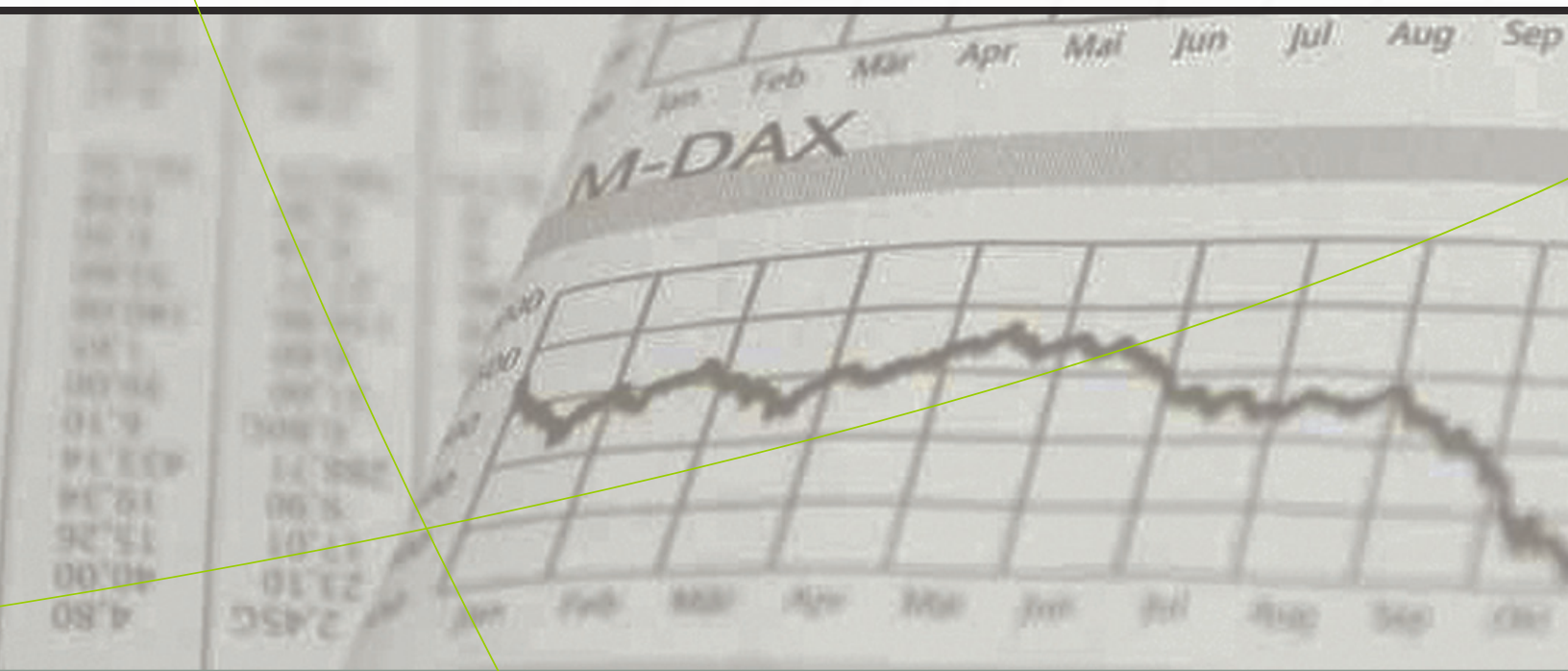


American Hotel and Lodging Association Risk Management Committee

Annual Loss Cost Survey 2011



BEECHER CARLSON



FOREWORD FROM BEECHER CARLSON

This is the 16th year that Beecher Carlson has prepared the loss cost study for the American Hotel and Lodging Association. Beecher Carlson is very proud to be a partner of the AH&LA in assisting its members benchmark their loss history against each other.

Background

Lines covered:	Workers' Compensation (WC) General Liability (GL)
Period:	2011 refers to the loss year ended 31 December 2010.
Timeline:	Initial data request - May 2011. All data collated by November 2011 for presentation to the AHLA risk management committee in December 2011.
Data shared:	WC and GL Loss information including allocated loss adjustment expense. Workers' Compensation Indemnity Loss refers to all loss and expense on any claim with and indemnity; payment. All average rates and claim cost amounts are based on losses limited to \$250,000 per occurrence.
Limitations:	Beecher Carlson reviewed the data submitted by the participants for reasonableness. We do not take responsibility for the accuracy of the data submitted.

