

**HOSPITALITY INDUSTRY GUIDE**

# Reimagining the Future of Hospitality

How the Hospitality Industry Is Preparing for Post-Pandemic Growth



# Reimagining the Future of Hospitality

The North American hospitality industry, one of the hardest hit by the COVID-19 pandemic, is inching its way to normalcy. However, the new normal for hotels and restaurants in 2021 and beyond won't look like it did in 2019.

The pandemic hit hotels, restaurants and bars across the U.S. and Canada. Approximately 28,084 hotels closed for some portion of the pandemic,<sup>1</sup> and in the U.S., more than 110,000 restaurants and bars shut their doors for good in 2020.<sup>2</sup>

On the positive side, there's huge pent-up demand for travel and dining across North America. Businesses leaders want face-to-face business meetings again. Tourism is returning. Customers eagerly await restaurants to open in full.

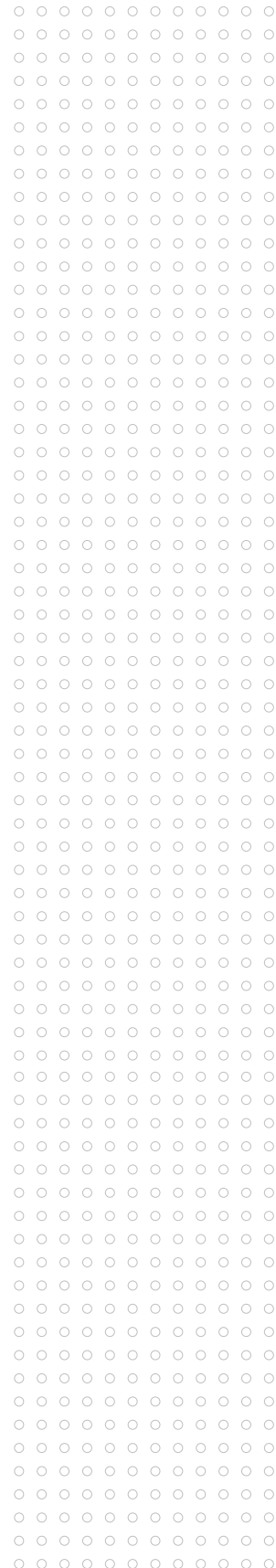
However, a spotty recovery threatens a full reopening in hospitality. Some regions have not gotten the pandemic under control and others simply remain economically depressed, including major markets suffering from the continued slowdown in travel. Canadian hotels continue struggling with the collapse of international demand, especially with a mandated 14-day quarantine for people who do enter the country. And the easing of restrictions comes too late for thousands of restaurants that have closed permanently.

## The costs of covering risk in this environment

A full recovery or not, hospitality owners and operators face a bigger issue that may derail the recovery in its tracks: getting proper insurance coverage. In order to get or stay insured, hospitality owners and operators need to tell underwriters a compelling story about their organizations' prospects in a post-COVID-19 environment.

That's because insurance markets are "hard," with limited coverage and rising premiums. Combined with the costs of covering fires and floods, as well as other risks like active shooting incidents, the pandemic has resulted in declines in renewals or premiums quoted four times higher than before.

The pandemic did more than challenge the hospitality industry's resilience in the face of a global crisis. It shined a bright light on risk, especially unknown risks. The industry's ability to anticipate, manage and mitigate risk has become more important than ever, as the cost to cover risk has escalated and insurance availability has shrunk.



<sup>1</sup>Costar, "[The Lost Year: How COVID-19 Has Altered the Hotel Industry](#)," March 19, 2021

<sup>2</sup>Fortune, "[More than 110,000 eating and drinking establishments closed in 2020](#)," January 26, 2021.

