

HUB 2023

# Outlook.

# Hospitality



**Hosting problematic guests: Labor shortages and rising risk.**



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## Setting the Scene

# Bumps in the road may cause trouble in paradise.

As the public's fear from the COVID-19 pandemic receded, pent-up desire for travel and leisure boosted revenue across various sectors. But as high inflation affects the cost of goods, services and labor, profitability and stability remain elusive.

Hotel wages are up nearly

# 18%

in 2022 compared with 2019.<sup>1</sup>

1. AHLA, "[Report: Hotels' Recovery Continues, Workforce Challenges Remain](#)," July 27, 2022.

## What to Expect in 2023

Investments in technology and a pivot in business practices kept the hospitality industry afloat through tough times, but lingering challenges remain: economic uncertainty, ongoing labor shortages, higher costs on everything from supplies to insurance and changing consumer demands. Hospitality employers that engage in risk management and focus on recruitment and retention will be poised to thrive in 2023.



# Uncertain economy will tighten profits in 2023.



Hospitality industry profit margins will shrink in 2023 as supply chain shortages, inflation and increasing wages for workers continue to put pressure on profit margins.

Hotel and lodging industry revenue has rebounded from the COVID-19 pandemic, with room revenue expected to reach \$188 billion in 2022, an 11% increase over 2019. However, adjusted for inflation, revenue per available room is unlikely to surpass pre-pandemic levels until 2025.<sup>2</sup>

The industry will continue to feel inflationary pressure on food, beverages and labor in 2023, with 95% of restaurant

sales going toward these increasing expenses.<sup>3</sup> More than 90% of restaurant owners have raised prices; 65% have made menu changes because of food costs or ingredient availability. Many restaurants have cut back hours and postponed expansion plans.<sup>4</sup>

The skilled labor shortage is raising wages, further shrinking the bottom line. Hotel industry wages are up nearly 18% in 2022 compared with 2019,<sup>5</sup> and the pressure is particularly acute for companies in California, which increased its minimum wage for service workers, a trend that may spread to other states.

Rising insurance costs for lodging and food and beverage will compound the industry's profit burdens. Hospitality companies with liquor liability or live entertainment exposures can expect to pay 5% to 20% more for insurance in 2023, and those with amenities such as spa services will see similar rate hikes. Training workers on how to identify alcohol-related risks and maintaining risk management protocols will be paramount to reduce liabilities.

2. American Hotel & Lodging Association, "[Hotels' Recovery Continues, Workforce Challenges Remain](#)," July 27, 2022.
3. National Restaurant Association, "[Restaurant Operators Endure Weaker Business Conditions as Economic Pessimism Grows](#)," August 18, 2022.
4. National Restaurant Association, *Restaurant Business Conditions Survey: August 2022*, accessed September 23, 2022.
5. American Hotel & Lodging Association, "[Hotels' Recovery Continues, Workforce Challenges Remain](#)," July 27, 2022.
6. Washington Post, "[Newsom signs law with sweeping protections for California fast-food workers](#)," September 6, 2022.



## Putting personalized benefits on the menu.

Staffing remains below pre-pandemic levels, with the restaurant industry down 750,000 jobs compared with 2019. The hotel sector is short 400,000 workers, with 87% of lodging operators experiencing staffing shortages.<sup>7</sup>

Hospitality businesses will want to take creative measures to recruit and retain workers, such as offering improved benefits, wellness plans and more schedule flexibility.

In addition, hotels and restaurants are prioritizing employee safety with improved risk management measures and training. This safety emphasis includes monitoring hours to ensure staff is not overworked, which puts them at greater risk of costly accidents and mistakes.

Employers will want to consider personalized benefits to show workers they are valued. Using data analytics and tools that help identify what matters to workers, hospitality employers can offer benefits tailored to meet employees' individual needs without increasing costs.

Personalized benefits is part of a benefits strategy centered around delivering [quality employee experiences \(QEX\)](#). Delivering quality experiences through benefits increases worker satisfaction, engenders greater loyalty and creates an attractive workplace where potential employees will want to work.



7. CNBC, "[Restaurants are short-staffed, and that's taking a big toll on customers and workers alike.](#)" July 17, 2022.



# Security remains the biggest peril in paradise.

The hospitality industry's long-term success depends on its ability to adapt to new trends and technologies and mitigate threats to business continuity, such as natural catastrophes and criminal activity, especially cybercrime.

Expanding technology-based services like online delivery and remote guest check-in that became popular during the pandemic has given hackers greater access: The hospitality industry is the third most targeted by cyber criminals, largely because of the amount of personal and financial data resorts, hotels and restaurants store in their databases.<sup>9</sup>

Most major hotel and restaurant franchises now require franchisees to have some level of cyber insurance, but obtaining coverage is difficult and expensive. Underwriters will look for hospitality businesses with proven cybersecurity protections like cybersecurity audits, multifactor authentication and employee training.



The hospitality property insurance market will also remain challenging in 2023, particularly in high-hazard regions, forcing hospitality businesses to improve building resiliency and prioritize ongoing maintenance. With rates expected to rise at least 5% — 10% to 20% for properties in catastrophe-exposed areas — hotels and restaurants need to show underwriters they are mitigating risk. Those with a proven risk management strategy that includes a post-disaster plan for recovery will secure better coverage terms and conditions.

9. [Financial Times, "Hotels in hackers' sights as technology replaces personal touch,"](#) March 27, 2022.



