The 360° view of risk

On the FrontLine

Leisure and hospitality

RISK AND HOSPITALITY

From hotels and resorts, to casinos, restaurants and concert venues, businesses across the leisure and hospitality sector are navigating an evolving risk landscape. In this special whitepaper we explore how the sector dealt with last year's hurricanes and whether insurance is fit for purpose in an increasingly intangible, interconnected world.

Benedict Burke,
Chief Client Officer, Global Markets,
Crawford & Company®

Crawford & Company®
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From the tangible to the intangible

THE HOSPITALITY SECTOR'S FRAGMENTATION, GROWING RELIANCE ON TECHNOLOGY AND DISRUPTION BY NEW PLAYERS HAS SEEN A SHIFT IN FOCUS TOWARDS INTANGIBLE RISKS

As with many other industry sectors, the leisure and hospitality industry is subject to constant change and reinvention, introducing it to new and emerging risks as it evolves. While property damage and business interruption have not gone away, today's organizations are increasingly concerned about cyber attacks, reputational damage and disputes with franchisees and other emerging perils.

This is particularly the case for major hotel chains, as they have become franchised entities. "Big hotel groups aren't what people imagine — because they very rarely own hotels — they are effectively companies that are brand owners," explains Ian Canham, partner, Risk Solutions, Lockton. "What that means is that systems and cyber become fundamental to the risk of large hotel groups."

InterContinental Hotels Group (IHG) has 5,174 hotels across nearly 100 countries, including brands such as Candlewood Suites, Crowne Plaza and Holiday Inn. Hilton, which owns Hampton and Doubletree, has 243 franchised hotels in the U.S. and 260 in the rest of the world.

Within these major hotel chains are sub-brands, including restaurants and spas, with each business run independently by a franchisee. All these entities are stakeholders in the value chain, with the onus on the brand owner to attract franchisees and maintain standards.

John Ludlow,
CEO, Airmic

Crawford®

IN THIS ISSUE:

Roads to Resilience: A groundbreaking report

Published in 2014, 'Roads to Resilience' set out the key ingredients associated with operational resilience. Prepared by Cranfield School of Management, written on behalf of Airmic and sponsored by Crawford, it looked in detail at eight "high reliability" organizations - including IHG - identifying five related and inter-dependent principles that can help companies protect their reputation and achieve their goals.

"Ultimately whoever puts the brand on the building still has to worry about everything and it all needs to be aligned," says John Ludlow, CEO, Association of Risk and Insurance Managers. "Everybody else has to fit in behind that and support it otherwise the pyramid falls down."

He thinks the secret to building resilient organizations is in effective leadership. "It's not about control. You can't control 5,000 hotels and 380,000 members of staff and a million guests who, for example, you are selling alcohol to. It's about leadership and, as a brand owner, leading for all you're worth."

As intangible assets make up an increasingly large proportion of the value of leisure and hospitality firms, reputation and brand protection are front of mind, explains Polly James, director of risk management at Hilton. "Our reputation is our biggest asset. We have a department that focuses on business continuity crisis management."

"A big part of brand protection is communication, training the people on the ground on how to react and what to say and what not to say," she continues. "I know in Europe periodically the general managers will do one-on-one media training with members of the press. They will be given a scenario and trained in how to keep a tight lid on any negative fallout."

Effective crisis training is all about having the "muscle memory", explains James. "It doesn't matter how good your plans are and what you know, it's how you implement it. And the best way of doing that is to practice it."

A survey from software provider Fourth found that younger, tech-savvy consumers are more likely to leave negative reviews on platforms such as TripAdvisor. Operators have the best chance of mitigating this if they provide a discounted bill, great service and the offer of a complimentary return visit upon hearing of a complaint.

"Bad news travels very fast now and hotel groups spend huge amounts of time monitoring social media," notes Canham. "That was one of the findings of the Airmic report 'Roads to Resilience': many organizations from a variety of sectors found

Continued on page 4

Global terrorism: Responding to a change in modus operandi

Mandalay Bay Hotel in Las Vegas, scene of the shooting at the Route 91 Harvest Festival in October 2017

Terrorism and political violence has always been on the risk register of leisure and hospitality firms. However, the threat landscape is evolving with major groups such as ISIS and Al-Qaeda in the Arabian Peninsula specifically targeting civilians and public buildings, including stadiums, music venues and hotels. In 2016, nearly 60 percent of the 25,621 deaths that arose from terrorist attacks targeted private citizens, according to the Institute for Economics & Peace.