## Carriers just saying no to hospitality?

Insurance carriers are increasingly bowing out of the hospitality market or making large exclusions in certain coverages. Premiums are rising across the board. Some of the most notable challenges across various insurance lines include:

- **Commercial general liability:** Insurers have made it standard to have exclusions for COVID-19 and other communicable diseases.
- **Excess liability/umbrella:** Hospitality owners and operators are finding it difficult to find coverage above and beyond standard liability limits. Layering strategies, where risk exposures are covered in multiple layers by different insurers, are difficult to execute.
- **Property:** Pressured by an increase in the intensity of natural disasters, property rates had already been on the rise since 2019. Carriers walked away from some of the more vulnerable markets and coverage became more restrictive. COVID-19 created another layer of problems, as heightened business interruption exposures caused a tightening of limits and coverage. However, this year's pricing increases are expected to be moderate from 2020 levels.
- **Workers' Compensation:** The pandemic was a factor in rising rates in some states, although this trend hasn't been universal. California, for example, saw a 2.6% rate increase, compounded by a COVID-19 sliding rate surcharge; industries whose workers have the greatest exposure pay the most.
- **Cyber insurance:** Hospitality's COVID-19-accelerated embrace of technology makes it more vulnerable to cybercrime. As the number of claims overall and their severity jump, premiums could rise by as much as 50%.<sup>3</sup>
- **Directors & Officers (D&O), Errors & Omissions (E&O):** The pandemic had major implications for hospitality executives and boards. Executive liability exposures have pushed D&O and E&O premiums up as much as 50%.

The hotels, restaurants and bars that have survived have a compelling story to tell underwriters about how they persevered and managed their risks.

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<sup>3</sup>Captive.com, "[Cyber Insurance Premiums Likely to See Hefty Increases through 2021](#)," March 16, 2021

## Lodging industry awaits a turn in the post-COVID tide

As surviving hospitality businesses simply try to fully reopen while managing changing risks, they also need to be aware of market challenges. Hotel owners and operators are seeing some relief, with markets attracting leisure travelers recovering the fastest.

In markets like Florida, many beach hotels and resorts have sweetened the deal with “staycation” and “daycation” offers and aggressively discounting room rates. However, as more lodgings open and compete for fewer customers, everyone will feel the negative effects on profitability and diminished returns.

Furthermore, hotel revenues are often contingent on business travelers. The American Hotel & Lodging Association predicts that 56% of consumers will return to travel this year, but canceled conventions, limited in-person meetings and expanded remote working leaves half of the nation’s hotel rooms needing occupants.<sup>4</sup>

Still, post-pandemic pent-up demand has inspired hotel developers to make plans — hotel franchises and developers (including major franchises like Marriott and Four Seasons) have announced construction of some two dozen hotels in South Florida’s Broward and Palm Beach counties alone.<sup>5</sup>

## THE LIGHT GLIMMERS AT THE END OF THE TUNNEL

In the U.S, positive trends are gaining momentum, underscored by various performance data at the start of 2021:

- The rollout of the coronavirus vaccines has given travel a much-needed shot in the arm. It’s still a turbulent environment, though. Global business travel isn’t expected to fully recover until 2025,<sup>6</sup> but consumer travel summer reservation volume in the U.S. has surged 110% from 2020 levels.<sup>7</sup>
- U.S. hotels entered the second quarter of 2021 with revenue per available room increasing almost every week of the year. Only 20 markets were categorized as “depression.”<sup>8</sup>
- While hotel construction in 2021’s first quarter is down from its all-time peak in April 2020, the U.S. led the world in new hotel and room openings during the period, opening 220 properties with 26,057 rooms.<sup>9</sup>
- The U.S. restaurant industry rebounded in the first quarter, even though February’s performance suffered when the winter weather hit California and Texas hard. First-quarter industry sales increased 1% as the sector.<sup>10</sup>

<sup>4</sup>CMSWire, “[What Does Customer Experience in the Hotel Industry Look Like Today?](#),” January 29, 2021

<sup>5</sup>South Florida Sun Sentinel, “[Many fancy hotels are just opening in South Florida. They want to wow you with food, spas and lots more.](#),” January 25, 2021.

<sup>6</sup>Global Business Travel Association, “[Business Travel: Full Recovery Expected by 2025.](#),” February 2, 2021

<sup>7</sup>Forbes, “[One Year After Pandemic Hit, The Hospitality Industry Is Seeing Signs Of Recovery.](#),” March 15, 2021

<sup>8</sup>STR, “[U.S. Market Recovery Monitor - 3 April 2021.](#),” April 8, 2021

<sup>9</sup>STR, “[U.S. leads world in hotel openings as construction activity declines.](#),” April 6, 2021

<sup>10</sup>Black Box Intelligence, “[Strength of Restaurant Industry Visible in Sales and Sentiment.](#),” March 2019

## After pandemic shakeout, restaurant pivots pay off

The pandemic shook the restaurant business to its core. Sales that had been expected to reach nearly \$900 billion before the pandemic instead fell \$240 billion.<sup>11</sup> The industry is coming back, the strongest having successfully pivoted and with fresh new opportunities having emerged from the ashes.