## Spend the ‘green’ and embrace sustainability.

Consumer pressure on the hospitality industry to implement more environmentally friendly business practices is growing. In 2022, 87% of Americans said sustainable travel was somewhat or very important to them, compared with 62% in 2016.<sup>10</sup>

From reducing waste by eliminating single-use items like toiletries or plastic food containers, to conserving energy with more efficient lightbulbs and thermostats, hospitality businesses that want to appeal to environmentally conscious travelers would be wise to increase their sustainability efforts in 2023. The cost of doing so can be significant, particularly for the hotel industry, but the potential payoff is huge — more than 78% of global travelers indicated they intend to stay in a sustainable property at least once in the next year.<sup>11</sup>



Hospitality businesses should work with insurance specialists to ensure they are adequately covered for any sustainable or “green” upgrades made to their business or property.

10. Hospitality.net, [“Greenwashing, Ecotourism and Sustainability Are Now a Major Concern for Travelers,”](#) September 6, 2022.
11. Booking.com, [Sustainable Travel Report](#), accessed September 23, 2022.



# Make a plan

HUB hospitality insurance specialists will work with you to develop a tailored strategy that will protect your bottom line, support your workforce and build resiliency for 2023. Here are some initial considerations:



## Take care of employees.

Supporting employees' health, safety and wellbeing can be a significant differentiator in today's employment market. Offering personalized plans using [HUB's QEX approach](#) will give you a competitive advantage.



## Emphasize safety

An injured worker isn't just a workers' compensation claim — it leaves a hole in the workforce as well. Make safety a tenet of the organization. Train and onboard employees so they understand expectations and commit to maintaining a safe work environment.



## Seek alternatives.

Identify the most significant insurance costs and seek alternatives. Whether it's embracing a [hospitality benefits captive](#) to reduce health insurance costs or changing the mix of self-insured retentions and deductibles for property and liability policies, working with a HUB hospitality insurance specialist can help you find the best alternatives for your organization.



## 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.



# Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for the Hospitality industry.

We expect rate increases for nearly all coverages in Hospitality, as carriers are experiencing high losses and costs.

On the next page is our outlook on hospitality insurance rates for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.



# Hospitality Industry Rate Outlook — U.S.

Coverage	2023 Hospitality Rate Guide	Insights
<b>Automobile</b>	↑ 5% to 10%	The use of hired, non-owned vehicles remains the greatest exposure for the hospitality sector. Litigation trends, increased repair costs and medical inflation are negatively affecting underwriting performance.
<b>General Liability</b>	↑ 5% to 20%	Social inflation will continue to impact profitability. Expect more underwriting scrutiny around risk management protocols. We advise hospitality companies to increase their surveillance and pre-hire background checks, and work closely with TPAs to resolve claims quickly.
<b>Workers' Compensation</b>	↔ Flat	Rates in most jurisdictions are relatively stable outside of a few jurisdictions, but labor shortages and high turnover rates make it imperative to pay attention to the quality of workers and adopt best practices for onboarding and training.
<b>Umbrella &amp; Excess Liability</b>	↑ 10% to 20%	Litigation trends and class actions from wage and hour claims are driving increased rates. Insureds with exposure to liquor liability can expect higher rates. Hospitality companies must tell their story through the submission process, detailing all risk mitigation protocols, to obtain optimal coverage and premiums.
<b>Liquor Liability</b>	↑ 10% to 20%	Restaurants, hotels and bars with exposure to liquor will continue to seek coverage from the non-standard E&S market. While the highest rate increases will be felt by insureds with claims activity and additional exposures (i.e., nightclubs), or those operating in states with dram shop laws, rates are stabilizing for the rest of the industry.
<b>Property</b>	↑ 5% and higher (non-CAT exposed) ↑ 10% to 20% (CAT exposed)	Increased underwriting scrutiny on insurance to value (ITV) is driving increases in premiums and rate. Policyholders in catastrophe-exposed states (i.e., wildfires, flooding and windstorms) will continue to feel the most pressure. Presenting business continuity plans will be an important element in a submission.
<b>Directors &amp; Officers Liability</b>	↑ 5% to 20%	Clients with strong financials can expect less pressure on rates this year compared with the last two years of the pandemic. On the flip side, underwriters have increased their scrutiny of financials, and insureds with less stable balance sheets may see rate increases.
<b>Cyber Liability</b>	↑ 20% to 40%	Compared with the last two years, rates have begun to ease for clients without significant exposure changes and claims who have the requisite cybersecurity controls in place. Clients with substandard controls, i.e., lack of multi-factor authentication (MFA), endpoint detection and response (EDR), and offline backups will continue to experience difficult renewals and a lack of market competition.

# Hospitality Businesses

Business	2023 YOY Rate Outlook	Insights
<b>Amusement &amp; Recreation</b>	↑ 5% or higher	The market is relatively stable but expect higher rates for higher-risk attractions (i.e., water activities, go-carts and rides).
<b>Attractions</b>	↑ 5% or higher	Insureds with catastrophe-exposed properties should expect higher rates, but insureds without will see stable rates.
<b>Eating &amp; Drinking</b>	↑ 5% to 20%	Insureds with clean claims records and few locations will see less pressure on rates. However, establishments with exposure to liquor liability or live entertainment can expect higher rates.
<b>Travel Agents &amp; Tour Operators</b>	↑ 10% to 20%	Insureds in this sector with greater auto exposure should expect higher rates due to surging repair costs and medical inflation.
<b>Lodging</b>	↑ 5% to 20%	Insureds with locations in catastrophe-exposed areas and those with amenities such as spa services or water features can expect higher rates at renewal. The cost of building values (ITV) is also driving up premiums.

**NOTE:** *Rate* is typically defined as the amount of money necessary to cover losses, expenses, and provide an insurance company with a profit for a unit of exposure. *Exposure* refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

## HUB Hospitality

When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB hospitality insurance specialist.

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