



SPECIALTY LINES MARKETS

SERVING THE HOSPITALITY MARKET

Restaurants, bars and hotels present opportunities, even in weak economy

By Dave Willis

The U.S. hospitality business is alive and—well—let's just say it's alive. In some instances, barely so. This is especially true among hotels and motels. "Hotels in the non-metropolitan areas were the first ones hit by the sluggish economy," says Nicholas Pineda, president of NorthWin Insurance Agency, LLC, a Mahwah, New Jersey-based firm that writes hotels in the Northeast and brokers hotel coverage elsewhere in the country. "The big cities had large businesses sustaining them." Now, he adds, business is off there, as well. And values are down.

Restaurants are feeling the pinch, too. "The class most affected is fine dining, without question," says Neno Djordjevic, chief operating officer at Rolling Meadows, Illinois-based managing general agency Axiom Insurance Managers, which has an office in Charlotte, North Carolina, and just opened another in Dallas. "We are seeing overall reductions in gross receipts and gross revenue compared to last year." That said,

neighborhood bars are actually doing okay, he adds.

The segment of the insurance industry serving these establishments is handling the changes rather well, all things considered. "We are seeing a lot of generalist-type companies, BOP-type companies, coming in and targeting specific classes," says Michael Maher, marketing vice president for RCA Insurance Group, a Clifton, New Jersey, program manager focusing exclusively on restaurants and taverns. "They're after everything from mainstream type business all the way up to fine dining, offering very broad coverage—a lot of coverages the insured really doesn't even need."

After the 9/11 terrorist attacks, only a handful of standard markets wanted anything to do with hotels. "Then in 2005, the market started turning," notes Pineda. "You started seeing a lot of companies come in and want to play."

Handling restaurant risks

Jeff Diefenbach, vice president and manager of the Indiana office of

Burns & Wilcox, sees this in the restaurant business, too. "When the market gets soft, every company out there wants restaurants, bars, and taverns, because there are a lot of them and they're easy to write. They wind up under-pricing the business to compete." That said, new restaurant business written through the Burns & Wilcox Indianapolis E&S operation is up 40% in the first quarter this year, because standard markets in its territories are starting to re-underwrite.

One issue agents encounter is start-up restaurants. "It's not that difficult for someone to open up a restaurant or a bar, but these can be harder to insure," Diefenbach explains. "Many standard carriers want three years of experience." While opening a restaurant is relatively easy, success is not guaranteed. "Agents should be careful about what they go after. Too often, they get stuck with uncollectible premium." Premium financing can be especially valuable in these situations.

Underwriters are also being more assertive with assault and battery coverage, Djordjevic adds. "There's



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been some negative experience. Plus, up until recently, some carriers were being very liberal with coverage or, perhaps, not evaluating the risk well enough.”

Entertainment generally raises a red flag in the restaurant and bar business. “The area most susceptible to problems is when you bring in entertainment,” says Maher. “That’s something our underwriting guidelines are very strict on.” The biggest issue with entertainment, he says, is the assault and battery claims or bodily injury claims that can really impact a program.

Hotel and motel concerns

Hotels have their own set of issues. Pineda used to worry about two things in his hotel book: production and claims. “Now there are three,” he notes. “Long-time clients are falling behind 60 days, 90 days on payments. They used to pay on time.”

He sees claims being largely unchanged. “Slip and falls represents the majority of claims.” Property losses haven’t increased much during

the economic downturn, he adds, nor have workers comp claims, largely because of the transient nature of the hotel business. However, he notes, employment practices liability issues could surface for larger hotel management companies if they start letting lots of people go.

If anyone has higher claims, it’s the smaller, independent establishments. “More claims occur on risks that aren’t flag-based,” says Bob Mackoul, CLU, CEO of Long Beach, New York-based New Empire Group, an agency that this year is adding a primary hotel/motel program to serve business it has covered on an umbrella basis for years. Flag-based operations—Hampton Inns, Hilton Garden Inns and Marriott Courtyards, for instance—have operating standards and regulations set by the franchisor.

“If it doesn’t have the flag, we’re not going to want to write it,” Mackoul adds. “It could be Mr. Bates and his mother running it.”

A tough economy sometimes pushes proprietors to cut corners. “We’re very concerned about occupancy percentages,” says Dawn

D’Onofrio, branch president of wholesaler WKF&C Agency of San Francisco, “and the owners’ ability to maintain properties, so we’re looking for deferred maintenance issues.” Location is also an issue, she notes, because of potential vandalism.

