MARKETS IN FOCUS

HOTELS + CASINOS

Insurance Pricing & Market Update

Q3 2022

Introduction

From severe weather events, accidents, staffing shortages and criminal activity, hotels and casinos are facing many challenges in 2022, impacting their risk management strategy decisions as well as pricing on certain lines of coverage.[1]

Hotels and casinos have been slow to recover from the pandemic, but annualized U.S. revenues are up to $258.1 billion[2] in 2022 which is slightly above 2019 results of $222.4 billion. In upcoming years, U.S. revenue for the industry is expected to rise at a Compound Annual Gross Rate (CAGR) of 5.7% to $341.1 billion in 2026 as leisure travel and business travel are anticipated to continue rebounding from the pandemic.[3]

Since 2020, the Casino industry has seen a slow but steady growth in online gambling platforms, bolstered by more favorable regulations across many states.[4]

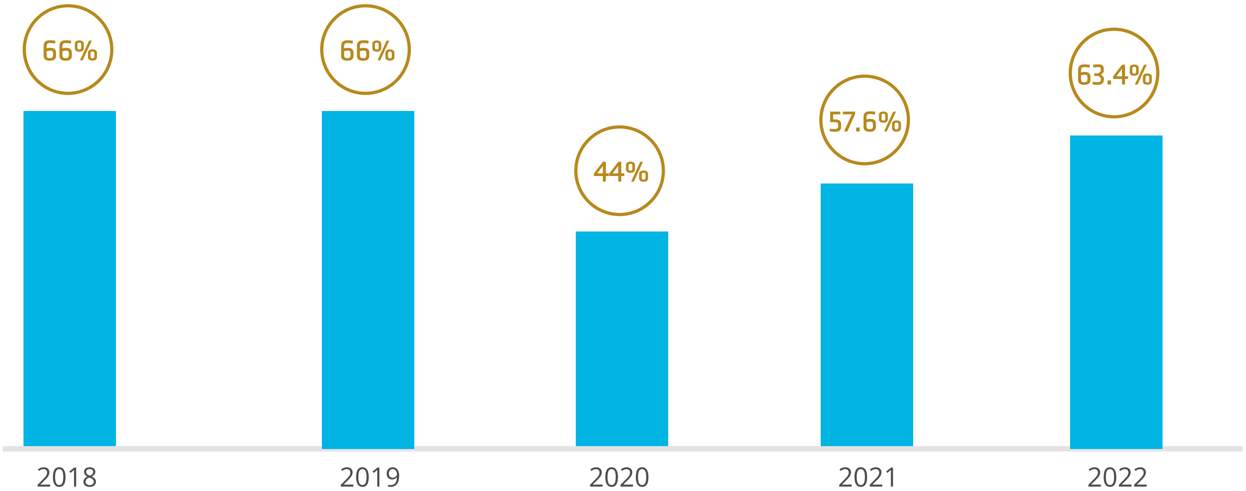
U.S. Casino industry revenue decreased from $43.65 billion in 2019 to $29.98 billion in 2020, then increased to $52.98 billion in 2021.[5]

New technology solutions continue to transform the industry, from point-of-sale systems that add speed and efficiency to the sales process, to inventory management systems and increased security.[6]

Surging inflation along with rising gas prices may persist during the outlook period, but pent-up demand is still expected to result in revenue growth in future years.[7]

+ Corporations, which are a large market for the industry, will likely experience a slower recovery, as businesses continue to adjust to post-pandemic practices and consumer habits.[8]

Hotel Room Occupancy by Year



Source: Oxford Economics + STR, © 2022 CoStar Group

2H Outlook

PROPERTY

The market continues to bifurcate between CAT exposed risk and non-CAT exposed risk.

The commercial property market continues to see a separation between catastrophic (CAT) and non-catastrophic (non-CAT) exposed risks. Generally speaking, competition is strong for favorable accounts with acceptable CAT exposures, but CAT-exposed property can be challenging to write.