EXECUTIVE SUMMARY

For 9 of the past 10 years, loss costs have trended down. The 2011 results show a change to that trend. The change in trend consists of 2 sub-trends – those of severity and frequency. Frequency has been declining now for a number of years and appears to have bottomed out in 2011. Severity continues to rise. Prior to this year's results, decreases in frequency have offset the increases in severity and the overall costs of losses to the lodging industry have fallen. The 2011 study (for the 2010 underwriting year) showed a new trend, as frequency leveled out, leading to an overall increase in loss costs. The highlights of the report are as follows:

Frequency:

There was little change in the frequency rates between 2011 and 2010. We are still seeing 0.53 indemnity claims per \$1,000,000 in payroll compared with 0.53 claims per \$1,000,000 of payroll in 2010. When medical only claims are added to this, the decrease becomes more pronounced. There may be a number of reasons for this and it is noted that one reason may be that the aging workforce and the increased emphasis on workplace safety is being countered by the numbers of hours worked by staff and a trend towards job creation.

Severity:

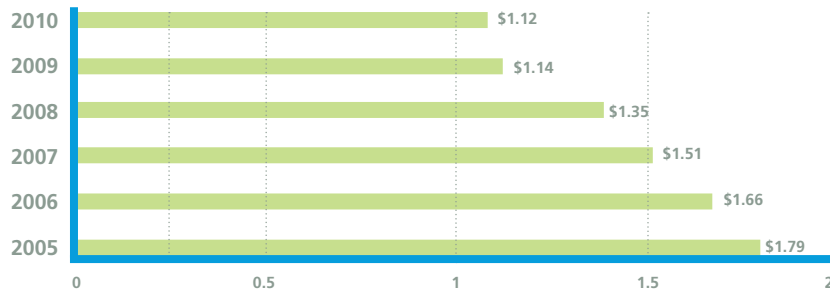
Severity increased in 2011. It has increased over the last 6 years and continues to increase. The drivers for the increase in severity include medical inflation, wage inflation and claim settlements within the courts.

In years passed, frequency decreases have offset severity increases. In this report last year, it was mentioned that the expectation was that frequency must slow down to the extent that it could no longer offset severity increases. That trend is very apparent in this study.

FINDINGS

WORKERS' COMPENSATION

Beecher Carlson found that the overall cost of losses for Workers' Compensation has reduced over the past 6 years from \$1.79 per \$100 of payroll to \$1.12 per \$100 of payroll. The decrease is consistent across hospitality sectors and does reflect an easing of overall frequency since 2005 with the rate of change slowing to its current, almost flat state.



Note: All charts in this white paper are for the Upscale sector, which has the most study participants and comprises 60% of the study's exposure.

NCCI indicates the that the factors that are being seen to affect the overall decline in loss rate are as follows:

Work place safety:

Companies are placing an emphasis on safety. What gets measured can be controlled.

Aging workforce:

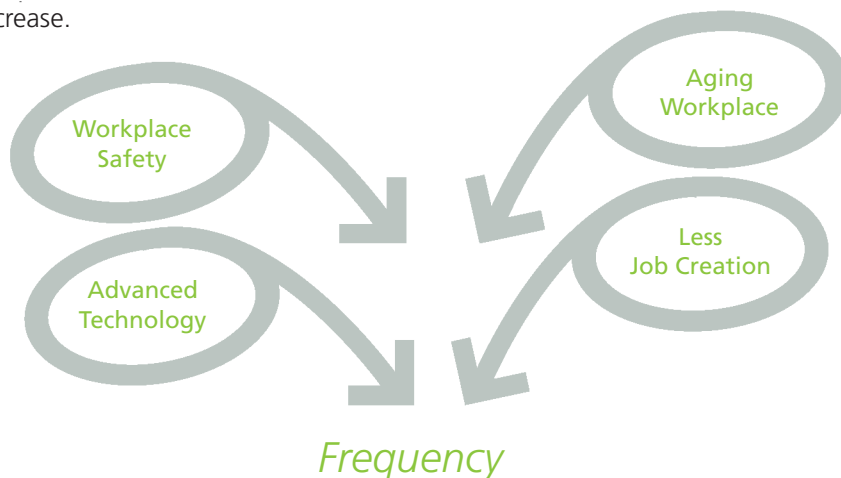
Older workers tend to have fewer accidents and with the current economy, many companies have focused on keeping seasoned employees who can do more, this concentrating on overall cost reduction.

