Brought to you by:

BKS PARTNERS

A partner of The Baldwin Group

The Baldwin Group

HOSPITALITY, GOLF, AND COUNTRY CLUBS

Q2 2024 Market Update

The Baldwin Group

Introduction

For the hospitality industry, 2023 was yet another year in which organizations had to tap into their adaptability to keep pace with the shifting tides of the economy, regulatory environment, and insurance market. The sector saw increased activity and growth tempered by persistent headwinds, and amidst continued disruption, investments in best risk mitigation practices have proven to pay dividends for establishments that want to sustain their operations and obtain long-term success. As the hospitality industry meets pent up demand for leisure in 2024, businesses continue to face a difficult labor market, a changing economy, and an evolving insurance market.

In 2024, all players in the hospitality industry – from fast casual restaurants to upscale golf and country clubs – that want to stay ahead of persistent challenges need to remain nimble and determine how to best invest in loss controls, insurance coverages, and employee benefits offerings to meet the demands of a complex environment. Partnering with an advisory team that can provide guidance on both employee benefits and business insurance strategies can help ensure that you build a holistic risk management strategy that protects your operations and people, bolstering your culture so you can provide clients memorable experiences.

Having an experienced partner by your side will help you remain proactive versus reactive, granting you greater control and influence over your insurance market outcomes.

Key Considerations and Trends

Employee benefits

LABOR SHORTAGES

In 2024, labor shortages driven by changing attitudes about work remain one of the greater challenges in the hospitality industry. Employees want higher wages, greater work-life balance, opportunities for professional development, and improvements in workplace culture. As an example, through 2023, strikes in the hotel industry made headlines, with workers demanding better working conditions.[1] It is still very much an employee's market across the hospitality industry, for all establishment types.

In the case of golf and country clubs, oftentimes the people who work at clubs cannot afford to live in close proximity to the premise, making transportation a barrier to filling job vacancies. To remediate this issue, some clubs have begun to provide shuttle services and to employee housing as a way to fill job vacancies. Clubs have also made use of the H2B program, which grants temporary work permits to migrants for a specific amount of time.

Though these types of measures do help fill job vacancies and sustain operations, in 2024, labor shortages will continue to be one of the greatest operational challenges impacting hospitality businesses. Because of a shortage of qualified individuals for openings, companies have found that they sometimes have to compromise on their standards and bring on the wrong talent, leading to claims scenarios. Organizations that want to attract and retain the right talent need to consider the role of their employee benefits strategy in creating an attractive workplace culture.

BENEFITS

A properly structured employee benefits program is one of the greatest investments businesses can make to improve their workplace culture and demonstrate to employees that they are valued. In 2024, the hospitality industry will have to continue to balance the need to offer robust benefits that cater to their employee population's specific needs in tandem with growing operational costs across the business.

In the hospitality industry, employers that want to do more for their employees and provide personalized benefits while controlling their benefits spend should tap into data analytics and tools that identify which benefits resonate with employees' needs without increasing costs. This enables employers to meaningfully invest in benefits that their employees will actually use and value. One of the best strategies employers can utilize is providing employees virtual health solutions for needs like mental health and primary care. Virtual care is a win-win for employees and employers alike – these solutions are more cost effective to offer and utilize, while also reducing barriers to care.

As a means to control their benefits spend and keep employees satisfied, employers have begun to explore different, nontraditional solutions. Some of these strategies include:

- Individual Coverage Health Reimbursement Arrangements (ICHRAs) – An ICHRA is an alternative to offering a traditional group health plan to employees in which employers provide defined, non-taxed reimbursements to employees for qualified medical expenses, including monthly premiums and out-of-pocket costs, like copayments and deductibles.
- Captives and consortiums – For employers looking for alternative options from those offered by traditional insurers, captives and consortiums may be viable options. With these options, employers may be able to save money by pooling their risk with other employers for enhanced purchasing power.

Employers considering new options should consult with a trusted employee benefits advisor who can help them appropriately weigh their options, since not all solutions are the right fit for each entity.

Business Insurance

The hospitality industry will continue to feel the effects of inflation and an uncertain economic environment in 2024. Inflation's impact on the cost of materials and food has compounded with rising labor costs in a manner that is eroding profitability for the hospitality industry. For all types of establishments, owners have struggled to strike a balance between pricing, customer satisfaction, and profitability. Additionally, because of economic uncertainty, there have been higher claims incidences for liability lines, which contributes to the growing cost of coverage in an already challenged market. However, the U.S. economy has so far defied recessionary expectations, and in 2024 most economists predict that conditions will continue to stabilize.

