sanctions compliance.

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Cyber

Hotels chains often have complex ownership structures, with part owned and part franchised locations, which makes it difficult to implement the cyber market required controls to all entities. Imposing strict controls such as MFA, EDR, PAM (etc) is usually a challenge for large companies, especially in countries where the focus on Cyber security and privacy is less strong.

Smaller hotel chains often do not own or manage the buildings, which makes it even harder to understand where the exposure sits. Is the building managing company or owner responsible for providing secure infrastructure and connectivity, or is it the hotel chain? This leads to the insurance market not being interested in taking on a risk that is not entirely clear.

An important factor is the segregation between hotel systems, networks, and data repositories. If a perpetrator is able to hack one hotel's system, they could spread malware across the unsegregated network, and a hotel chain could be hit by ransomware in several locations. Because of the interconnectivity of hotels in today's environment (automatic doors, cards and not keys, intelligent elevators), a ransomware attack could mean that a hotel cannot guarantee the safety of its guests, and therefore close until the situation is resolved.

There is a huge drive for hotels to evolve with the times, which means hotels are now heavily reliant on technology to keep up with the demand for speed and efficiency expected from customers. Hotel chains are increasingly adopting new technologies and transforming their offering to attract and retain customers.

The hotel sector has always been considered a highly exposed class of business in the cyber market. This is due to a number of factors, outlined below, in addition to the heavily publicised data breaches (e.g. Marriott), which have seriously impacted the cyber market. For this reason, the sector was not impacted as badly as others (from a premium and retention perspective), as rates and retentions were already higher than any other industry before the market "hardened".
That said, for reasons outlined below, the appetite for hotel chains remains relatively limited on a primary basis. Large hotel chains which, in theory, can afford larger retentions and have substantial levels of investment in their cyber security controls, can still purchase programmes larger than £150m; however, the cost may be prohibitive.

We believe that the market is reaching a level where any risk can be underwritten at the right premium, especially if there is confidence in the security controls. Smaller hotel chains have always struggled to obtain the level of investment necessary to satisfy the cyber market's requirements.

In addition, the cyber market is increasingly focusing on the use of biometric data as a result of substantial claims that happened in the US. Certain Regulations in the US, which will soon be mirrored in Europe, protect the use of biometric information by imposing statutory fines (ranging from USD1k to USD5k per breach) for the unlawful collection, storage or use of such information. There are several class action claims in the US for the unlawful use of biometrics, from both customers and employees; therefore, cyber markets are asking more questions around this topic. If answers are not satisfactory, the market will impose exclusions for these.

Whilst the use of biometrics is not necessarily widespread, several companies have implemented biometric readers to gain access into buildings in an effort to combat carbon emissions and remove plastic badges. However, this shift might increase the risk if the appropriate legal measures are not implemented.

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