The 14-hour siege at one of Kabul's principal hotels in January 2018 is a reminder of the threat. However, leisure and hospitality venues in OECD countries are not immune. Attacks in 2017 included the Manchester Arena bombing in May and Las Vegas concert shooting in October.

"Ultimately you're a hospitality business so you're trying to keep the front door open and you welcome everybody in, but you have to be aware of your surrounding environment in a proportionate way," says Ludlow.

Devastating marauding attacks in Mumbai (2008), Tunisia (2015) and Kabul (2018) have shown how a small number of attackers (or lone gunman) can cause significant loss of life if they are able to breach hotel security. While their lobbies and public areas are vulnerable, hotels can go into lockdown to prevent attackers accessing all parts of the building.

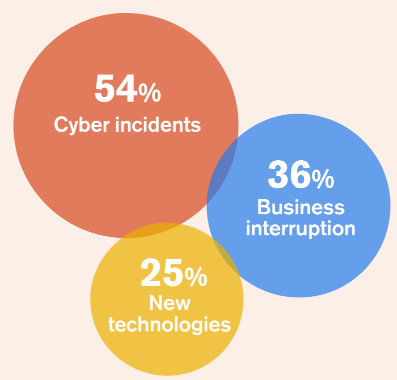
Active shooter training may be appropriate in certain locations, with staff taught to "detect, delay, deny (access) and defend". Countering the threat is all about gathering intelligence on potential threats and vulnerabilities and having clear plans in place to protect people and assets, says Ludlow.

"You have your plans to shelter and evacuate in place. In the extreme when your hotel is being stormed by gunmen, you need to know where to put your guests, what the escape routes are and where you put your staff which is typically in front of the guests."

There is generally more warning when it comes to political violence. During the Arab Spring, Ludlow, who was at the time president of global risk at IHG, was sharing and receiving daily intelligence with the embassies in Cairo and other hotels so he could understand what was happening in the external environment and who was in political control at any one time.

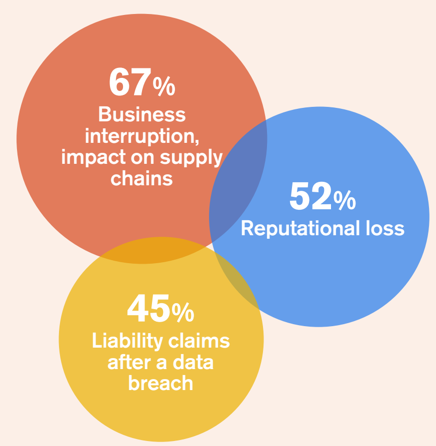
"When it comes to civil unrest you need to know if you are you going to provide water and food for the people outside your hotel — to let them come in and charge their mobiles and use the facilities — or whether to pretend you're not there and turn your lights out at night. In Cairo, it was clear the rioters had their eyes on our food, our water and our money and they wanted to smash the place up. So that's when you put the defenses up."

