Outlook

Hospitality

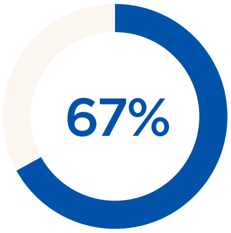
Shifting focus to improving risk management, facility maintenance and worker wellbeing will serve up results.

HUB

Risk & Insurance | Employee Benefits | Retirement & Private Wealth

What to Expect in 2024

The country's insatiable appetite for leisure travel has buoyed the hospitality industry following the gloom of the COVID-19 pandemic. However, lower levels of business travel, elevated inflation and rising property insurance rates will threaten profitability, and labour shortages will persist. Hospitality companies focused on risk mitigation — and those willing to consider alternative insurance strategies — will be best positioned to succeed in 2024.



of Canadian hospitality executives cite increased expenditures as a significant threat to their profitability.

HUB International 2024 Outlook Executive Survey.

Profitability

Business is rebounding but the financial environment will remain challenging.

Many hospitality businesses are continuing their positive momentum into 2024. Sales at restaurants and bars are expected to hit a record $110 billion this year[1] and today's pent-up demand for leisure travel continues to grow, with business travel expected to reach pre-pandemic levels by 2025.[2]

However, inflation could dampen demand for leisure travel in 2024. Higher commodity prices will increase the cost of doing business, pressuring profitability. And recent strikes by hotel workers in British Columbia could lead to additional losses.[3]

Profit margins are thinner than ever. The number of restaurant bankruptcies in the country in the first half of 2023 was up nearly 90% compared with the first six months of 2022.[4]

More than two-thirds of Canadian hospitality executives that responded to HUB's 2024 Outlook Executive Survey[5] cited increased expenditures as a threat to profitability in the coming year. In addition, the escalating frequency and severity of weather events nationwide are driving up property insurance rates, adding an additional financial burden.

The difficult fiscal environment is expected to continue throughout 2024. Regulatory changes[6] — such as minimum wage increases for several provinces in 2024 — as well as the debilitating burden of repaying pandemic-related debts will tax hotels, resorts and restaurants throughout the country and require a new approach to payment structures and gratuities.[7]

In addition, hospitality companies that own their properties will struggle to find adequate property insurance, particularly those with exposure to hurricanes, floods, convective storms and wildfires. In some cases, these properties may only be able to secure a fraction of the coverage they need. For example, a hotel in the Maritimes that has historically been able to purchase $15 million in wind coverage may only be able to secure $5 million in 2024.

Companies that lease can expect to see these increases reflected in their rents.

Hospitality companies with a strong focus on risk management will be more successful in securing adequate coverage at the best price.

1. Global News, "Half of restaurants losing money or just breaking even, finds new report," October 24, 2023.
2. Toronto Star, "Leisure travel by Canadians is back to pre-pandemic levels – but not business trips. Here's why," August 11, 2023.
3. CBC, "Striking hotel workers demand wages meet the cost of living in Metro Vancouver," August 5, 2023.
4. Pivot Magazine, "Are you being served? Restaurants face a turning point," September 25, 2023.
5. HUB's 2024 Outlook Executive Survey polled 900 C-Suite and VP-level executives on the issues facing them on profitability, employee vitality and organizational resilience.
6. CTV News, "Canada extending small business emergency loan repayment deadline," September 15, 2023.
7. Government of Canada, *Canada Emergency Business Account*, accessed October 27, 2023.

Addressing worker wellness will improve ongoing labour shortage.

Nearly

85%

of hospitality workers in 2022 said they have experienced mental health issues.

The labour shortage in hospitality persists. The food service industry had more than 170,000 job vacancies in 2022,[8] and more than 43% of restaurateurs are managing with a smaller staff.[9] In the hotel industry, two out of three places of accommodation report that labour shortages are significantly impeding their business.[10]

In fact, 57% of Canadian hospitality industry respondents to HUB's survey say job market dynamics have affected their organizations' vitality, and nearly half say they were strongly focused on employee recruiting.

Given the competition for talent, leveraging analytics to deliver personalized benefits that ultimately create **quality employee experiences (QEX)** can differentiate hospitality businesses in the eyes of potential employees.