+ Overall, pricing for property coverage has declined but remains elevated with accounts generally seeing a 10% rate increase.
+ Facultative reinsurance and 7/1 treaty reinsurance rates are on the rise for heavily CAT-exposed properties, which is expected to impact primary rates moving forward.
+ With multiple years of difficult hurricane losses, an anticipated 20 named-storm hurricane season in 2022[9] and reinsurance difficulties for some carriers, coastal properties will continue to be a challenge to place from pricing and capacity standpoints.
    - This is particularly true for the residential property market.
+ Wildfire-exposed properties are also receiving extra scrutiny in western states since the largest losses related to this peril have typically been residential and hospitality related properties.
+ Inflation and supply chain woes have resulted in a rise in demand for Business Interruption (BI) coverage, which has generally caused an increase in pricing and additional scrutiny from underwriters. Insureds with more complicated risks should be prepared to provide supply chain maps, forensic accounting reports and engineering analysis in order to get underwriters more comfortable with writing their risk.

+ Many underwriters are challenging valuations for properties and business interruptions due to recent deltas in reported property values and total claims costs.
  - Third-party valuation reports have become the norm for quotes.
+ Carrier loss control teams have become more active as of late, and it is not uncommon for policy holders to receive recommendations on safety procedures or make numerous safety upgrades to facilities.
  - In some cases, carriers are not providing quotes unless these recommendations are made or there are plans for them to be implemented.
+ Property coverage for hotels and casinos needs to consider all factors such as construction type, building materials, occupancy and security protection when acquiring insurance.[10] Management should have safety features in place. These include proximity to a fire station, fire protection, and ensuring safety and security protocols are in place to garner the best quotes for coverage.[11] Amenities need to be considered as well, as restaurants are a big fire exposure for hotels and casinos.[12]

GENERAL PRICING ESTIMATES

Non-CAT exposed property with favorable loss history	Flat to single digit increases
CAT exposed property with favorable loss history	Flat to 10% increases
Property with unfavorable loss history and/or a lack of demonstrated commitment to risk improvement (unresolved recs, pattern of same issues, etc.)	10%+ increases for non-CAT 25%+ increases for CAT exposed accounts and higher depending on frequency/severity of losses and when there are limited markets for a risk due to occupancy/class of business or concerns related to loss control

CASUALTY

The global pandemic was the catalyst for dramatic rate increases and capacity reductions for hotels and casinos, but in recent months it has moderated.

General Liability ("GL") premiums are determined by several factors for hotels and casinos, some of which include class code, size (revenue or number of rooms), number of stories, amenities offered and loss history.[13] Underwriters are scrutinizing all of these factors in their pricing and terms decisions, which means actively demonstrating strong property management procedures and employee training regimens will be crucial for optimal results.

+ Sex trafficking has become a significant global problem for hotels and casinos and thus for insurers that cover these businesses. Many carriers are excluding coverage under **GL** and **Excess/Umbrella** policies and won't budge on this stance.
    – Sex traffickers are regularly using hotels in their criminal activity, and hotel franchises are increasingly being targeted in civil actions by victims claiming criminal activity occurring under their roofs.
    – Hotel owners must be aware of their potential liability under the Trafficking Victims Protection Reauthorization Act (TVPRA) and should ensure they have the proper policies in place and provide education for managers about civil exposure for sex trafficking and the risk of hefty judgements.

Umbrella/Excess policies are also rated with many of the same factors as **General Liability** with the addition of **Auto** exposure. Excess capacity remains adequate but lead Umbrella underwriter offerings are being throttled back from traditional $25M layers to $15M with some offering as little as $5M. In turn, more carriers are generally needed to achieve desired limits.

+ Nuclear verdicts and claims inflation continue to be problems for umbrella underwriters as more claims continue to pierce higher layers.

Liquor Liability can be added by endorsement onto a **General Liability** policy with an accompanying **Excess/Umbrella** tower providing additional coverage.

+ When a facility serves alcohol to others, they run the risk of being liable for injuries or damages resulting from an accident involving someone they served. These claims can be very costly, but **Liquor Liability** policies can provide some coverage for the fees and judgements arising from these losses.

+ **Liquor Liability** is especially important for businesses in states with dram shop laws, present in **44** states and the District of Columbia. These states hold businesses liable for the actions of intoxicated individuals who were served or sold alcohol at their establishment.