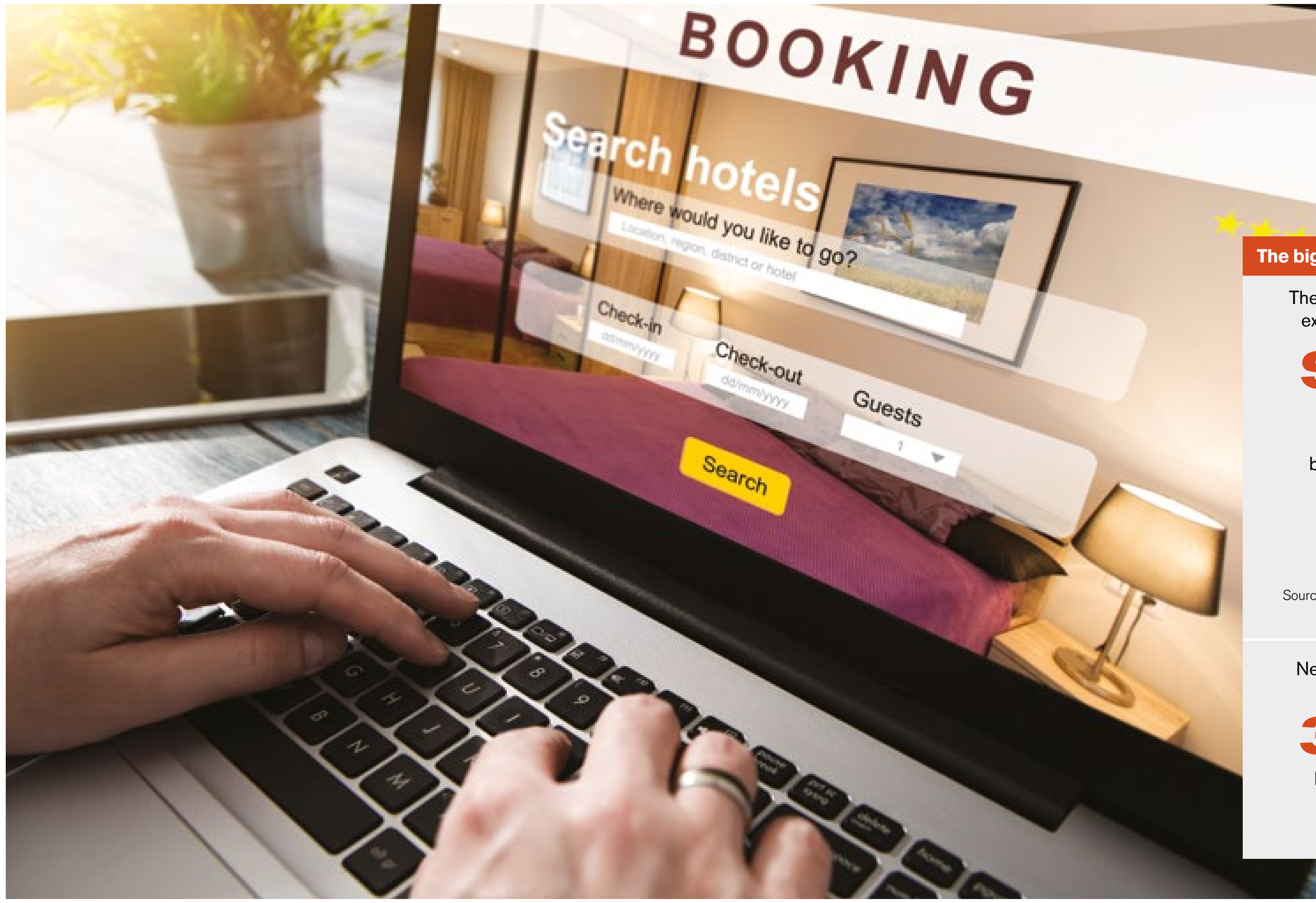
Q: Which business risks are currently most underestimated?



Source: Allianz Global Corporate & Specialty

Q: What are the main causes of economic loss after a cyber incident?





that social media could out-communicate them. You have to be really on top of that. And when it comes to claims handling an individual's claims experience will get spread very quickly on social media."

Hospitality in a technology age

One of the biggest challenges and opportunities for leisure and hospitality organizations in recent years has been the growing reliance on technology and the disruption that this has created. On the one hand access to big data and advanced analytics is offering new opportunities to tailor the customer journey to the individual.

On the other hand, technology has caused disruption in the industry, heightening competitive pressures. Incumbents are up against the sharing economy among others. According to real estate consultant Colliers International, in London alone Airbnb's market share of overnight stays more than doubled in the last year, to almost nine percent.

Meanwhile, the emergence of internet travel intermediaries has intensified competition within leisure, corporate and group travel. There has been immense pressure to update legacy systems in order to bring booking and reservation platforms and websites up-to-speed to compete in a digital era.

With online travel service providers including Expedia, Booking.com and Travelocity.com all vying for a slice of the business, and often undercutting the prices listed by branded reservation systems, the pressure is on to adapt and innovate. Increasingly it is about leveraging data to tailor the customer experience, explains Airmic's Ludlow.

"Legacy reservation systems are being replaced," he says. "That's enabling the big hotel chains to manage the guest experience, as well as the more transactional aspect of the guest arriving at a hotel. Right from the time you think about staying at the hotel, all the way through every stage of the guest's emotional experience throughout their journey, through to gathering feedback and providing loyalty incentives. It's an incredibly joined-up and connected world."

