

HOSPITALITY INDUSTRY GUIDE

A Guide to Self-Insurance

Thriving in a Challenging Insurance Market Through Self-Insurance



Property and casualty insurance in hospitality has followed the insurance market overall: Rates are increasing without any end in sight. And hotels, restaurants and resorts are having difficulty simply securing adequate insurance at any price.

The skyrocketing costs and increased underwriting scrutiny have made self-insurance — which can reduce premiums by retaining risk in-house — a viable alternative for many hospitality companies.

Self-insurance simply means retaining risk as opposed to transferring it to a third party, such as an insurer. Self-insured entities allocate capital on their balance sheet to cover claims instead of paying a premium to an insurer.

While self-insurance is usually just one part of a comprehensive risk financing program, it can be a viable option for hospitality entities with multiple properties or insurance policies. For example, designating a percentage of coverage an organization would normally buy for perils, such as floods or earthquakes, or placing insurance with multiple carriers is taken in-house and handled by the organization itself.



It's a tough market out there

For reasons beyond their control, hospitality operations are finding it particularly difficult to get affordable property insurance. Insurers are suffering record-breaking losses from catastrophe-related claims, and rebuilding costs have risen due to inflation, supply chain challenges and outdated property valuations.

Higher rebuilding costs are especially acute for hotels and other hospitality properties located in areas prone to windstorms and wildfires.

Additionally, the cost of reinsurance, which protects primary insurers, has also increased, putting pressure on those primary insurers to raise rates to pay for the reinsurance.

Things have gotten so bad that even properties with no prior claims history are being hit with property rate increases ranging from a 10% to 20% renewal — or as much as 200% in catastrophe-prone areas over the last five years. Those have major effects on any hospitality company's bottom line.

Relying on strong risk management for self-insurance

Not all hospitality operations are good candidates for self-insurance: Self-insurance is suited to fill in specific parts of an insurance portfolio and requires strong risk management to back it up. Lenders can play a pivotal role approving or rejecting self-insurance on their collateral. As such, any effort to self-insure a property risk should be done carefully and methodically.

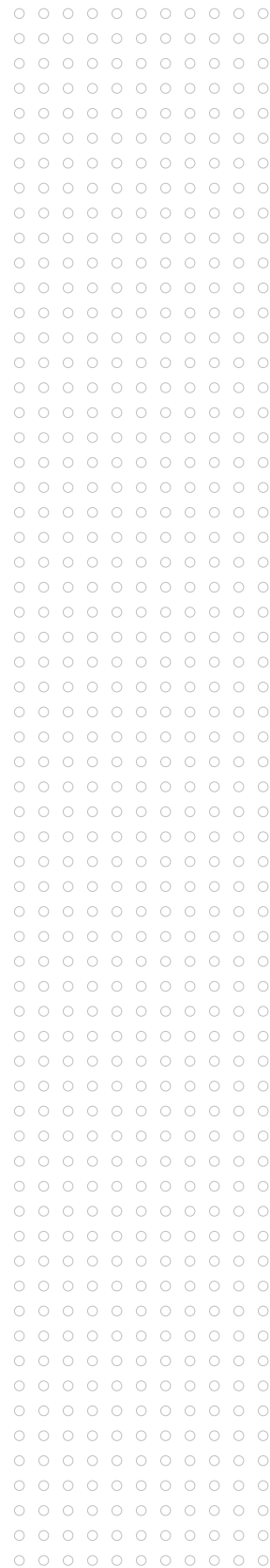
Self-insurance gives hospitality companies more control over their insurance program, claims and risk management. And when providers put their own capital toward self-insurance, underwriters are often willing to provide other needed coverage or higher limits.

Self-insurance structures

There are many ways to structure self-insurance programs. For example:

- Companies can self-insure **excess policy layers**, allowing them to shift savings toward the primary policy.
- Self-insurance can cover **individual policies**, such as property or general liability, if one coverage is too expensive or unavailable through the standard or excess markets.
- There is also **captive insurance**, in which entities transfer risk to a wholly owned insurance company (or other alternative risk financing vehicle) while accessing the reinsurance market for additional capacity. Captives can help hospitality companies satisfy lender requirements while building a long-term approach to insurance.

Because there are so many different structures for self-insurance in hospitality, it's important to consult an insurance broker with self-insurance and industry expertise to learn all your options.





CHECKLIST

The questions you need to ask before embarking on a self-insurance program

For all of its benefits, a self-insurance program isn't without downsides. Here's what to ask when deciding whether self-insurance is the best way to insure your hospitality assets:

- Does self-insurance actually save money?**
Self-insurance should be more affordable and provide better coverage than a traditional carrier. But that's not always the case. You need to know the numbers before embarking on a self-insurance program.

- Will a short-term insurance plan suffice?**
Self-insurance is often better as a short-term option for a single coverage, such as for wind damage or wildfire, that's too expensive or with limits that are too low. Property owners may need to be comfortable without a long-term solution.