+ Some ways to mitigate liquor liability risk can include:
  - Sending servers to training and education courses
  - Encourage customers not to become intoxicated
  - Promote the availability of non-alcoholic beverages
  - Ask a patron to take a breathalyzer test if there is any concern they are over the legal driving limit
  - Encourage patrons to take alternate transportation, like taxi, Ubers or rideshare services

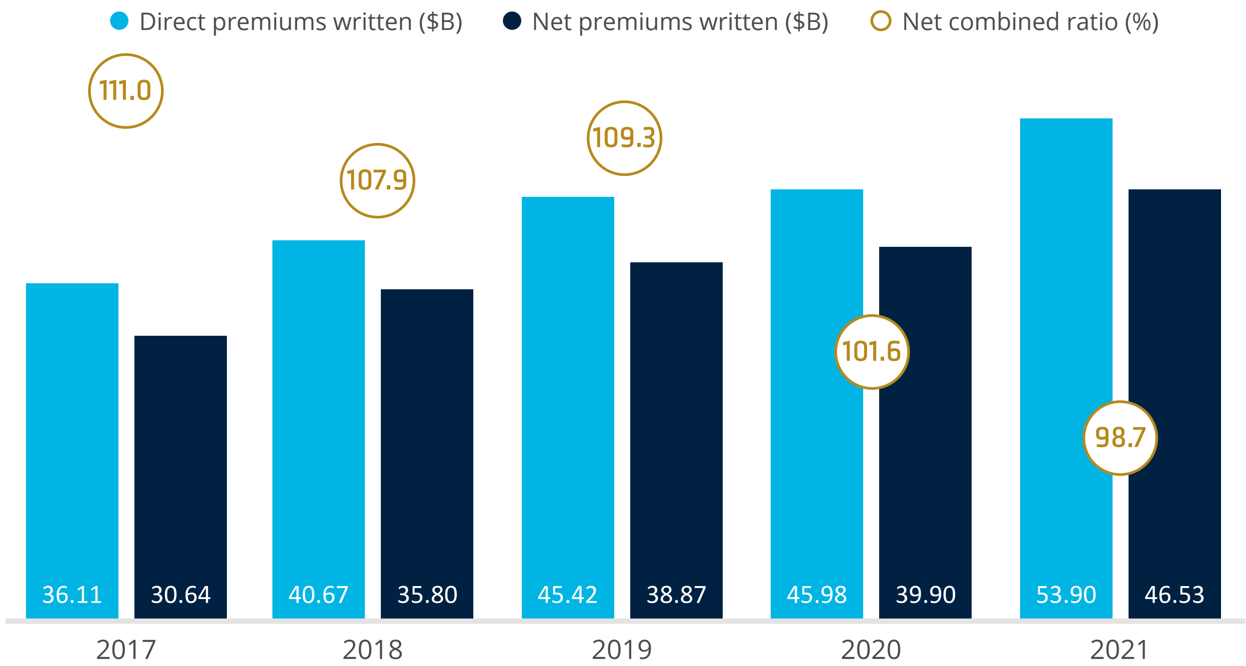
Commercial Auto – The Commercial Auto industry had loss ratios above 100.0 for the 10 years prior to 2021, which now has resulted in challenges for those who have large fleets. Social inflation and nuclear verdicts have hit this sector hard, and carriers have taken note. The demand for fleet monitoring technology is on the rise, and many auto carriers are investing in telematics in hopes of improving loss ratios.[14] New "insurtech" entrants are driving the trend toward telematics implementation and adoption in the auto industry, which will allow underwriters more rate flexibility on new business, but also help insure less favorable drivers.[15]

+ **Auto physical damage (APD)** coverages are seeing scrutiny from underwriters due to the difficulty of assessing vehicle valuations.[16] For the first time in recent memory, the values on in-use tractors and trailers have been on a steep incline as supply chain issues cause delays and an increased demand for equipment and critical components.[17] A trusted broker should advise their clients to carefully appraise their fleets, as actual cash value of their units listed on the policy may not be sufficient to replace with a comparable unit in their marketplace if they were to experience a loss.[18]

The demand for fleet monitoring technology is on the RISE ... Many auto carriers are investing in TELEMATICS to improve loss ratios

