

Outlook.

Hospitality

Improved risk management, facility maintenance and worker wellbeing will serve the hospitality sector well.

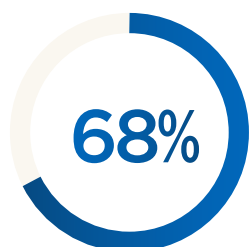


Risk & Insurance | Employee Benefits | Retirement & Private Wealth



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

HUB International 2024 Outlook Executive Survey

Despite momentum, the financial environment will remain challenging.

Many hospitality businesses are continuing positive momentum into 2024. Federal COVID-19 relief dispersed about \$42 billion to restaurants alone by mid-2021¹ — keeping many afloat — and today's pent-up demand for leisure travel continues to grow, with the summer surge in leisure travel rising to its highest level since 2015.²

However, business travel has yet to return to pre-pandemic levels,³ and 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 California and Nevada could lead to additional losses.

More than two-thirds of hospitality executives that responded to the HUB International 2024 Outlook Executive Survey⁴ cited increased expenditures as a threat to profitability in the coming year. In addition, the escalating frequency and severity of weather events nationwide is driving up property insurance rates, creating an additional financial burden.

The difficult fiscal environment is expected to continue throughout 2024, with hospitality businesses struggling to cope with additional challenges. Regulatory changes — such as several state minimum wage increases for 2024 — as well as increased litigation under dram shop laws, will tax hotels, resorts and restaurants throughout the country and require a new approach to payment structures and gratuities.



In addition, hospitality operations 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 high-end South Florida restaurant with exposure to hurricanes that has historically been able to purchase \$15 million in wind coverage may only be able to secure \$5 million in 2024.

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

1. Fliptable, "[How the PPP Has Helped Restaurants Around the U.S.](#)," July 22, 2022.
2. Investopedia, "[Americans Took Record-Setting Vacations in Summer of 'Revenge Travel.'](#)" September 18, 2023.
3. Hotel Dive, "[Business travel to recover to pre-pandemic levels in 2024: GBTA.](#)" August 16, 2023.
4. 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.

A quality employee experience will help alleviate the ongoing labor shortage.

The labor shortage in hospitality persists, despite the industry eliminating 212,600 positions in 2023, compared with 2019.⁵ Yet, 82% of hoteliers across the U.S. say they are looking for staff, and restaurants need more than 64,000 workers to achieve full staffing levels.⁶

In fact, 72% of hospitality industry respondents to HUB's survey say job market dynamics have affected their organizations' vitality, and more than 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.

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Providing benefits that speak to employees 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 counseling 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. Restaurant workers in 2021 filed the highest number of mental stress claims on record, citing stress, burnout and financial strain from an inconsistent income as the top reasons.⁷ In response, many hotel and restaurant employers are improving employee assistance programs and providing access to mental health therapists. Some are even hiring an on-staff therapist to counsel employees.⁸

Regardless of the approach, nearly all employers have increased their focus on employee wellbeing. Not only does it lead to increased employee recruiting and retention, nearly 85% of HR leaders cited benefits as a way to decrease recruiting costs, reduce sick days taken and promote employee satisfaction.⁹

5. Hotel Dive, "[Hospitality employment rose in May but hoteliers report lingering labor woes](#)," June 7, 2023.
6. QSR Magazine, "[3 Reasons the Restaurant Labor Shortage Hasn't Gone Away](#)," August 21, 2023.
7. AmTrust Financial, "[Mental Health in the Restaurant Industry](#)," accessed October 18, 2023.
8. CNBC, "[The newest perk for restaurant workers? A therapist on staff](#)," April 20, 2022.
9. Human Resource Executive, "[The ROI of wellbeing: Business case insights from 2,000 HR pros](#)," June 30, 2023.

Preparedness is key to looming risks.

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 20% and rates for catastrophic (CAT) perils in high-risk zones rising as much 50%.



Excess liability insurance rates are expected to rise

20%

for hospitality businesses in 2024.

Nuclear verdicts against hospitality establishments overserving intoxicated patrons are costing the industry dearly. In 2022, a Miami bar was ordered to pay \$95 million in damages stemming from a drunk-driving accident,¹⁰ and a South Carolina restaurant chain and gas station collectively agreed to pay \$7.5 million in late 2021 to the family of a woman killed by a drunk driver served by both businesses to settle the dram shop suit.¹¹

Incidents such as these are driving up the cost of liquor liability coverage, with rates expected to rise 11% to 20% in 2024. Excess liability insurance is expected to increase as much as 20%, and large resorts, hotels and restaurant chains will struggle to find sufficient limits from a single insurer.