- What do your lenders say about self-insurance programs?**
Every borrower must maintain insurance as a condition of their loan. Lenders need to grant approval for self-insurance and specify how much risk can be self-insured. A captive program may be a way to satisfy lender requirements.

- Is there enough time?**
Structuring a self-insurance program takes time, so insureds need to plan far ahead — it's not a last-minute option in hopes of securing coverage or cutting costs.

- Is the technology adequate?**
The complexity of self-insurance programs requires the technological wherewithal to evaluate and manage risks, as well as ensure compliance. Strong data and analytics capabilities are needed.

- Do you have strong risk management strategies?**
Without a strong risk management program, self-insurance can't work. You can evaluate the strength of risk management efforts using data and analytics.

- Can your broker handle self-insurance?**
Evaluating self-insurance is complicated and cumbersome, requiring specialized knowledge. An experienced hospitality insurance team can assemble the different elements in a self-insurance program for maximum impact.

Hotels, restaurants and resorts need an insurance broker who can handle all their needs in a seamless manner and avoid gaps in coverage. Working with a single brokerage firm with knowledge and experience in both the U.S. and Canada reduces risk and administrative workloads.

Contact HUB International's [hospitality insurance experts](#) to learn more about self-insurance and if it's the right option for you.

Strategic support that puts you in control.

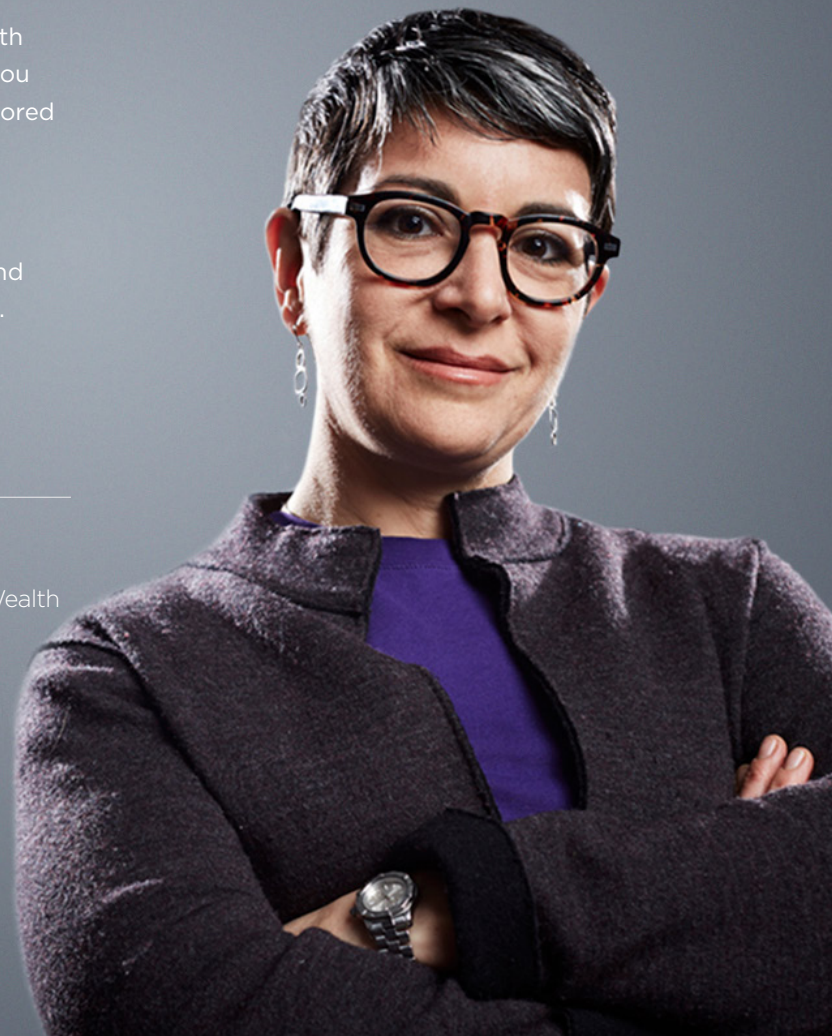
When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. With HUB, you have peace of mind that what matters most to you will be protected — through unrelenting advocacy and tailored solutions that put you in control.

For more information on how to manage your insurance costs, reduce your risk and take care of your companies and employees, contact a **HUB hospitality insurance specialist**.

hubhospitality.com

Ready for tomorrow.

Risk & Insurance | Employee Benefits | Retirement & Private Wealth



This information is provided for general information purposes only. HUB International makes no warranties, express, implied, or statutory, as to the adequacy, timeliness, completeness, or accuracy of information in this document. This document does not constitute advice and does not create a broker-client relationship. Please consult a HUB International advisor about your specific needs before taking any action. Statements concerning legal matters should be understood to be general observations and should not be relied upon as legal advice, which we are not authorized to provide.