Industry's combined ratio under 100% for first time in at least 5 years

Industry's commercial auto combined ratio dropped below 100% in 2021



Date compiled April 25, 2022.
Data reflects the aggregation of all individual property and casualty filers that submit regulatory statements to the NAIC. Based on the annual NAIC statutory property and casualty statements. U.S. filers only. May include business written outside of U.S., if reported in NAIC statement. Direct data is derived from exhibit of premiums and losses, prior to consideration of reinsurance for commercial auto physical damage, commercial auto liability, and commercial auto no fault reported lines of business. Net data is derived from insurance expense exhibit, after consideration of reinsurance for commercial auto physical damage in commercial auto liability reported lines of business. It was common practice to ensure premium credits during 2020 for auto insurers, but there was no standard practice for this among insurers. No effort was made in the exhibit to fully adjust the premiums for year over year premium growth beyond what was reported by each company. Combined ratios displayed hour before policyholder dividends. Source: S&P Global Market Intelligence.

+ **Workers' Compensation –** This line of coverage continues to be a bright spot for insurance purchasers, which has been a profitable line of business for many carriers and the capacity remains stable. Pricing is still dependent on loss history and Modification Factors, but carrier competition over accounts with adequate to strong loss history continues to help pricing.

GENERAL PRICING ESTIMATES

General Liability	Up 7.5% - 15%
Workers' Compensation	Flat to Up 5%
Auto	Up 8% to 20%+ Up 30% if large fleet and/or poor loss history
Umbrella & Excess Liability – Middle Market	Up 10% to 50% +
Umbrella & Excess Liability – Risk Management and other Complex/Hazardous Exposures	Up 25% to 75% + Some have excess layers and have increased more than 150% on large accounts

EXECUTIVE RISK

D&O and Cyber markets are seeing their own set of unique challenges.

D&O – After a very hard market in 2020 and much of 2021, rates stabilized in early 2022 and there now appears to be small downward pressure on rates for the second half of this year.

+ Multiple years of substantial rate increases have lowered the insurers' loss ratios, returning them to profitability, broadly speaking
+ Because of the attractive rates in the D&O space from the insurers' point of view, additional insurance capital has entered the market over the last 6–12 months
+ At the same time, there has been a large decrease in the number of traditional IPO's, SPAC IPO's and De-SPAC transactions. With these areas no longer demanding insurance capital, the insurers are competing more aggressively for traditional and mature companies. This, in addition to the reasons mentioned above, has shifted the supply and demand dynamic and has created a more favorable market for policyholders over the last few months
+ Despite the comments above, there are certain sectors that continue to be in a "hard" market, including certain industries (i.e., Crytpo, Cannabis, etc.) and certain risks such as SPAC's and De-SPAC's

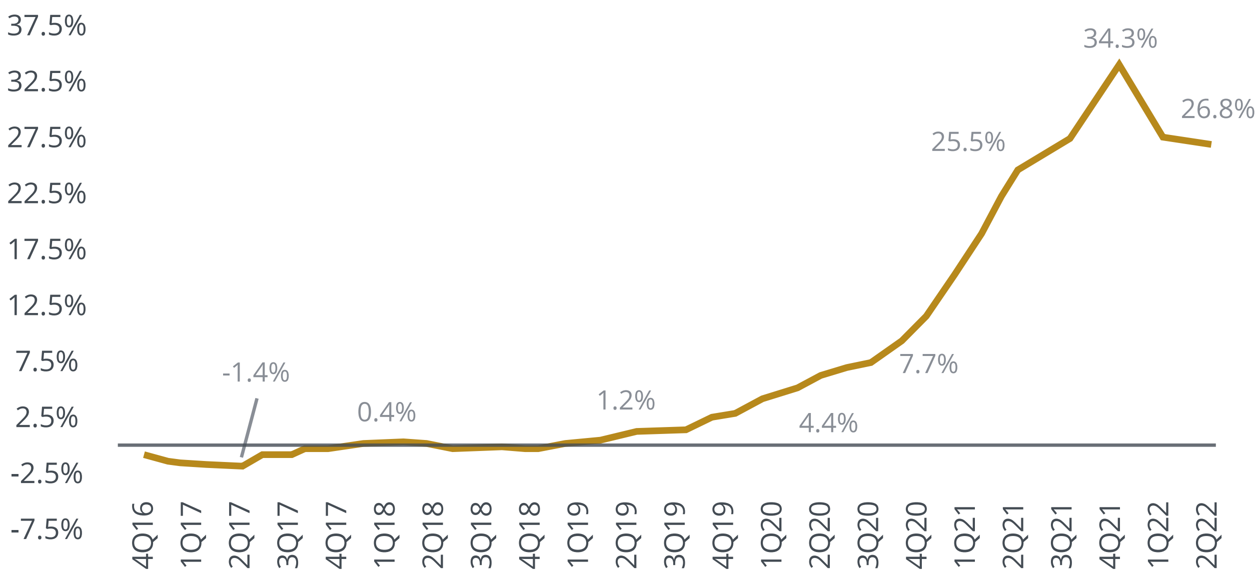
Cyber – The Cyber insurance market is best categorized as "transitioning out of a hard market".