Employment practices liability insurance will also be difficult in 2024, as insurers add wage and hour exclusions to policies and reduce limits in response to class-action litigation filed by servers and other front-of-house staff.

But hospitality companies do have options to manage these increases. 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.

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.

10. Satterley & Kelley PLLC, "[Dram Shop Cases Are Common Across the U.S.](#)," February 27, 2023.

11. Yarborough Applegate, "[Yarborough Applegate Earned 7 of SC's Top Verdicts and Settlements in 2021, Including Top Spot](#)," March 28, 2022.

Changing environment will make property protection more problematic.

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 favorable 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, 70% are using technology to a "significant" extent to help mitigate risks, and one-third are using modeling and forecasting to evaluate the impact of anticipated risks.

While some mitigation techniques like 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.



In some cases, investing in upgrades and consulting with predictive modeling services can reap significant savings.

CASE STUDY: 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, increasing catastrophes and nuclear verdicts 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.

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Hospitality Industry Rate Guide – U.S.

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 Report to know what to expect in advance of your next renewal.

Coverage	2024 Hospitality Rate Guidance	Insights
Commercial Auto	+5% to 10%	Rates will increase to offset insurer losses from increased vehicle replacement costs, production backlogs on part replacements, labor costs and higher medical expenses. Companies with favorable experience are likely to see lower rates. Coverage for hired and non-owned vehicles remains a difficult placement.
General Liability	Flat to +10%	Expect flat to single-digit rate increases at renewal with tightened terms and conditions. Carriers are increasingly adding sublimits for assault and battery.
Workers' Compensation	-5% to Flat	As workers' compensation remains the most profitable line in commercial insurance, carriers are offering competitive rates. However, given worker shortages, hospitality businesses need to pay attention to the quality of workers and adopt best practices for onboarding and training to prevent new comp claims. Inflation may affect future loss costs through higher wages, increased costs for healthcare and elevated prescription drug prices.
Umbrella & Excess Liability	+8% to 20%	Niche programs continue to offer coverage for restaurants and hotels, but retail markets will struggle to find capacity to fill a tower. Carriers are significantly reducing limits at renewal (i.e., \$10M excess limits are only being renewed at \$5M, and \$5M at \$2M), and often charging the same premium.
Package	+11% to 20%	Packaged business rates are elevated but will vary based on client-specific loss experience and the size of deductibles. Due to losses during the pandemic, expect additional underwriting scrutiny of business income coverage requests.
Liquor Liability	+11% to 20%	Rates are stabilizing for much of the industry, but many restaurants, hotels and bars with exposure to liquor may still need to seek coverage options from the non-standard market. Businesses operating in states with dram shop laws, or those with high claims activity or increased exposures (i.e., nightclubs) will face high rate increases and underwriting pressure at renewal.
Commercial Property	+8% to 20%	The property market continues to face challenges. Expect underwriter scrutiny on risk profiles with unfavorable brush mapping and/or protection classes. Carriers are decreasing capacity on total insurable value (TIV) per location and increasing deductibles/loss limits per location. However, regional players competing for middle-market accounts will help ease pricing increases. Underwriters will continue to focus on valuation. Although many businesses have "right-sized" their property values, insurers will continue to add restrictive clauses (coinsurance, margin, loss limits, etc.).

Coverage	2024 Hospitality Rate Guidance	Insights
Catastrophic Perils	+20% to 30% for lesser Tiers/Zones +30% to 50% or higher for High Hazard/Zones	Losses sustained in 2023 will continue to drive up rates. Although insurers remain focused on traditional CAT perils (flood, earthquake and windstorm), they are increasingly concerned about exposures to severe and convective storms, wildfires and winter storms. Challenging occupancies will see larger rate increases of 50% to 100% or more, and properties in high-hazard zones may struggle to find coverage with only a few carriers in the non-admitted market willing to write new business in this area.
Environmental	+5% to 10%	In lodging, concern over Legionnaires' claims is top of mind for underwriters. But businesses with favorable loss history can expect to see flat or slightly increased rates.
D&O: Private	-10% to +10%	Rates for private directors and officers (D&O) insurance have improved but will be dependent on loss history. Pricing, retentions and limits are trending favorably after years of difficult market conditions. Carriers have lessened restrictive classes, increasing competition for D&O business.
D&O: Public	-20% to +5%	The D&O market for public companies continues to improve as capacity and competition have increased. Most insureds with good claims history will see favorable renewal terms, those with difficult risk profiles will see price increases.
Cyber	Flat to +10%	While cybercrime claims have risen, strong competition has muted rate hikes. However, increased ransomware activity and cybercrime could change the landscape in 2024, though not to the extent as in previous years.

NOTE: *Rate* is typically defined as the amount of money necessary to cover losses and 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 HUB, you're at the center 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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