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Ms. Sarmiento

Insurance

Unpredictable Weather: Understanding the Risk and Protecting Your Property

By [Fran Sarmiento](#), Executive Vice President, Venture Insurance Programs

Ocean or bay view? At some hotels and resorts, it's a common enough question. But what if they are one and the same?

Even before "Superstorm" Sandy left the Northeast reeling, rising sea levels were altering the geographic outline of our coast. Tornadoes, a common threat in the Midwest, have wreaked havoc in more parts of the country, and wildfires, mudslides, dust storms and drought have devastated parts of the West and Southwest.

While the hotel industry has come a long way in preparing for the disasters that weather can bring, today's new unpredictable weather has become a critical issue for hotels and resorts. Severe weather rarely threatens the existence of a business, but it can jeopardize growth and cause volatility in earnings.

You can take steps to protect your property and your guests from this ever-changing climate. Specific risk management practices and disaster preparedness plans will help reduce or eliminate the potential loss. But you also must have adequate insurance, both property insurance with the dollar limits you need, as well as business interruption coverage with protection from loss of income.

Insurance Rates and Availability

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How do the recent changes in weather patterns affect your ability to get adequate property insurance? Insurance rates for commercial property coverage are likely to rise throughout 2013 due to Superstorm Sandy and several other large catastrophe losses. These increases will vary depending on location. Deductibles are increasing as well, not only for wind and flood exposures, but also for all other perils such as fire, theft and vandalism. In fact, it is not uncommon to see property deductibles on larger hotels increasing to between \$10,000 and

\$25,000.

In some parts of the country, you may also find lower limits available for wind, hail and flood protection. Limits are the dollar amount paid by your insurance policy. In the past, you may have been able to get coverage for wind, hail and flood at limits equal to your building limits, but those risks may now be "sub-limited" to \$1 million or \$5 million. These changes will not affect all hotels equally. If your building is in good condition and your loss experience has been good, you may not have any changes to your coverage or costs.

One reason we are seeing these changes is that many insurance carriers are adjusting the way they evaluate the weather events and other factors that affect their property business. Many use risk models to determine the potential for losses. These models are broadening their weather regions and the weather events that can affect those regions.

For example, a few years ago many insurers only required wind deductibles on the Gulf



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Feature Focus

Discussions on Emerging Growth Markets

MAY: Green Hotels: Eco-Friendly Principles and Best Practices



Diversification of Food Waste From Landfills as Part of a Wider Green Program

By [John Cario](#), General Manager, Hilton Garden Inn Richmond Downtown

As kids we probably all heard our parents tell us not to waste our food. Ever since our opening in the restored historic Miller & Rhoads department store building, our Hilton Garden Inn Richmond Downtown takes that sentiment to heart. Our hotel established a baseline environmental program in 2010 and made commitments to continuously improve our environmental performance over time. In March 2011, we made the decision to begin composting our food wastes. Since then, the hotel has diverted nearly 30 tons of food waste from piling up in landfills. We are the first and only hotel in the region to compost its food wastes. [READ MORE](#)

Coast and up the East Coast to Virginia, as well as up to five to 10 miles inland. The effect of two hurricanes/tropical storms hitting the Mid-Atlantic and Northeast regions in two consecutive years has highlighted those areas' vulnerability to wind and flood catastrophes. As a result, risk models will change and there will be some restrictions on what the insurance property market is willing to insure.

Some experts believe that, barring an unforeseen catastrophic event, most types of commercial insurance property premiums will increase anywhere from 5 to 15 percent over the next year. The National Flood Insurance Program, which is managed by the federal government, has been driven into a large degree of debt due to loss payments from Superstorm Sandy. You can look for significant rate increases for your flood insurance, especially if you are in a hard-hit flood zone. Some hotel owners can expect higher premiums, higher deductibles and fewer choices among property insurers.

Business Interruption Coverage

A hotel should expect indemnification (or compensation) from their insurance carrier when it suffers property damage from a covered cause of loss; this applies to your tangible property and financial loss. However, a natural disaster can cause not only physical and property damage, but also interrupt your business with a loss of income for weeks or months. Business interruption insurance coverage (also known as business income insurance) can help protect your hotel for such loss of income.

Business interruption coverage was developed to help return businesses to the financial position they were in prior to the catastrophe that triggered a loss. Most policies will compensate a hotel for revenues lost during the period of indemnity (the time it takes following a loss for a hotel to return to its pre-loss condition), less any expenses that do not continue during that period. They will also pay for some of the extra expenses that occur in order to help you keep your business running.