Top three risks impacting the hotels and hospitality industry

1. Damage to reputation/brand
2. Economic slowdown/recovery
3. Cyber crime/hacking/viruses/malicious codes

Top three risks expected to impact the sector in the next three years

1. Economic slowdown/recovery
2. Cyber crime/hacking/viruses/malicious codes
3. Political risk/uncertainties

However, while the Internet of Things (IoT) offers the opportunity for hotels to better tailor the customer journey to the individual, it also introduces potential weaknesses, explains Hilton's James. "In the future when you check into your room, you'll be able to customize things like having extra pillows, ordering room service, setting the room to your preferred temperature etc. But that will potentially open up additional avenues for attackers to hijack those interfaces."

Growing cyber claims

While data is allowing leisure and hospitality organizations to tailor the experience to the individual, it has also heightened their responsibilities when it comes to gathering, handling and protecting that data. For organizations operating in Europe and equivalent jurisdictions, new data protection regulations — the GDPR — have introduced more stringent data protection rules and significantly increased fines and penalties (up to four percent of annual global turnover) for those failing to adhere.

The leisure and hospitality industry is far from immune to major cyber-attacks — including ransomware, denial of service attacks and other cyber threats targeting sensitive data, attempting to extort and threatening to bring down critical systems. As XL Catlin notes in a recent article, six high-profile companies within the hospitality industry suffered customer data breaches between May 2014 and December 2015. They included a restaurant chain where credit card data was stolen from over 3,600 outlets.

"There is a clear trend towards greater sophistication of the attacker," says Paul Handy, global head of Cyber and Technology Risks, Crawford. "We are seeing some very clever methods of attack that would challenge even the most techno-alert. Cyber insurance is now becoming a must-have purchase and with that access to expert-led incident response services."

Fifty-five percent of hotel and hospitality organizations currently purchase cyber insurance, with a further 27 percent stating they plan to take out the specialist cover in the near future, according to Aon Risk Solutions.

The big numbers

The Online Travel Bookings Market is expected to attain a market size of

$1,143.6 billion

by 2023, growing at a CAGR of

10.8%

during the period 2017-2023.

Sources: Online Travel Bookings Market (2017-2023)

New Year's Eve 2017 was Airbnb's biggest night to date, with

3 million

people staying on the platform.

Sources: Airbnb

> "Cyber insurance is now becoming a must-have purchase and with that access to expert-led incident response services"
>
> **Paul Handy, Crawford**

The success of any major hotel business comes down to its ability to fill rooms, thinks Ludlow. Beyond the concerns over losing customer data, it is the business interruption (BI) arising from a cyber attack that can be particularly disruptive, he says. "You are selling time and once it's gone it's gone. Frequent outages were the one I used to fear the most — when you are starting to annoy your customers. Also, don't forget, you're annoying your hoteliers who are part of the ecosystem."

In its 2018 Risk Barometer, insurer Allianz found that for the first time, cyber incidents were the most feared BI trigger. BI is also the main cause of economic loss for businesses following a cyber incident. "Increasingly, the claims we are handling on behalf of our leisure and hospitality clients involve business interruption," explains Benedict Burke, chief client officer, Global Markets, Crawford.

"And the causes of this are indicative of the changing risk landscape that hotels, casinos, sports and entertainment venues are operating in," he continues. "Disruption to businesses are today just as likely to be triggered by a strike, cyber outage, supplier failure, denial of access or other source of non-physical interruption as it is by a traditional physical peril."

Major hotel groups account for 92 percent of all point-of-sale intrusions, according to Verizon Data Breach Investigations Report. "I was going through a very large hotel chain's data center and the head of cyber security said they were under attack every minute of every day," reveals Lockton's Canham.

"There's a massive regulatory cost if these things go wrong, but additionally if the core of your business is to get people through the front door, then the booking system is really important. It's the pipe work for these companies. If their systems go down for a few minutes they start losing money."

Feature

Policies under review

AS THE RISK PROFILE OF THE LEISURE AND HOSPITALITY SECTOR EVOLVES, IS THE INSURANCE INDUSTRY EVOLVING IN TANDEM?