Job Creation:

The current hospitality economy is starting to create new positions. Thus, the workforce is slightly more inexperienced and less experienced workers have more accidents. This offsets the aging workplace improvements.

Increase in hours worked:

As job creation picks up, to fill the gap, existing workers will increase the numbers of hours worked. As a result, frequency will increase.



FINDINGS

GENERAL LIABILITY

Beecher Carlson found that the overall cost of losses for General Liability have also started to increase within the hospitality sector. The measurement criteria for GL is percentage of sales rather than payroll as GL refers to losses incurred by guests within the properties.

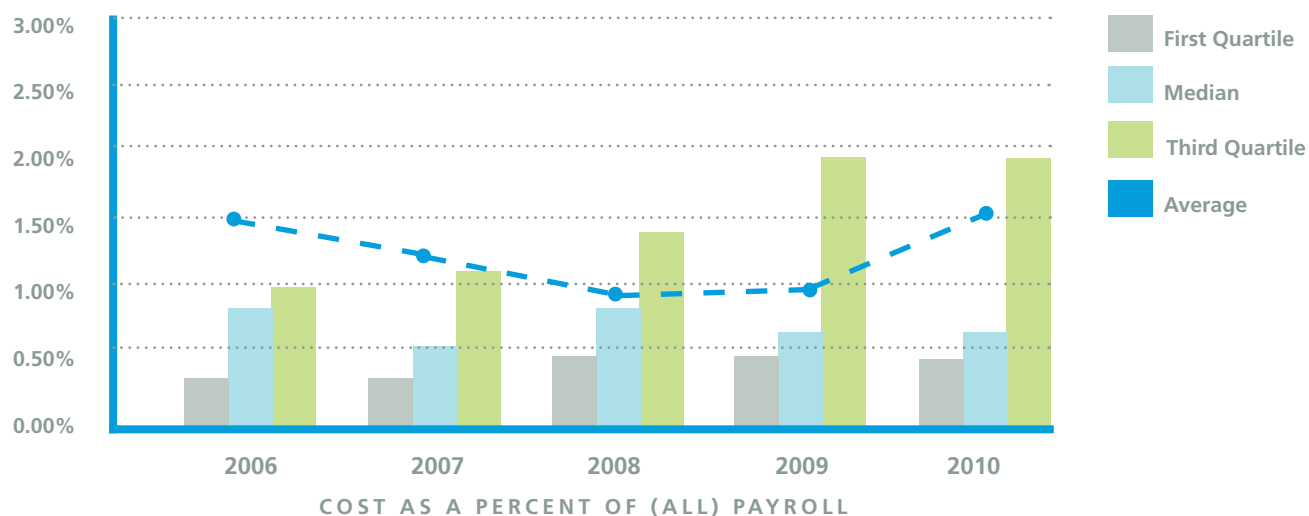
Again, incurred losses as a measure against sales shows a very slight decline, with the rate of change of the decline flattening. The following graph is representative of the value of losses per \$1,000 of sales. As can be seen, the loss rate of \$1.11 per \$1,000 sales is the best that the industry has experienced over the past 7 years and reflects the industry's concentration of guest satisfaction as well as guest safety, whose position on the items that a guest cares about has increased over the past years.