To ensure proper insurance coverage for a loss of profits and continuing expenses, a hotel must complete a business income worksheet. This requires an accurate account of annual revenues by type, such as room, food and beverage, and it will help your insurance broker when they are obtaining insurance coverage for you. Make sure you discuss the following areas with your insurance agent or broker in order to have a well thought-out understanding and strategy for business income exposures:

- Period of indemnity: How long would you estimate being unable to operate? What factors could change this estimate? What if you have to rebuild, not just repair? You may need to purchase an "extended period of indemnity."
- Loss of room revenue: Consider occupancy percentage for that time of year, average daily rate, history of cancelled reservations, conferences, etc.
- Other revenue loss: Determine additional potential losses, including food, beverage, entertainment, conferences, etc.
- Ordinary payroll: Take into account key employees whom you would want to retain during a period of loss after a weather-related crisis.
- Continuing costs: Consider the expenses of rent, electricity, taxes, etc.
- Extra Expenses: You may incur additional expenses such as advertising and temporary locations.

Managing Your Risk

In addition to adequate insurance, you can help manage your risk through disaster preparedness, a critical component for storm readiness. It begins with a written emergency response plan that is shared, practiced and reviewed annually. Also consider your business continuity plan, taking into account everything from backup generators to communication with your employees and guests. Finally, once the storm is over, you have to consider your post-loss goals: how quickly can you recover and get back in business?

When putting together your disaster plan, you should consider the following:

- Learn about weather events that are likely to affect your area and develop a grid that will help to identify the significance and likelihood of the impact.
- Assess your buildings – both interior and exterior – to understand where your weak points are (windows, doors, and roof), and test your emergency lighting. Insurance, risk management and engineering experts can help with your assessment.
- Fortify your building with storm shutters, metal screens and aluminum awnings.
- Organize a communication strategy. Have a plan in place to notify your employees and guests about a safe place to go. Who will knock on doors to wake up guests, make announcements and notify authorities? Assign specific people to specific jobs.
- Be prepared for the media: Have a media response plan in place with a designated spokesperson who is prepared to respond quickly and accurately to the media.
- Minimize your loss. Have a backup generator ready for use and adequately fueled, pick up branches and put away unused equipment and trashcans. Tables and chairs should be put away or bolted down and secured by chains.
- Stay alert. Sign up for weather alerts, and monitor National Weather Service announcements (<http://www.weather.gov>).



An Evolving Legacy of Conservation and Education

By Christopher Bush, Executive Vice President, Canyon Equity LLC

It was only natural that the son of legendary ocean explorer Jacques Cousteau would carry on his father's legacy of conservation through education. Thrown overboard into the ocean by his father when he was seven years old, Jean-Michel Cousteau has since dedicated his life to preserving the seas. As the founder of the Ocean Futures Society, Cousteau has produced dozens of films, written hundreds of articles and developed school curricula that strengthen the critical bond between people and the sea. In 1989, seeking to demonstrate the economic benefits of sound environmental practices, Cousteau first associated himself with the Jean-Michel Cousteau resort in Fiji. [READ MORE](#)



Lessons in Promoting Your Hotel's LEED Certification

By Lawrence Adams, Vice President, ForrestPerkins

As hotel owners invest in sustainable systems and obtain LEED certification they look for the benefits that derive from their investments. Savings in energy costs and water bills may be evident on the hotel's financial books but the hotel's contribution to the health of the planet may not always be evident to the guests. Many hotels feel it is important to wear their LEED badge on their sleeve by having visible attributes such as solar panels, retention ponds, solar shading and wind generators as physical evidence of their good deeds. These hotels are striving to be conspicuously sustainable. [READ MORE](#)



Factors That Are Most Important in Reporting a Hotel's Carbon Footprint

By Robert Kwornik, Academic Director, Cornell Center for Hospitality Research

As the international tourism industry grapples with increasingly complex matter of sustainability reporting, a series of roundtables and studies developed by the Cornell Center for Hospitality Research focus on the "material items," that is, the practices and products that count the most in a hotel or restaurant's carbon footprint. These material items are the key issues for stakeholders, including customers, suppliers, and regulators, and these items have the greatest impact on a company's sustainability profile. While there is some variation in the material items for various businesses, the most important issues are remarkable similar across different industries. [READ MORE](#)



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- Develop a post-storm plan. Conduct a damage survey and determine any injuries or emergency situations. Then, tend to the needs of guests and employees, inspect all major equipment and coordinate clean up and recovery. Document all damage and notify your insurance company.

Once you have prepared your plan, training and practice are essential. Form a crisis management team to coordinate the planning process, with each person responsible for their own section of the hotel. Drills are important, since employees who can practice and remember their duties will react better in a real, more stressful event. One of the biggest challenges in any crisis situation is whether the people in charge are able to keep focused and calm and execute the plan.