The risk horizon of the leisure and hospitality sector has expanded further and done so more rapidly than many other sectors. Simultaneously, at the group-end of the spectrum the risk profile of large-scale operations has altered significantly, not only due to the emergence of new exposures or the evolution of long-standing risks, but also reflecting the increasingly franchised base that underpins it.

In such a fast-evolving environment, firms have responded by ramping up incident response activities, bolstering security defenses and strengthening mitigation practices in a concerted effort to reduce exposure and enhance resilience. Insurance continues to form a central tenet of such measures, but as the risk focus shifts from tangible to more intangible risks, are insurers keeping pace?

The evolving nature of risk

Given the 24/7 service nature of the leisure and hospitality industry, business interruption has long formed a mainstay of the sector's insurance strategy. However, the rapidly changing risk environment is exposing deficiencies in property-centered policies as intangible, non-damage related risks become more prevalent.

"Intangible assets range from brand names and trademarks, through to operational assets such as customer lists, proprietary software and franchise agreements," explains Frederique Hardy, director, Forensic Services, Crawford. "One of the challenges faced by the insurance sector is understanding how to adapt to the emergence of damage to these intangible assets."

Scenario planning across the sector is now increasingly targeting these intangible assets, according to Robert Lewis, claims leader, UK risk management practice, Marsh. "Many of the scenarios we look at with our clients now focus on non-damage triggers rather than flood or fire. This requires a new way of thinking which is both exciting and healthy for the insurance sector."

"We are certainly seeing increased interest in securing non-damage business interruption, and there are ongoing conversations across the leisure and hospitality sector," says Douglas Barnett, head of customer risk management, AXA UK. "Some brokers are seeking wider covers to encompass these risks, but these are extremely complex discussions given the challenges of defining what the impact is that will trigger the policy."

Loss of attraction is one such policy extension which is very difficult to craft a precise trigger for. "We have recently added loss of attraction cover or a similar type of product for a client in the sector," explains Joe Addison, executive vice president, Head of Entertainment & Hospitality Practice, JLT Specialty USA, "which states that the policy will recoup some of the financial losses from a decline in occupancy rates resulting from specific perils occurring within a ten-mile radius of their particular venues."

He continues: "The big challenge is establishing what the potential source of the decline in occupancy rates might be. For example, is one of the biggest threats an attack on a major airport? Will rates drop across the region due to people refusing to travel to that particular airport, or have a broader impact on travel across the country due to an increased fear factor?"

Iain Hovell, director of insurance, InterContinental Hotels Group (IHG), believes that the wordings of loss attraction policies need to be reviewed. "I am not convinced that given the risks that we have today such policies are as clearly articulated as they could be. The more work we as clients can do with underwriters and brokers to better understand these intangible risks the better."

A further complexity added to the intangible insurance conundrum is quantifying the loss itself. By their very nature, such losses resist precise quantification.

"With loss of attraction, for example, it is always going to be a challenge to prove the loss," believes David Tate, UK retail and consumer brands practice leader, Marsh. "This is where you need to apply a forensic accounting approach in order to accurately compare the period pre- and post-event."

Hardy from Crawford points out that unlike when dealing with physical assets, businesses may not consistently track the link between intangible assets and the business income they generate. "That makes it difficult to quantify the loss arising from damage to the asset," she adds. "While a hotel may consistently track occupancy rates, it may not track the attraction rate of sponsored social media influencers. As a result, a business may not have the necessary metrics to demonstrate the financial loss."

As the leisure and hospitality sector becomes increasingly reliant on intangible assets, it is imperative firms start generating these metrics. "Businesses would benefit from engaging more with business interruption professionals and forensic accountants," she states, "to gain a better understanding of the financial risk attached to damage to their intangible assets."

The cyber challenge

The increasingly franchised nature of the sector is driving a significant shift in the operational focus of the larger leisure and hospitality groups. "We are an asset light organisation," explains IHG's Howell, "focused on our brands and on providing strong and stable revenues to our owners. Our focus is on mitigating risk to those brands and delivering value to our hotel owners, whether managers or franchises."

The amount of data stored and payments transacted across the sector has increased exponentially, particularly with the advent of travel apps. Hilton, for example, boasts that in 2016 its app enabled more than one million digital check-ins per month and was downloaded every eight seconds.