Providing benefits that speak to individuals requires an in-depth picture of individual needs and wants. For instance, younger employees may not want or need expensive health insurance but would like access to mental health counselling and telehealth. Older workers, meanwhile, may prioritize prescription drug benefits and retirement programs. And yet others may need financial wellness and wealth-building education.

More hospitality companies are prioritizing wellness benefits, particularly mental health. With more than 10,000 restaurant closures since 2020 and the added strain of staffing shortages, nearly 85% of hospitality workers in 2022 said they have experienced mental health issues.[11]

In response, many hotel and restaurant employers are improving employee assistance programs and providing access to mental health therapists. Some are partnering with mental health organizations to offer online counselling, and one Calgary-based organization is offering free peer support.[12]

Regardless of the approach, nearly all employers have increased their focus on employee wellbeing. This not only leads to increased employee recruitment and retention, but it can decrease recruiting costs, reduce sick days taken and promote employee satisfaction.[13]

8. TVO Today, "Three big challenges facing Canada's restaurant industry in 2023," January 18, 2023.
9. Cision, "Hospitality Businesses Are Turning to Technology to do Better with Less Amidst Labour Shortages and Economic Uncertainty," January 31, 2023.
10. Hotel News Resource, "It's Possible to Do More with Less During a Labor Shortage: Here's How," August 14, 2023.
11. Menu, "Mental Health Awareness in the Hospitality Industry: Kris Hall and The Burnt Chef Project," April 8, 2023.
12. Global News, "New mental health initiative created in Calgary focuses on healing hospitality industry," June 13, 2022.
13. Canadian HR Reporter, "How happy is your workplace?" August 28, 2023.

Resiliency

Risk preparedness is paramount for continued success.

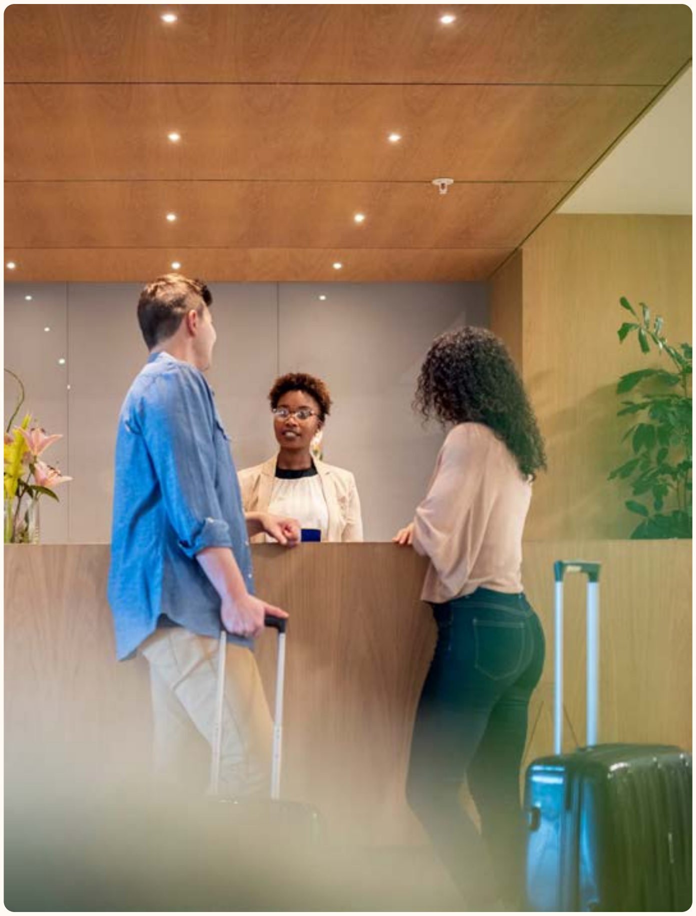
Hotels, resorts, restaurants and bars that survived the worst of the COVID-19 pandemic are more resilient as a result: These companies learned the importance of risk management and how to make their operations better equipped to handle risk.

However, not every business is prepared to survive the next disaster. This is reflected in insurance rates for the hospitality industry, with property insurance rates increasing up to 10%, and rates for catastrophic (CAT) perils in high-risk zones going even higher.

