

SERVING UP SUCCESS WITH HOSPITALITY BUSINESS

Growth prospects look good for hotels, bars & restaurants



By Dave Willis

Following some tough years, the hospitality arena is showing signs of a turnaround. Lodging industry benchmarking firm STR says first-quarter 2012 hotel occupancy and average daily rates rose roughly 4% over 2011; revenue per available room was up nearly 8%. Restaurant business also is coming back. The National Restaurant Association says that restaurant employment was up nearly 2% in 2011, double the broader U.S. job growth rate. It says restaurants will add jobs at a 2.3% rate, a full point above the projected 1.3% gain in total U.S. employment.

Heidi Strommen, president of ProHost USA, which writes restaurants nationwide and bars in 20 or so states, says recent renewals confirm the reports. "For 24 to 36 months, we had been seeing lower receipts and lower projections," she explains. "Best-case scenario was flat." Now, she says, 85% of renewal accounts project increased revenues in the coming 12 months. "That's been since about mid-2011," she adds. "Instead of a steady 5% to 10% decrease, we're seeing a 5% to 10% increase on revenue projections."

Business issues

Even as businesses rebound, issues exist. "A big concern for bar owners, for instance, is balancing the need for sales with the risk of over-serving patrons and having a claim," explains Barbara Zito, senior vice president-marketing for Founders Insurance Company, which specializes in coverage for a range of establishments that sell and serve alcohol. "If the staff knows a patron has had too much alcohol, there's still a temptation to serve him and assume 'nothing will happen' or they'll 'call him a cab.'"

Too often, she adds, no one pays attention when he leaves. "Many alcohol-related accidents occur within just a few blocks of the establishment," Zito explains. We're definitely seeing more serious injuries and fatalities from alcohol-related accidents." Another issue she sees is the rising cost of liquor liability insurance.

Restaurant and bar owners also risk potential claims resulting from physical altercations, notes Michael Maher, vice president-marketing for RCA Insurance Group, which underwrites a range of restaurants, bars, brew pubs, private clubs and caterers. "Owners must protect their businesses with assault and battery coverage," he explains. "Many carriers exclude this coverage if alcohol sales are high or if

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Program Manager
Willis Programs

the business employs in-house or out-sourced security."

Hotels and resorts have their own challenges. "They face competition from foreign and domestic operators for consumer vacation dollars," explains Larry McDowell, CPCU, program manager for Willis Programs. "Properties are continually updating and reinventing themselves, keeping facilities and the vacation experience fresh for clients. In addition, historically seasonal resorts are seeking ways to draw customers year-round to provide a more sustainable business model."

Fran Sarmiento, CPCU, ARM, AU, executive vice president of programs for Venture Insurance Group, sees this, too. "Resorts and hotels are doing different things to attract customers, providing high-end amenities, such as spas, fitness facilities and excellent restaurants, along with a host of activities like sailing, snorkeling, horseback riding and more," she explains. "And they need to offer these in a safe, secure environment."

According to McDowell, whose nationwide program insures destination resorts, timeshare resorts and boutique hotel markets aimed at leisure travelers, "Property owners provide security to protect guests and their property while on site, but they also need to protect data. They face a growing cyber liability risk; it's commonplace for high-tech thieves to target databases containing customer names, addresses and credit card numbers."

According to Sarmiento, whose company offers coverage for a range of hospitality concerns, including resorts, boutique hotels and high-end properties, owners must take certain precautions. "Many larger hotels and resorts subcontract their reservations Web site," she says. "They need to make sure contractual agreements protect them and that coverage exists to protect them for loss of data and for downtime, too."

Energy-related issues also come into play. "High energy costs affect

Attractive segments

Retail agents and brokers can find opportunities in a number of areas. McDowell says the hospitality segment should show steady growth over the next few years. "The general population still demands leisure activities," he explains, "and vacation destinations are becoming more adept at anticipating and meeting the demands of those who want an active vacation adventure."