All bets are off

In August 2017, Macau, the 'Las Vegas of Asia', was devastated by Super Typhoon Hato. The largest typhoon to hit the area in over 50 years, it rated '10' on the Hong Kong tropical cyclone signal and claimed the lives of at least 10 people. Significant property damage and infrastructure disruption due to high winds and extensive flooding effectively shut the island down.

Secretary for Economy and Finance Lionel Leong Vai Tac estimated the total economic loss from the typhoon at almost $1.5bn, with almost one third of the figure stemming from indirect losses due to the suspension of business activities on the island.

According to Macau Monetary Authority (AMCM) President Benjamin Chan Sau San, speaking on 19 September, the storm at that point had resulted in some 1,900 insurance claims totalling $363m, with the majority of those claims relating to financial losses.

Gaming revenues for the month dropped from approximately $2.86bn in July to $2.82bn as a direct result of the storm.

The region is perilously exposed to typhoon activity, and while Hato constituted an exceptional storm, it once again exposed the potential indirect financial impacts of such events resulting from business interruption and loss of attraction.

In July 2017, Swiss Re launched Insur8, the first-ever typhoon warning insurance solution for businesses operating in Hong Kong.

Acknowledging the potential gaps in property and business interruption insurance products that can result in significant economic fallout going uninsured, the product is specifically designed to indemnify local businesses against loss of earnings and additional operating costs stemming from a typhoon warning signal 8 or above.

Targeting sectors including leisure, hospitality and entertainment, the product recognizes a move towards financial-focused insurance by businesses in the region.

Commenting at the time of the launch, Dylan Bryant, CEO, North Asia, Swiss Re Corporate Solutions, said: "We have seen a shift in insurance policies, from mainly covering physical damage to focus more on the revenue losses clients suffer due to natural factors such as a typhoon."

Unsurprisingly, cyber-security measures are a high priority, with protection technologies such as payment card tokenization, endpoint detection, point-to-point encryption and network segmentation now integral system components; and incident management measures have been greatly enhanced to ensure forensic-level rapid response capabilities.

However, while cyber-related cover is becoming a more prominent program provision, spanning company-controlled systems and data, the scope and viability of such policies is still under scrutiny. Most hospitality groups include lengthy caveats addressing potential cyber coverage limitations.

"Facility owners are certainly much more conscious of their cyber exposures," believes AXA's Barnett. "The question, however, remains whether the cyber policies currently available adequately address the exposures the sector faces."

The industry has had a number of cyber attacks in recent years. Add to this increasingly weighty fines stemming from bolstered cyber regulation, and the looming implementation of the EU's General Data Protection Regulation (GDPR) which introduces fines of up to four percent of annual global turnover, and policy limitations could quickly be exposed.

According to IHG's Hovell, it is important that insurers provide cover that reflects this new cyber environment. While recognizing that recent legislation is designed to ensure cyber best practice, he adds: "The insurance market must be looking at how they can help us meet the demands of ever more stringent cyber regulation."

Making a financial guarantee

For JLT's Joe Addison, it is imperative that insurers take a step back to look at these exposures from an overall financial perspective.

"The issue is trying to work out how these emerging and evolving risks might impact your balance sheet and affect your shareholders," he says. "What we need to look at is whether we can use insurance as a means of protecting your balance sheet or even your dividend."

Financially robust

Hotel sector growth projection in 2018:
5%–6%

Gross bookings:
$170 billion

Occupancy rates:
66% (approx.)

Source: Deloitte - 2018 travel and hospitality industry outlook

He continues: "Occupancy rates are central to the hospitality sector, so the challenge is to look at products which can help protect their balance sheets in the event of a decline in those rates. We need to be developing products that are geared more towards financial guarantees."

The potential for insurance to operate more as a direct financial protection mechanism is something which Hovell says has been mooted for a number of years. However, he questions whether there is sufficient demand for such a policy type. "As far as I am aware, there is currently relatively limited interest from the industry for a financial protection-type product."

The industry's financial resilience was recently demonstrated by MGM Resorts following the tragic shooting incident at its Mandalay Bay Hotel on the Las Vegas Strip. Delivering the firm's third quarter 2017 results, Chairman and CEO Jim Murren said: "As a result of the October 1st incident, our business in Las Vegas will be impacted in the near term primarily due to a short-lived uptick in cancellations and a temporary suspension of marketing efforts. Since restarting such efforts, our booking pace has largely rebounded to normal levels. We remain confident in the stability of our business and the enduring power of the Las Vegas brand."