PROPERTY INSURANCE

Rate expectation – (-5% to +15%)[2]

Property insurance remains a challenging coverage due to sustained losses caused by weather events, inflation, supply chain issues, and reinsurance capacity. Results in the market will be dependent on geography, loss history, and building characteristics, with insurers showing continued focus on valuations and the implementation of loss controls. Businesses that want greater control over their property insurance spend can explore alternative solutions to the traditional market. These options include property captives, parametric policies, deductible reimbursement programs, and loss limit programs.

CASUALTY INSURANCE

Nuclear verdicts are here, and they are here to stay. Litigation trends have ushered in the era of large verdicts, which is why rates in liability lines of coverage have steadily increased year over year. For businesses like those in the hospitality industry that frequently interface with members of the general public, the usual source of lawsuits, investing in policies and procedures that reduce the likelihood of loss scenarios from happening is critical to securing optimal rates. Some best practices include properly training employees on workplace safety, maintaining a property's upkeep, and documenting safety protocols. In 2024, here is what hospitality businesses can expect for key lines of coverage. Of course, rates and capacity are dependent on loss history, operational specifications, and risk mitigation practices.

GENERAL LIABILITY

Rate expectation: -5% to +15%
General liability is seeing slight to moderate increases because of social inflation and nuclear verdicts. In 2024, expect to see greater underwriting scrutiny around risk management protocols like background checks, staff trainings, and patrons' safety.

LIQUOR LIABILITY

Rate expectation: flat to +15%
Liquor liability remains one of the most challenging lines for hospitality entities with liquor exposures. Difficulty in enforcing rules and the incidence of fatalities have triggered multimillion claim events that pierce excess layers, creating rate pressure and diminishing capacity.

COMMERCIAL AUTO

Rate expectation: +5% to +30%
In 2024, commercial auto continues to be challenging because of persistent trends like social inflation and nuclear verdicts. Higher repair costs and ballooning medical expenses have also led to greater losses for insurers in recent years and eaten away at underwriting profitability. To obtain better results from the market, businesses will need to invest in safety controls and hiring practices as a means to prove operational resilience and reduce the likelihood of claims.

WORKERS' COMPENSATION

Rate expectations: -1% to -9%
Workers' compensation continues to be a beacon of good news for the hospitality industry, with rates remaining stable and even seeing drastic decreases in some cases. In some states like Florida, the hospitality industry is seeing rate decreases average -15%. To maintain competitive pricing, businesses should continue to invest in safety measures, especially in situations where there is high turnover and knowledge on best practices might be lost with employees' departures.

CYBER

Rate expectation: -10% to +10%
After years of rate increases, the cyber liability market has seen rate stabilization and growing competition amongst insurers. To experience the benefits of these market conditions, businesses should continue to invest in cybersecurity tools and best practices like managed detection response, incidence response planning, encryption, and more.

DIRECTORS & OFFICERS (D&O)

Rate expectation: -10% to +10%
The D&O market softened significantly in 2023, and in 2024, this trend is likely to continue. New market entrants have created more capacity and competition, leading to significant rate deceleration. It is important to note that businesses that have experienced financial hurdles due to the economic environment and financial institution failures will likely experience greater underwriting scrutiny and higher rates. In 2024, the gap between cyber liability and public D&O will continue to narrow as a result of new SEC regulations, though this trend is also affecting the private D&O space.

EMPLOYMENT PRACTICES LIABILITY (EPL)

Rate expectation: -10% to +10%
EPL for hospitality businesses has also seen improvements, with rates remaining mostly flat. Underwriters will continue to pay close attention to exposures in states including California, Florida, New York, and Illinois.

EXCESS LIABILITY

Rate expectation: +5% to 20%
Due to litigation trends, the excess liability market is challenged, with large layers of coverage being particularly difficult to obtain. Insureds are having to purchase lower limits to mitigate the effect on premiums, which could lead to coverage gaps in the event of a claim. To reduce the overall cost of liability risks, investments in safety processes, trainings, hiring practices, and worksite culture can both reduce the likelihood of a claim and result in better rates from insurers.

Talk to us about litigation trends and how they may impact your business and insurance program.

Your Partner for Success

With the insurance market always changing in response to global events and loss patterns in ways that impact the availability and pricing of coverages, partnering with the right insurance advisory team can empower you to anticipate coverage trends, respond appropriately, and minimize your cost of risk. Having an experienced partner by your side will help you remain proactive versus reactive, granting you greater control and influence over your insurance market outcomes. Our team of experts is deeply familiar with the hospitality industry, and how your industry specific exposures inform coverage needs and best practices for risk management. Working as an extension of your organization, your advisory team will help you find the right coverages for your specific business needs, be prepared for renewal, and best represent you in front of underwriters.

[1] Forbes, "Thousands Of Las Vegas Strip Workers Expected To Rally Thursday Amid West Coast Strikes–Here's What To Know," Darreona Davis, August 10, 2023.
[2] Rate information from internal data

Let's work together to bolster your resilience.

The Baldwin Group