Extended stays are another concern. “Particularly in metropolitan areas, a very small percentage of the population is homeless,” D’Onofrio explains. “One question we ask more now is, ‘What is the long-term stay rate at your hotels?’” Parents may be heading to work—or searching for a job—leaving kids at the hotel unsupervised.

Underwriters care about ancillary risks, too. “Some carriers don’t like an automobile exposure,” Mackoul says. “You have vans running to and from the airport. There’s a limited market for that.” Pools—especially older ones that still have a diving board, as well as water parks on hotel property are also risks that reduce the number of available markets, Diefenbach notes. All are generally thought to be claims magnets.

So is liquor. “Look at the liquor exposure, how big the restaurants are, how big the bars are, the entertain-

ment they offer—all of these could lead to problems if you don't address them carefully," Mackoul says.

Burns & Wilcox's Diefenbach agrees. "Liquor is probably one of the more difficult risks for agents to place, especially if it's a nonstandard exposure." It depends on the risk, he adds. "A fine-dining restaurant that sells a \$50 or \$100 bottle of wine is a substantially different exposure than a sports bar with \$1 beer specials, or, worse yet, \$5 for a bucket of beer." He warns, "If it's not in a standard market, the agent needs to understand exclusions and explain these to the insured."

Serving the markets

Agents and brokers are seeing changes in the market. For instance, while most policies are rated for liability based on sales, products have been introduced that base premiums on number of units, square footage, and even building value, Pineda notes. "They've become non-auditable."

"It's easy to find lower premiums as markets soften, but when corrections occur—and they always do—markets jump out, and reality hits," says Maher. "Consistency is key." He encourages agents to remind

clients that cheaper markets may disappear and that new carrier inspections pose challenges. "They may have different criteria," adds Michael Rosa, RCA Insurance Group underwriting manager. "A \$1,000 premium savings may generate \$2,000 or \$3,000 worth of recommendations."

Retail agents and brokers should tap resources. "My advice: Partner up with someone who has expertise in these lines of business," D'Onofrio says. Look for class-specific and geographic expertise, she adds. "Each area has unique characteristics."

Adds Diefenbach, "In a volatile marketplace, agents need more than one answer. They need some good standard markets for traditional bars, restaurants and hotels, but they also need a good E&S broker to handle what standard markets can't or won't accept, especially as appetites change."

Don't necessarily avoid tough risks. Markets exist. For instance, WKF&C Agency has a program designed specifically for larger nightclubs and adult entertainment establishments. "We designed the program for a marketplace niche," says Jim Zagorski, WKF&C senior vice president responsible for the agency's nationwide general liability

business. "It addresses really hard-to-place businesses, where retailers might not have expertise." Many times, they're in tough neighborhoods. Sometimes, multiple clubs have common ownership. "We just wrote a business with four clubs, rolling them into one policy as each expired."

Sometimes an opposite strategy—separating risks—works best. "We have seen where bigger hotels with restaurants create distinct corporations and insure them separately," Mackoul notes. He's even seen hotels carve out swimming pools and look for programs that address that part of the risk.

With smaller risks, especially restaurants, it often makes sense to collect money up front. "Or solve the problem by financing it through a premium finance company," Diefenbach says. This reduces payment problems for the agent.

Most important, experts agree, is providing good data up front. "The more information we get on the application, the more accurate it is, the easier it is to underwrite," explains Maher. "Be as open as possible," Axiom's Djordjevic adds. "It's important to have a trusting relationship between agent and broker." Beyond providing standard application information, agents should visit risks and report on them. "For instance, tell us what it looks like, the clientele it attracts and whether it's a family place," he adds.

We live in a Google age. So don't expect to hide facts from underwriters. "Don't say an establishment offers no entertainment when an underwriter can go online and find out it does," says Rosa. The policy will likely be canceled. "We've even seen retail agents tell insureds to turn off or adjust their Web site during renewal time. I get information from bands or vendors advertising upcoming dates, not just from the insured's site."

Use the Web to your advantage, experts advise. Tap partner sites to get specific underwriting criteria and even applications, Djordjevic suggests. "The information age allows wholesalers and underwriters to let retailers know what they really want, and how to provide it." ■

The author

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