"There is a healthy discussion taking place about how to include reputational damage in the insurance policy and how to define the type of event that would result in a shift in share price from an earnings-impacting event," says Marsh's David Tate. "I'm not sure the product is there yet, but there is definitely an opportunity for the insurance sector moving forward."

In addition to the struggles of applying a monetary value to a brand-impacting event, the franchised nature of the sector also creates an insurance headache. "Where does responsibility lie from a reputation management perspective?" asks Addison. "The particular manager of a franchised operation may have done everything by the compliance book, yet an incident still occurs that has a negative brand impact."

And as Barnett points out, given the social media environment in which we now operate, "location-specific incidents have the potential to become brand-level issues in a very short time."

Expanding the profile

As companies increasingly look to introduce extensions to existing cover, there is of course the risk that these policy patchworks leave gaps in provisions that enable financial losses to fall through, whether as a result of sub-limits being exceeded or incidents falling below large deductibles.

"One key challenge that the insurance industry needs to address," states Tate, "is the fact that we are often dealing with a range of policies spanning multiple different sub-limits. Moving towards a single, more expansive type of policy that covers a variety of these exposures would be a step that we would encourage. However, at present the wordings and exposures covered remain relatively siloed."

Addison is in agreement. "The industry needs to move more towards broader all-risks type policies rather than focusing on just named perils in each product line."

"The challenge is understanding and establishing where these risks sit within the overall profile," believes Hovell. "We are keen to pool our risks where we can and to find effective solutions to mitigate costs and enhance cover. But we have to ensure that we are putting the right resources into the right areas to maximize our efforts rather than simply looking to bundle our coverage."

"We are very keen to explore opportunities for innovation on the insurance front," he concludes, "and are keen to have discussions with insurers and brokers to examine ways in which we can better protect our business. But we need to understand exactly what these products are and the value that they bring to our organization."

Feature

Responding to a terrible trio

HARVEY, IRMA AND MARIA TEST THE LEISURE AND HOSPITALITY SECTOR

During a four-week period, Hurricanes Harvey, Irma and Maria (HIM) battered the Gulf Coast region and the Caribbean. The storms pushed catastrophe losses for the year to the second highest on record, with the total insured loss figure estimated to be in the region of $93bn*.

The scale of the events saw many industries impacted and regions devastated. Given the locale of the losses, the hospitality and leisure industry in affected territories has been severely disrupted.

It is unlikely this is the last time the sector faces a series of major windstorms, but the intensity and quick succession of the storms was a major test. As expected, lessons have been learnt from how insurance policies have and are responding to the losses.

An interdependent industry

The multitude and magnitude of claims being handled has raised contentious issues and exposed a number of deficiencies in insurance programs, as the scale of the losses breach policy defenses. The diversity of losses has required the full engagement of Crawford teams, from the Global Markets division managing multi-national programs and the expansive capabilities

Aerial view of devastation caused by Hurricane Harvey in Texas

Crawford Response: Hurricanes Harvey and Irma

98% of all claims acknowledged within 48-hour market SLA

4,623 instructions to field investigation services

33 days (on average) from first notification to first indemnity payment

*Swiss Re Sigma

Puerto Rico's hospitality industry post Maria

$15 billion to $30 billion
estimated insured loss from Hurricane Maria

72%
proportion of hotels open and operating in Puerto Rico as of November 2017

66%
proportion of casinos open (38% open 24 hours) as of November 2017

Sources: Puerto Rico Tourism Company/RMS

> "The big issues are going to be around dependent properties and loss of attraction"
>
> **Jenna Morgan, Crawford**

of the Crawford Forensic Accounting Service, to its Global Technical Services teams tackling the full breadth of claims situations, through to the third-party services of Broadspire and the on-demand services of its subsidiary WeGoLook to speed-up loss assessments.

"We have been working with organizations across the hospitality and leisure spectrum, from small-scale localized business owners through to mega resorts, tackling scenarios from total shutdown through to partial shutdown and loss of market," explains Terry Hunt, senior vice president & head of Global Technical Services U.S. at Crawford.

