



Turning Data into Dollars

How Advanced Analytics can Reduce Insurance Costs for Hospitality Companies

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Everyone associated with the lodging and hospitality industry is facing challenging times. Room demand, average daily rate, REVPAR, number of associates and growth are all trending down. Capital is difficult to acquire and profitability is limited. Owners, management companies and franchisors are adjusting to this new world, taking advantage of the economic circumstances and modifying property and casualty insurance programs to reflect new limits, values and retentions which lead to reduced costs.

The current environment offers significant opportunity to use advanced analytics to better predict the success of loss control and safety initiatives. Analytics are also useful to better understand program cost structure and negotiate premiums to cover claims frequency and severity, as well as other non-claims costs that go into the structure of a profitable insurance program.

Using sophisticated analytics assists the insurance carrier in more competitively pricing the cost of risk. Credible, client-specific data is an important driver of an underwriter's premium costs. The more analytical data is available, the lower the premium becomes.

Large franchisors and third party hotel management companies have used analytics for years. Beecher Carlson offers these sophisticated analytics to middle and upper-middle market clients and prospects, helping them — and insurance carriers — make intelligent decisions about the structure and cost of property and casualty programs.

Here's a look at specific lines of insurance and how the use of appropriate data can assist in securing the best the market has to offer:

Property

Windstorm, flood, earthquake and other regionally based perils can make the placement of a property program a challenge. Terms, conditions and costs are all based on a carrier's appetite and ability to absorb capacity with or without facultative reinsurance.

Good information is "king." Educated guesses on an insurance carrier's ability to accept and price the risk are unacceptable. Beecher Carlson's use of Risk Management Solutions (RMS) software assists in determining the extent to which the client and the carrier are at risk for earthquake, windstorm, flood or other perils.

In an RMS study, geographical data inherent to the client's physical location, and general data regarding the region and history of loss, are combined into a sophisticated software program that projects the probability and extent of a loss. This information is presented to the client and the insurance carrier for a refined negotiation with insurance carriers.

Property owners often find that the amount of catastrophic coverage purchased for earthquake, windstorm or flood is not in line with actual risk exposure.

Reliable information produces good decisions.

Too Much?

A Beecher Carlson client purchased \$40 million of earthquake coverage. The RMS study suggested \$12 million. This information was used to convince the lender that a limit of \$15 million was adequate, resulting in an annual savings of \$100,000 in cost of earthquake coverage.

Too Little?

A Beecher Carlson client purchasing \$50 million of windstorm coverage raised its limit to \$100 million as a result of an RMS study showing an exposure of \$243 million.

Casualty, Workers' Comp, Business & Auto Liability

The use of analytics makes a huge economic difference in the purchase of casualty coverage. Consider the following:

Loss Pick – This is an actuarial estimation of what future losses will cost based on past loss history and habits. Even in a guaranteed cost casualty program, the loss pick allows clients and carriers to understand the amount of premium needed to fund the cost of a program. This data gives a clear picture of financial expectations for all vested parties.

Lower Limits

A Beecher Carlson client provided six years of creditable workers' compensation loss data. Our analytics showed an ultimate loss pick of \$137,000. This report clarified the most probable worse case scenario for the insurance carrier which resulted in a reduction of the client's workers' compensations costs from \$902,000 to \$470,000 annually.

Retention Analysis – When purchasing a casualty program with a retention or deductible, it's important to know on an actuarial basis what a company should consider retaining at various levels measured against the cost of insurance.

Appropriate GL Deductible

A Beecher Carlson client considered raising their retention (deductible) on a general liability program from a \$100,000 to \$250,000. A retention study showed that the incremental claim cost from the higher deductible would be \$137,000 premium savings. It didn't make sense to save \$75,000 to actuarially pay out \$137,000. With this information, the client left their program at the \$100,000 deductible level.

Beecher Carlson also takes part in other empirical and non-empirical studies and initiatives on behalf of hospitality and lodging clients.

American Hotel & Lodging Association Survey

The American Hotel & Lodging Association's annual loss cost benchmarking study (conducted since 1994 by Beecher Carlson) is one of the most respected and publicized benchmark surveys in the industry.

Benchmark data is broken down into three sectors: limited, upscale and luxury. Benchmark information such as workers' compensation loss per \$100 of payroll, general liability losses per \$1,000 of sales, comparisons of insurance claims over a five-year period, and other comparisons with peer group members, is available to any member of the association that wishes to take part in the survey. Beecher Carlson produces a proprietary 80-page report for each participant.

Non-Empirical Excess Benchmark Study

Beecher Carlson maintains a non-empirical comparison of excess limits carried by many hospitality gaming and non-gaming clients. We are always asked, "What is the competition carrying for limits?" Wouldn't it be nice to know what others in hospitality are doing?

Interactive Extranet Site

Beecher Carlson has designed an interactive extranet site for real-time property submissions and premium allocation. This real-time site allows clients, carriers and Beecher Carlson to post applications, memos, correspondence and information important to the marketing process. When we see it, you see it! This is our way of delivering a fully disclosed product.

Property Premium Allocation Modeling

As part of our intranet product, Beecher Carlson assists in allocating premium cost based on information specific to a property instead of just a percentage of premium cost. This gives clients the option of allocating cost based on specific location data. Why should a property with no windstorm exposure pay for a property that does?

All of us at Beecher Carlson are committed to the hospitality and lodging industry. It's one of our eight dedicated verticals, with national recognition from franchisors, franchisees and property management companies.

We invite you take advantage of our sophisticated tools and processes. We will fine-tune your procurement process as well as your insurance cost. Isn't that what it's all about?.



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www.beechercarlson.com
1-800-657-0243