Hotels and restaurants located in areas prone to wildfires can expect challenges at renewal, and insurers are re-evaluating property insurance terms and conditions for properties in the Maritimes with hurricane exposure.

However, rates are stabilizing in many other lines of coverage. Excess liability insurance rates will increase slightly, although large resorts, hotels and restaurant chains may not be able to find sufficient limits from a single insurer.

Resorts, hotels or restaurant chains with positive loss history — particularly those located in CAT-prone areas — may benefit from joining a **captive**. Captives give access to insurance capacity that would be otherwise difficult to obtain. In addition, companies participating in a captive are entitled to share in any underwriting profits.



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Regardless of how they meet their insurance needs, hospitality businesses should consult a broker before renewals. It will demonstrate to underwriters a commitment to risk reduction and that the company has plans for mitigating potential exposures, giving it the best opportunity to secure coverage at the best terms and prices.

Property protection will be more problematic in changing environment.

Underwriters are scrutinizing properties like never before. From analyzing historical wind and extreme heat patterns to evaluating brush exposure, restaurants, hotels and resorts will need strong risk management programs if they hope to get a favourable renewal in 2024.

As a result, hospitality companies will need to ensure facilities are maintained and exceed safety standards. These actions include upgrading windows and roofs, and adding weather and disaster modeling, which will make facilities less vulnerable to wildfires and storms and may reap rewards at renewal.

Among hospitality respondents to HUB's survey, nearly 50% are using technology to a "significant" extent to help mitigate risks, and a similar number are using modelling and forecasting to evaluate the impact of anticipated risks.

While some mitigation techniques — such as using geospatial intelligence to predict earthquake, wildfire or flood vulnerability — may seem prohibitively expensive, even adding simple measures like water monitors, which insurers often distribute for free, will make properties a more attractive risk.

Case study:

In some cases, investing in upgrades and consulting with predictive modelling services can reap significant savings. When a private oceanfront golf course, a HUB client, began construction of a new facility, it invested in sophisticated flood mapping and made modifications to create a building strong enough to withstand hurricanes. The effort also resulted in a financial payoff: An annual $25,000 discount on property insurance for their efforts.

Make a plan

HUB hospitality insurance, risk management and employee benefits specialists will work with you to develop a tailored strategy that will protect the bottom line, support your workforce and build resiliency for 2024. Here are some initial considerations:

Thoughtfully lean into risk.

High interest rates and increasing catastrophes are making insurance more expensive for hospitality companies. Consider alternative insurance vehicles, such as **captives**. Ask your HUB broker about what kind of insurance strategy meets your risk profile and budget.

Invest in your facilities.

With rising property insurance rates, resorts, hotels and restaurants need to take steps to mitigate their risk. Whether it's investing in windows and roofing that can withstand hurricane winds or adding water sensors throughout buildings, underwriters will offer the best terms and pricing to those managing their exposures.

Increase workforce engagement through benefits.

Hospitality companies have difficulty attracting and retaining employees, but those with a benefits strategy based on personalization and fostering a **quality employee experience (QEX)** will boost engagement, have an advantage in recruiting and retention and lower risk as well.

Be transparent with your broker.

Let your broker know what changes you've made to the business, so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, so your broker can identify the best options.

Canada Commercial Rate Outlook

HUB International interviews brokers and risk services consultants and analyzes survey data to bring you our proprietary rate report each quarter. Read the HUB 2024 Commercial Lines Rate Outlook to know what to expect in advance of your next renewal.