Several trends gathered speed as restaurants sought to keep the ovens fired. For example, with sit-down service limited, virtual restaurants allowed companies to launch new, delivery-only concepts. Their menu items were prepped in the kitchens of their existing restaurants. And third-party platforms provided a delivery lifeline to many restaurants, albeit at a cost of 30% per check. Restaurants with the resources to create their own delivery teams have been relying on them more.

As the recovery continues through 2021 and beyond, the environment has created new opportunities for surviving and aspiring restaurateurs. The high commercial space vacancy rates as a result of the pandemic have opened a lot of “A” rated space at “B” location prices. It’s an environment made for new chefs, new branding and new restaurant groups.

## NOT SO HOT IN THE GREAT WHITE NORTH

Canada’s hospitality industry is undergoing a slower recovery; if not for government-provided subsidies, many additional hospitality concerns would have folded in addition to the ones that closed. Most hotels have opened to some extent, but occupancy rates have been as low as 10% in Alberta and about 25% in other provinces. The data paints a mixed picture:

- International travel to Canada plunged 93% in 2020 and continues to be depressed as foreign travelers face a long quarantine on arrival. Lower hotel room occupancy forced cuts in room rates, from an average daily rate of \$162 in 2019 to \$124.
- Some Canadian markets, including Vancouver and Toronto saw significant hotel occupancy increases into the first quarter. Vancouver’s occupancy rose to 55%, a first, since late March of 2020. Montreal’s occupancy has been the lowest, at 16.1% in February.<sup>12</sup>
- Like the U.S industry, Canadian restaurants are coming out of the pandemic scarred, but also primed for a reset. It has been one of the hardest hit sectors. Before the pandemic, about 25% of all the money spent on food was in food service and restaurants. That plummeted in 2020’s second quarter, though there was some recovery in 2021.

<sup>11</sup>Fortune, “[More than 110,000 eating and drinking establishments closed in 2020](#),” January 26, 2021

<sup>12</sup>Hotel News Resource, “[Canadian Hotels Report 27.1 Percent Occupancy for February 2021](#),” March 24, 2021



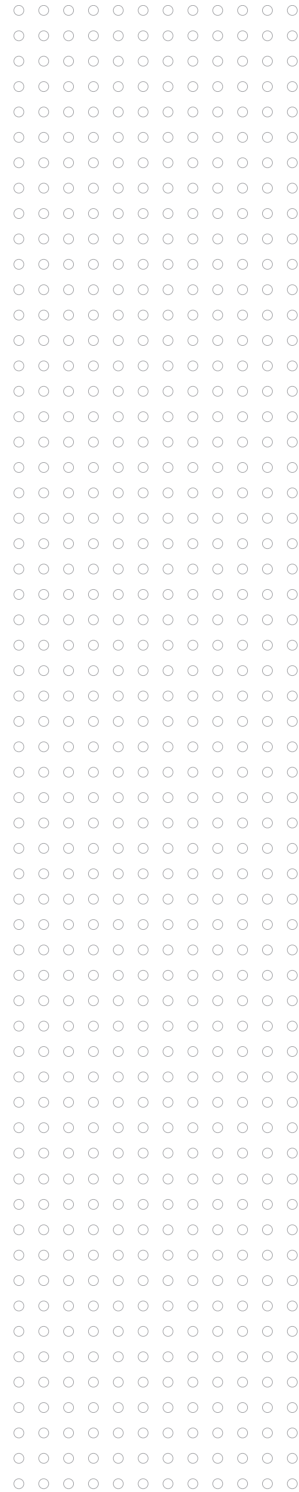
## PARTNER WITH A BROKER WHO KNOWS YOUR BUSINESS

You don't have time to become an insurance expert and monitor the market's ups and downs. That's why you need a good insurance broker. He or she should be a real estate industry specialist, helping you plan for renewals and advocating for you with insurance companies. Here are some recommendations from HUB on how to choose and work with an insurance broker:

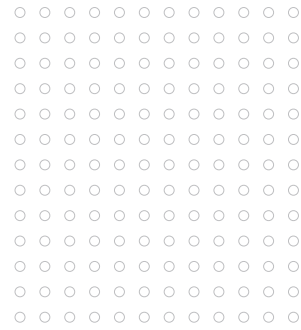
**Meet with your broker regularly.** Begin planning for your next renewal at least 120 days in advance. Check in with your broker regularly to review your losses throughout the year, especially in the four months leading up to your renewal. Understanding your losses will allow you and your broker to better negotiate the renewal.

**Create a relationship with your insurance carrier.** A good insurance broker serves as an intermediary fostering long-term relationships between clients and insurance companies. The better they know you, the less likely they are to overreact to negative news. If you try to change insurance carriers every year, it could negatively affect pricing. Develop a strategy with your broker to determine the best time and frequency to test insurance markets

**Know your numbers and tell your story.** Because insurance underwriters eventually learn about your losses and safety performance, take a proactive approach and be upfront about the strengths and weaknesses of your portfolio. Let them know what you're doing to prevent future losses. Make sure you are familiar with your large losses and loss trends so you can demonstrate to the carrier that you understand the root cause. For example, if slips and falls are common across your properties, be prepared to talk about what you're doing to prevent them in the future.



**Report losses in a timely manner.** Manage the claims process for all lines of insurance and any size claim. Report all claims in a timely manner and keep good documentation. When applicable, share video footage of the damage and or actual crime with your carrier. Clean up any damage and board up your storefront, if necessary. Stay in constant contact with the insurance company and your broker to achieve best case outcomes. The goal is to ensure that your claims are resolved as quickly as possible and at the lowest possible cost to you.



## CASE STUDY

# Turning Disaster into Savings

### CHALLENGE

A hotelier had an unresolved water restoration claim resulting from a burst pipe that left their ballroom soaked. Months later, the business' broker and adjusters hadn't moved on the hotel's property claim, and restoration was at a standstill.



### SOLUTION

As its new broker, HUB stepped in and advocated on behalf of the hotel owner to the insurance carrier, specifically their need to adhere to their chain's aesthetic standard during the renovation, which had ultimately cost more than the initial adjuster's estimate.



### RESULTS

HUB helped the hotelier resolve the claim and soon after, the damaged areas were completely renovated as desired. HUB then conducted an audit of the company's coverages, which led to consolidating umbrella policies, higher coverage limits and a significant annual premium savings of \$20,000.





## CHECKLIST

# Choosing the Right Insurance Broker

You want to get advice from people who understand your business and know your industry. Before choosing your insurance broker, be sure to ask these important questions

- How long have you been involved in the hospitality industry?**  
You don't want to be the first. Your business is risky enough.

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- What percentage of your book are clients like me?**  
You want to confirm that your broker spends the majority of his or her time in your industry and understands emerging trends and issues that could impact your business.

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- How many insurance carriers can you bring to the table?**  
Not all brokers have access to specialty insurance companies who serve the hospitality industry. It's important to align with a brokerage firm that is in good standing with carriers and has the best chance of securing optimal coverage and pricing for your business.

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- In addition to property insurance, what expertise and services do you offer?**  
Your broker should introduce you to certified risk managers who know your industry and can help you address safety issues and advise you on technology solutions that are appropriate to your business.

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- Can you review my contracts and advise me on risk exposures?**  
Experienced brokers will review insurance clauses in all contracts and advise you on changes you should make at no additional charge. They should direct you to attorneys who know your business and can review your other business contracts for liability exposures.

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- What experience does your team have when it comes to claims?**  
When you file a claim, both your broker and your account management team should be committed to advocating on your behalf with the insurance carrier.

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- What other services or expertise can the broker offer?**  
Ask if your broker can introduce you to their counterparts in employee benefits consulting. There are so many new ways to support the needs of today's workforce and you need a specialist to advise you on benefits.

As a hospitality business owner or operator, you'll need an insurance broker who is structured to handle your needs in a seamless manner and avoid gaps in coverage.

# 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 employees, contact a HUB hospitality insurance specialist.

[hubhospitality.com](https://hubhospitality.com)

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