Sarmiento's advice is to "focus on a specific part of the industry, such as boutique hotels. Understand their issues and concerns, join an association that can help provide leads as well as education, develop a list of key coverage needs, and then develop a relationship with a program administrator or carrier and focus on what's within their risk appetite."

She adds, "Our top three reasons for declining a risk include: property is not sprinklered; poor loss ratios; and protection class 9 or 10. If a broker knows what to avoid and understands the basic underwriting criteria, they will have a much higher success rate."

Private community resorts may see significant expansion—and provide special opportunities. "The plus-55 demographic is growing and they have money to spend," says Sarmiento. "People in this segment own second homes or condos in resort communities. They stay there a few weeks a year, and then lease their homes to the community association or perhaps a management company that, in turn, rents them out to the public."

In the food and beverage sector, agents and brokers should look at specific segments. "Retailers would do well to focus on the fast-growing emerging market we call 'fast casual,'" explains Strommen. "They are the more upscale, but still quick service, type of restaurants." Many local accounts fit into that classification, which includes national brands like Chipotle or Panera Bread.

"These establishments definitely cater to a different class of business than traditional fast food," Strommen adds, "but they still offer a more economical way to eat out than taking the family to full-service, sit-down, table-service restaurants." She says some carriers regard them as they would a fast food franchise, and write them based on that. "A lot of carriers don't want to write fast food," she says, "but we think this is an entirely different class of business, and a much more desirable one, so we are happy to write those types of accounts."

Maher encourages agents and brokers to focus on established businesses. "They have proven that they survived the recent recessionary times we have all had to work through," he explains. Zito says start-ups offer opportunities, too. "As the economy declined, the number of bars and restaurants decreased, resulting in a shrinking market," she explains. "With the economic rebound occurring, we're seeing applications for new ventures. Agents also can supplement their income by insuring special events; we're seeing more applications for that coverage, too."

Agents and brokers who target alcohol-serving establishments already monitor liquor license activity. "They'd also be wise to monitor city council and economic development activity," Zito explains. "This can generate leads on new adult entertainment clubs, new businesses occupying vacant buildings, street reconfigurations, or changes in traffic controls for a strip mall or business." To attract special events business, she suggests agents leave business cards at local churches and fraternal organizations to generate business from their hall rentals.

Maher suggests that agents and brokers investigate markets more thoroughly now than they did during the soft market. "Over the past several years, programs and markets considered business from any broker who would submit it," he explains. "Capacity was abundant." As the hospitality market



continues to firm, businesses will find a market, he adds, but subsequent renewals will become more difficult.

“Now is when brokers should establish relationships with markets they believe will be available going forward,” Maher adds. “Agents don’t want to lose business they worked hard for this year only to find out their market has dried up when renewal time comes around the following year.”

He offers specific advice for certain risks. “Programs that don’t offer assault and battery coverage should be carefully evaluated by brokers before offering them to owners who may face losses due to conflicts involving alcohol service or security,” Maher warns.

Strommen encourages agents interested in writing restaurant

business to follow the industry. “There are issues like cyber liability and EPL, which some think of as an old issue,” she explains. “But a lot of restaurants still don’t carry EPL insurance. Consider umbrellas, too. Many restaurant owners don’t understand their exposure in a big liability claim, especially if they are serving liquor.

“Keep working to bring value beyond price,” she adds. “Use specific examples of why clients and prospects need certain coverages. Follow trade publications—online and in print, get involved in trade associations and, of course, work with an underwriter who understands the business.”

McDowell says, “Get to know your customer’s business. Today’s resort

property operates 24/7, encompassing a variety of different exposures, from restaurants and bars to passenger transportation, to the application of herbicides and pesticides on the grounds.” Some resorts choose to handle everything in-house, he adds, while others rely on subcontractors.

“Understand the difference between summer and winter operations for properties that change seasonally,” McDowell advises. “Knowing the varying nature of a resort’s exposures and helping identify and successfully transfer risk are essential broker roles.”

Strommen adds, “It’s important to really be an advisor, and not just someone who throws a price on the table and hopes it’s the lowest.” ■