Coverage	2024 Canadian Commercial Rate Outlook	Insights
Commercial Automobile (5 or fewer vehicles)	↑ +5% to 10%	Some inflationary claims cost pressures remain. Given the higher frequency of claims and greater repair costs, rate filings are increasing in most provinces.
Commercial Automobile (6 or more vehicles)	↑ +1% to 5%	Underwriting performance remains profitable, but the cost of some claims has risen due to inflation. Supply chain delays have stretched timelines to resolve claims.
Liability	↑ +5% to 10%	Improved performance in general liability has helped insurers offset poor performance on property lines. Carrier appetite has broadened as insurers look to underwrite more liability to diversify their book.
Excess Liability	↑ +5% to 10%	Excess casualty remains fairly stable with some variability depending on exposure and attachment point. Given increases on primary coverage, some excess layers are increasing accordingly. Some classes of business with favorable loss history might see rate reductions.
Commercial Property	↑ +5% to 25% (varies by geography)	Commercial property rates will continue to increase, and in some locales, they could rise substantially as a result of increased reinsurance costs. Capacity will be challenging in CAT-prone zones. Increased claim frequency and severity, supply chain delays and unprecedented catastrophic activity — including wildfires across the country and a 1,000-year flood event in Nova Scotia — will also affect rate. As the cost to rebuild has increased, focus remains on insurance-to-value, which will affect overall premiums.
Residential/ Habitational Property	↑ +5% to 10%	Rising reinsurance rates, construction costs, and supply backlogs are pushing up rates and elongating claims timelines. Additional attention on insurance-to-value will also affect overall premiums given the increased reconstruction costs.
Catastrophic Perils	↑ +11% to 20%	Increases will be much higher in CAT-prone areas. Unprecedented wildfires across the country and the catastrophic flood in Nova Scotia were indicative of the increased severity and frequency of perils.

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Environmental	Flat	Rates for Pollution Legal Liability (PLL) and Contractors' Pollution Liability (CPL) coverage are projected to remain flat. However, there is increasingly restrictive coverage for PLL coverage of emerging contaminants. Insureds should carefully review any new restrictions or exclusions in policies before renewals. Pollution policies combined with general liability are likely to see rate increases due to the GL exposure.
Directors & Officers: Private	↓ (-5%) to ↑ +5%	Insureds with no major changes can expect to see no rate increases at renewal or even slight decreases. Those with claims or significant exposure changes will see a modest premium increase. Note that financially challenged accounts will have a difficult time finding D&O insurance.
Directors & Officers: Public	↓ (-15%) to Flat	Capacity has increased for D&O coverage at publicly held companies, leading to rate decreases on both primary and excess layers, with excess layers seeing the greatest reductions. Organizations that trade on U.S. exchanges or have gone public in the past two years will see the greatest reductions.
Cyber Liability	↓ (-10%) to ↑ +10%	The cyber insurance market has shown signs of stabilizing through the third quarter of 2023. Some public sectors such as higher education, healthcare and municipalities still are problematic for underwriters, while some technology companies face additional scrutiny due to recent attacks on software and managed service providers. Insurers are focusing on information security controls when assessing risks and making pricing decisions.
Inland Marine	↑ + 5% to 10%	Frequency and severity of claims remain an issue, while supply chain issues and continued catastrophic events are leading to rate increases, similar to challenges faced for property coverage.
Marine	↑ + 5% to 10%	The commercial marine insurance market is hardening, leading to rate increases. As clients approach fourth-quarter renewals, insureds need to accurately assess risks, understand changing coverage terms, and consider alternative options. Active risk management remains crucial to keeping premium hikes to a minimum.

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Agribusiness	↑ +11% to 20%	Limited capacity will present challenges in agribusiness. Rates will continue to rise for insuring buildings and equipment. In addition, inflation will make it difficult for agribusinesses to secure adequate limits, particularly for enterprises with an adverse claims history. Premiums for food and beverage operations continue to rise. Risks remain difficult to place due to the increasing severity of losses worldwide. In farming, claims from forest fires have reduced capacity. However, liability rates remain stable, with underwriters offering ample capacity.
Cannabis	+5% to 10%	Expanding export opportunities and the loosening of global regulations have increased liability insurance options, with more competition entering the market. Property remains static with 5% rate increases continuing. However, rising inflation is elevating the reconstruction value of buildings by a minimum of 5%. With many buildings already underinsured, property insurance costs will further rise as building valuations increase. However, new entrants are expected in the property market, increasing capacity. D&O remains stable, but economic strain and highly leveraged balance sheets will prompt underwriters to closely scrutinize accounts.
Construction	↑ +1% to 5%	Rates are holding steady for most of the industry, though best-in-class risks may see slight rate reductions. Premiums are growing as a result of valuation adjustments due to inflation and gross receipts changes. Large value course of construction is seeing some upward rate pressure on higher value frame projects due to the number of carriers required to place those risks.