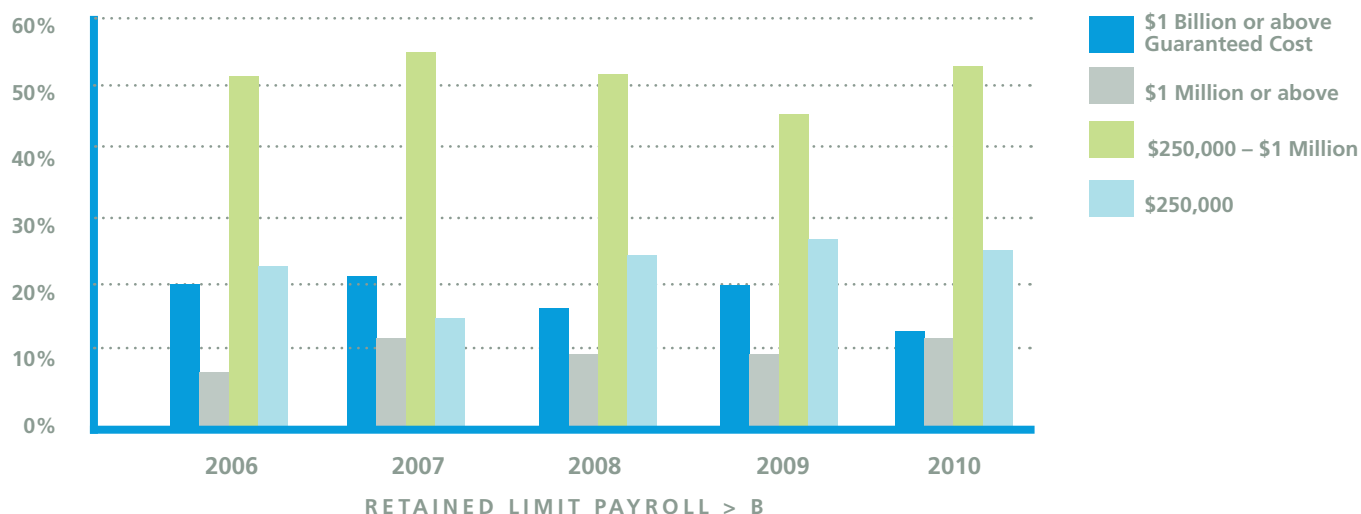
FINDINGS

MARKET COMMENTARY

We are looking at premium increases for Workers Compensation and General Liability renewals. Cost as a percentage of payroll² has started to increase as the cost of insurance, retention and loss development have started to rise. As a result, companies are reviewing their approach to purchasing insurance.



Guaranteed cost insurance became more popular during the soft market cycle but there has been a trend away from that as prices within the market have started to firm.



A note on the above – in 2010, 12% of companies with payroll over \$1b purchased guaranteed cost insurance. 24% retained \$250,000, 53% retained \$250,000-\$1,000,000 and 11% retained in excess of \$1,000,000.

²*Compiled from Consumer Discretionary data in past 5 years RIMS Benchmarking Survey

FINDINGS

MARKET COMMENTARY

As discussed in last year's paper, the factors affecting the insurance market are much more reflective of competitive forces. Of particular interest are the following data points, taken from the Council of Insurance Agents and Brokers, which are still true at the time of writing:

1. In the last 30 years, insurance companies have made an underwriting profit in only 3 of those years. 2011 was no different. Insurance companies make money from the "float" which is the money that they hold in premiums that they use to pay losses against those premiums sometime in the future.
2. The market is carrying capital available to pay losses which was at an all time high in 2011 but has fallen in 2011 but not to the extent that would precipitate a hard market.
3. Because of the amount of capital in the marketplace, there is a lot of competition for premium dollars. The reason why many carriers stay in the market include the fact that, at present, investment returns outside of the insurance market are lower than can be expected to be made within the insurance market. This remains the case in 2011.

The market looks to change slowly in 2011 but will depend upon the following issues, which remain similar to that proposed in the 2010 paper.

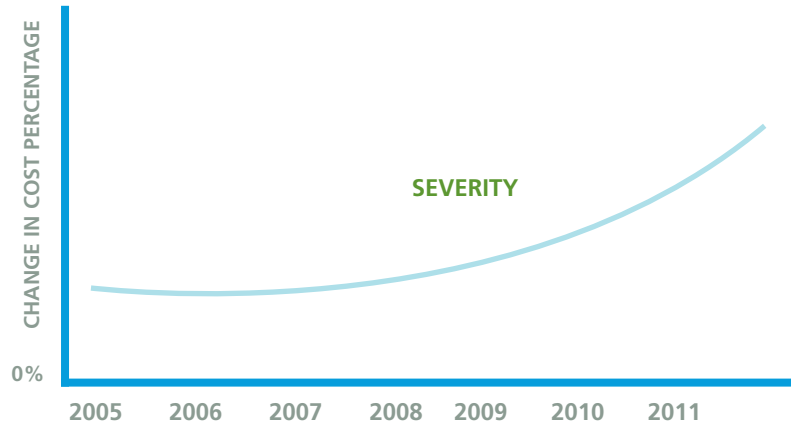
1. Insurance companies will look to drive underwriting profit in 2012.
2. Frequency's leveling and severity's continued rise will place greater emphasis on corporate retention strategies. Guaranteed cost insurance will become more expensive.
3. As job creation picks up in the hospitality industry, the workforce will become less experienced (this trend will more than offset the aging of the workforce) and frequency will pick up in 2012. This will exert rate pressure.
4. Data is becoming more available and its use in analyzing trends in loss information will increase. Hospitality companies as well as insurance companies will use this information to demonstrate their commitment to job safety through effective use of loss mitigation and control, predictive modeling and claim closure projects. Such workplace focus will allow companies to retain more risk, transferring excess risk to the insurance marketplace.
5. The cost of regulatory capital is starting to rise throughout the world. With Solvency II in Europe and with the NAIC's Solvency Modernization Initiative, the amount of capital that will need to be committed to writing existing business will increase, thus forcing the cost of related insurance premiums up. Solvency II has been pushed back a year to 2014, so the horizon for this change is a little longer than the other mentioned in this paper.