+ Loss activity has decreased in the aggregate
+ According to Moody's Investor Service, the sector's loss ratio improved to 62% in 2021 from 65% in 2020
+ Frequency has decreased but severity remains an issue

Average and Median Ransom Payments in Q1 2022

- Average Ransom Payment: $211,529 (-34% from Q4 2021)
- Median Ransom Payment: $73,906 (-37% from Q4 2021)
- We continue to see a change in tactics amongst attackers. Due to improvements in data backups, the attackers are avoiding the encryption step altogether but focusing exclusively on stealing data and demanding payment to prevent disclosure of that data
- Carriers are still focused on "must have" controls and increasingly reliant on external scanning technology in risk assessment
- Pricing increases are still the norm
- According to the CIAB, the average premium increase in Q1 was 27%
  - However, the caveat is that this is an average and certain industry groups continue to see substantially higher increases

Premium Change for Cyber, Q4 2016 - Q2 2022



Source: https://www.ciab.com/wp-content/uploads/dlm_uploads/2022/05/Q1-2022-PC_FINAL.pdf

Major Claims

A New York couple was vacationing down in Miami when a man (who was not a guest of the hotel) entered through the lobby, went up the elevator and knocked on their door.[19] Shortly after, the husband opened the door and was attacked by the trespasser, who punched and strangled him. The assailant then turned his aggression onto the wife by beating her and sexually assaulting her in the middle of the hallway.[20] Surveillance footage revealed that the hotel employees, including a security guard, saw the attack and did nothing to intervene or stop it.[21] A lawsuit was filed on July 27, 2021, and the attorney discovered that there had been 100 assaults and burglaries at this hotel.[22] The South Florida attorney secured a $16 million lawsuit. Having a robust security plan in place is essential for the hotel and casino industry, including measures such as 24/7 armed guards and entrances that only open with a keycard.[24] Employees must also be trained in how to properly handle the situation – from documentation to how to report the situation to authorities.

A Miami-Dade jury recently returned one of the largest verdicts ever in an automobile accident, awarding $95 million in damages plus attorney fees to a South Florida family whose daughter was killed and whose son was severely injured by a drunken driver in 2015. The business overseeing the driver was ordered to pay out almost $59 million for the medical care of the son and $37 million in damages to the parents.

Guidance

BEGIN THE RENEWAL PROCESS EARLY

The **General Liability**, **Cyber**, **Excess/Umbrella** and **Property** markets are constrained and more challenging to navigate in the disciplined market. With an outcome of increasing prices across all lines of business and in every industry sector, brokers are being swamped with submissions from their insureds who want to minimize these additional costs.

PARTNER WITH INDUSTRY EXPERTS

It is important to work with your broker's industry experts who truly understand the business and the market for placing the specific risk. Collaborating with a team who can best represent your risks, and partner with your operations, is more important than ever during this disciplined market we are experiencing.

HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

Frequency and severity of cyber claims are constantly on the rise, resulting in more underwriter scrutiny of companies' cybersecurity hygiene. The importance of **highlighting any additions in cybersecurity staffing** or **updated system protocols cannot be overstated**.

ENGAGING LOSS CONTROL TEAMS

Frequent communication with your broker's loss control team is a top priority, especially when a claim arises. Engaging your loss control team in the event of a claim can help reduce the impacts to your business financially and operationally. IMA works with you to understand your financial goals and operational challenges so we can identify, develop and deliver Risk Control Solutions that strategically mesh with your objectives.

CONTRACT REVIEW

Our **Contract Review** teams add value to our clients' overall risk management program by making sure the indemnity language is market standard and doesn't expose our clients to unforeseen losses that may not be insurable.

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More Than Just Insurance

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