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Education	↑ +10% to 12%	On property coverage, rates are expected to rise 5% with inflationary increases of property values up 7%. Institutions that have not right-sized their property valuations will continue to see double-digit increases in attempts to close the gap on under-valuations. After several years of large rate increases, cyber rates are expected to stabilize, particularly for institutions that have improved their cybersecurity. Commercial general liability rates are expected to rise 5%, except for abuse coverage, which continues to be challenging. Underwriters are linking rates for abuse and molestation coverage to the risk management and mitigation policies, procedures and training protocols of policyholders. D&O rates will rise 5% on average, but institutions facing renewal after a three-year guaranteed rate could see much larger increases.
Entertainment	↑ +5%	Property and liability rates in the event space are expected to increase 5% to 10% in 2024. In film, policyholders with claim-free accounts may see flat renewal rates. D&O in the entertainment sector will likely increase 5% with cyber up about 15% on average. Abuse and molestation insurance remains challenging, with rates rising 25% or more due to reduced capacity.

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Coverage	2023 Rate Outlook	Insights
Financial Institutions	↓ Flat to rate reductions	For the most part, financial institutions will see an accommodating insurance market. Rates are likely to be flat for private company D&O insurance; for public companies, rates for D&O coverage will be flat in 2024 after premiums declined in 2023. General partnership liability coverage will decrease as much as 10%, as there are only a handful of carriers in this segment in Canada. Cybercrime insurance rates are flat for primary layers, especially for smaller companies. For excess layers, however, rates are falling 20% to 30%, or even more. Premiums for reps and warranties (R&W) insurance will experience no or moderate increases in 2024, due to an expected rebound in M&A. However, rates fell significantly in 2023, as increased competition for a smaller number of deals led to discounting.
Healthcare	↓ Rate reductions	For medical malpractice insurance, there has been an expansion of capacity and significant competition for new business; insurers are agreeing to steep discounts as a result. Those seeking healthcare D&O insurance will also see significant rate reductions, especially in high-risk markets. There are difficulties in property insurance in healthcare. Some underwriters may offer discounts through bundling property and liability coverage.
Hospitality	↑ +5% to 10%	Rates are improving for both property and liability across the country. However, hospitality businesses with property exposures to natural catastrophes such as wildfires may see greater rate increases due to the frequency and severity of these events in many provinces within the past year. Properties in the Maritimes may also see increased rates due to potential hurricane exposure.

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Coverage	2023 Rate Outlook	Insights
Nonprofit	↑ +7% to 20%	The insurance landscape is becoming more challenging. Small and medium enterprises in the nonprofit sector will see rate increases, particularly in D&O, cyber and abuse and molestation coverage. With limited capacity, insurers are enforcing more stringent underwriting guidelines, extending the time necessary to successfully secure a quote.
Real Estate	↓ (-5%) to ↑ +10%	Real estate insurance will see a mixed rate environment in 2024. Properties in high-catastrophe (CAT) risk zones will see little or no rate relief in 2024 and are likely to experience premium hikes. Rate reductions may be available for best-in-class properties with clean loss histories. However, the higher cost of rebuilding, along with greater property valuations, are likely to offset premium decreases.
Sports	↑ +5%	Depending on the age and construction of buildings, property in the sports industry is expected to rise 5% or more. Abuse and molestation coverage will continue to be challenging. Unlike the days when it was included in general liability pricing, abuse coverage will continue to be underwritten separately; the sports industry can expect to see limits reduced for such coverage in 2024.
Transportation	↓ Rate reductions for fleets +5% to 10% for IRCA	Increased competition in the transportation market has led to market softening across Canada, but poor underwriting results posted by one large insurer in the space could impact rates in the future. Additional capacity through Lloyd's is also making excess liability more available. Fleets: Historically, only best-in-class trucking companies enjoyed better terms and conditions, but the market conditions are now allowing second- and even third-tier companies tap into those benefits. IRCA: Renewals can expect to see 5% to 10% rate increases.

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HUB Hospitality

When you partner with HUB, you're at the centre of a vast network of experts who will help you improve your profitability, enhance the vitality of your workforce and remain resilient into the future. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB hospitality advisor. We're here to help.

$739M

in commercial insurance premium brokered by HUB

15,400

hospitality clients

37,000

insurance policies managed

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