Controlling Costs

Despite the fallout from Sandy, related to insurance and disaster preparedness, you can still take steps to keep your costs and exposures under control. First, work closely with your insurance broker to understand your insurance needs. Identify the types of severe weather that can affect your region of the country, ask your broker what flood zone you are in and confirm that you have the appropriate flood coverage to protect your building from loss.

Second, make sure your building is up to code and building updates are done on a scheduled basis. Let your broker know what you have done to reduce your exposure to loss; for example, renovations to buildings, purchase of generators, disaster plans, wind shutters, etc. The more your broker can communicate to the insurance carrier the positive steps you have taken to make your hotel safe and secure, the better.

Even with growing severe weather trends, the United States' hospitality and tourism industry represents one of the fastest growing sectors of the economy. Visitors from around the world still consider the United States an attractive business and vacation destination. Hotels and resorts will continue to work to meet the challenges that climate change and unpredictable weather patterns have had and will continue to have on their industry. Working with your broker, you can ensure that your hotel weathers the storm.

Fran Sarmiento is the Executive Vice President of Programs for Venture Insurance Programs, a national program administrator for select industries, including the hotel and resort industry. At Venture, Ms. Sarmiento manages more than \$75 million of insurance premiums and is responsible for overseeing the underwriting, development and expansion of all programs. An outspoken proponent of providing insurance coverage that is specifically tailored to meet the needs of the ever-changing hospitality industry, Ms. Sarmiento's 30 years of commercial insurance experience includes positions with Liberty Mutual Insurance Company and CIGNA Insurance. She has spent the last 10 years focused on industry specific insurance programs, with one of her main areas of emphasis being the hotel and resort industry. Ms. Sarmiento can be contacted at 800-282-6247 or fsarmiento@ventureprograms.com [Extended Bio...](#)

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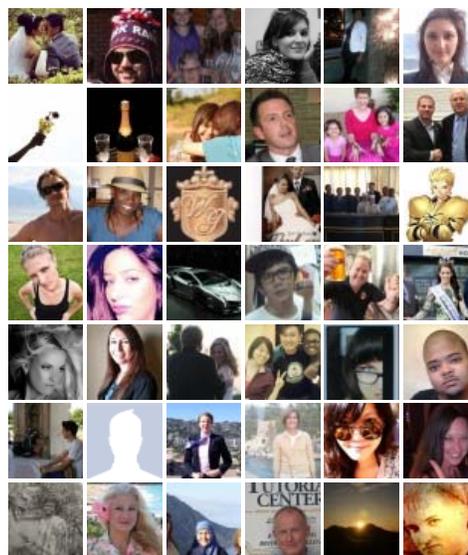
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Coming Up In The June Online Hotel Business Review



FEATURE FOCUS

New Trends in Hotel Architecture and Design

On any hotel design project, architects are generally serving at least three masters - the owner/developer, the hotel operator, and the general public who will utilize the hotel - and each have their own goals, objectives and demands. The owner/developer is concerned with brand standards, the target market and the hotel's locale, while the operator is concerned about achieving the highest possible revenue through efficient design. The public is demanding that architecture and design be fully integrated into the guest experience, based on prevailing tastes and preferences. The architect's role is to respond professionally and efficiently to meet the demands of all and to develop a unified solution. Though each project has its own prerequisites and obligations, there are some general design trends which seem to be prevalent across the industry. First, there is an increased emphasis on the importance of the lobby. The principle here is that first impressions matter and that a hotel has only a few minutes to convince a guest that they have made the right decision. Hotel lobbies are being completely re-imagined - from eliminating front desks altogether to turning lobbies into warm, intimate social spaces, replete with fireplaces and comfortable furniture. There is also an increasing use of ambient natural light, even in large spaces like ballrooms and meeting rooms. In addition, there is greater emphasis on incorporating the distinctive attributes of any given location into the hotel design, which guests are defining as central



to their experiences. The June issue of the Hotel Business Review will report on all these exciting developments in the fields of architecture and design.

In this issue...

Experiential Design Across All Sectors

By Ellis Katz, Principal, John Portman & Associates

Challenges of Contemporary Design in Historic Buildings

By Gary Meadows, President, HCI Architecture, Inc.

Ideal Meeting Spaces Should Offer Flexibility, Flexibility and Then Some

By Ronald M. Lustig, Design Architect/Principal, Earl Swensson Associates, Inc.

The Hotel Lobby

By Jennifer Skaife, Senior Associate, DiLeonardo

PLUS: Keeping an Eye on the Return on Design; Check In To the Future; L'AND Vineyards Wine Resort; How to Preserve Architectural Detail; Catering to Women in Hotel Design; Sustainability Retrofits, and much more.

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