As mentioned last year, it is hard to know when you are at the bottom. But in hindsight, it appears that the bottom was 2010. Prospective focus remains on the development of key performance indicators at the risk management level of each company to ensure that insurance costs and overall loss costs continue to be contained, minimizing their effect on the bottom line of the hospitality industry.

APPENDIX

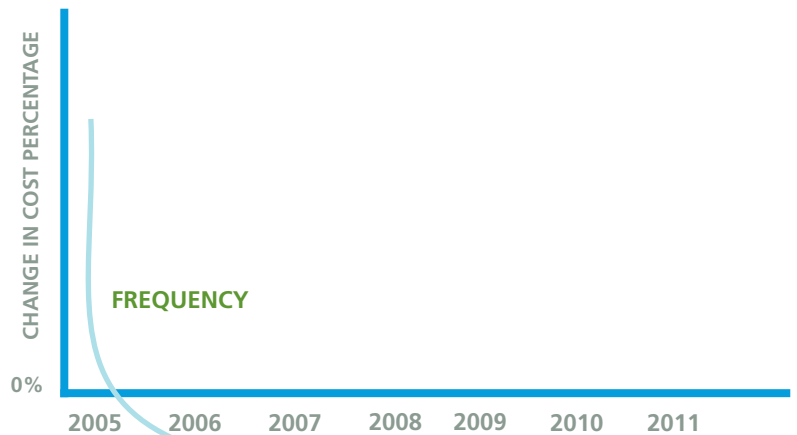
SEVERITY

In short, the **average** cost of a claim. The drivers of severity are both internal to a company (claim procedures, claim mitigation, claim settlement procedures) and external to a company (benefit level changes, medical inflation, wage inflation, systemic fraud, settlement costs) and, consequently, can be viewed as being outside management control. This article addresses severity and its drivers in more detail to assess the controllability of claim development.



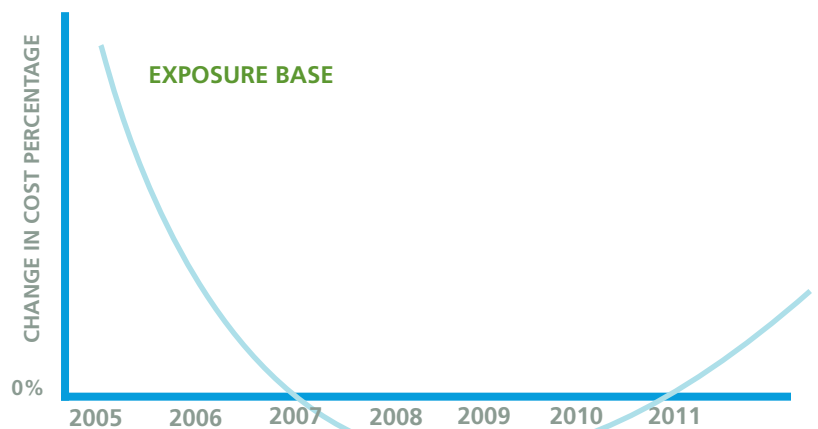
FREQUENCY

In short, how **often** claims occur. The drivers of frequency are mostly workplace environment based - safety procedures, training, automation of procedures and increases in technologies among others. A lot of these drivers are internal to a company and can be controlled by internal functions such as appropriate bonus structures, premium and loss allocation systems and management oversight.



EXPOSURE BASE

The basis on which premium is determined (for Workers' Compensation – payroll, for General Liability – revenue or the number of rooms). In the current economic climate, exposure bases are down, especially for Workers' Compensation as payrolls are down across the hospitality industry.



APPENDIX

2011– BEECHER CARLSON INSURANCES SERVICES, LLC

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Beecher Carlson has prepared the AH&LA benchmarking study for the past 16 years

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