While property-related claims will certainly require intensive discussions to ensure satisfactory completion, perhaps the most contentious issues emerging relate to areas such as periods of indemnity, business interruption (BI) and non-damage related BI.

"A key issue is the interdependent nature of the industry," explains Jenna Morgan, director of Crawford Forensic Accounting Services at GTS. "It is an extension of the community in which it operates and that is what leads to a lot of the coverage challenges. The big issues are going to be around dependent properties and loss of attraction. All of these types of extensions are being tested."

As Hunt points out, in the case of Puerto Rico, in addition to what in recent years has been an expanding tourism industry, the island is heavily dependent upon large-scale manufacturing. "Puerto Rico sees thousands of people travelling to the island each month on business-related visits to manufacturing facilities. If these are shut down, that influx stops, which has a knock-on effect on occupancy rates and negatively impacts the wider leisure and hospitality sector, as restaurants, bars and casinos see a downturn in trade."

"This is a major issue for business owners," Morgan adds, "as they are experiencing financial losses not directly attributable to any actual property damage that has been sustained, and therefore often not specifically covered under the scope of their insurance policy. A case might be a convention facility forced to close following a drop in attendance numbers due to the fact that surrounding businesses remain closed, even though the hotels may be operational. These 'loss of attraction' type exposures are the long-tail challenges."

WeGoLook 'on-demand' solution to claims surge

Crawford subsidiary WeGoLook provides on-demand services through its network of over 30,000 independent 'Lookers', which came into its own in the wake of Hurricanes Harvey, Irma and Maria. "In Puerto Rico we had 17 people collecting and sending loss data back before other adjusting firms had people on the island," says WeGoLook founder and CEO RobinSmith.

Meanwhile, Lookers based in the US Virgin Islands were able to use drones to capture footage of a hotel chain's property the day after it was struck by Harvey.

"Harvey's impact in the U.S. was a good test for us, given the extensive flooding," adds Smith.

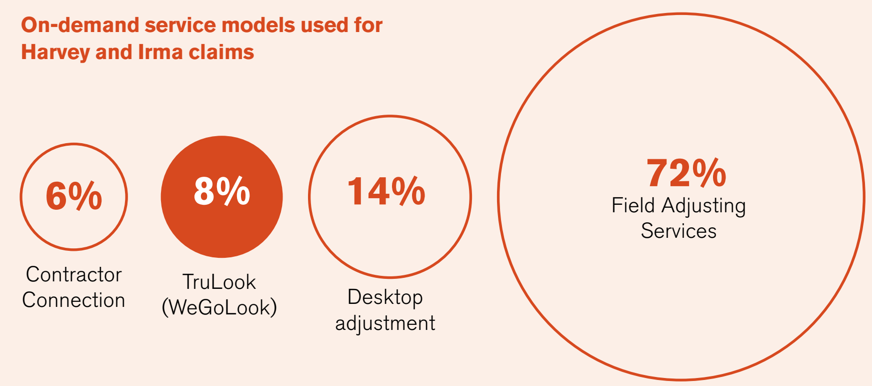
"We had 893 Lookers within 100 miles of Houston. Some areas were closed off due to fallen bridges, but Lookers and drone operators were nearby and able to get footage of those locations."

According to James Rayner, vice president, Global Markets at Crawford, having access to WeGoLook's capabilities enabled them to get a sense of the scale of the loss and deploy adjusting resources accordingly.

"Following Hurricane Maria, communication from Puerto Rico was difficult and our clients were struggling to obtain meaningful information from their local operations," he explains.

"Crawford used WeGoLook to provide initial photographs of 67 locations for one of our quick-service-restaurant clients. This was very helpful as part of our triage process for deployment of loss adjusting resources and, most importantly for the client, to assist in the decision-making process on immediate advance payments from the insurer to help with initial restoration and reinstatement activities and cash flow."

On-demand service models used for Harvey and Irma claims



The long haul

The claims conundrum is trying to decipher and attribute losses to a specific cause. "When you look at non-damage extensions such as off-premises utility failure, loss of attraction, civil authority restrictions affecting ingress and egress, the key areas tend to be time constraints as well as sub-limits attributable to those extensions, as these can be exhausted very quickly." As with any complex eco-system, the challenge is not simply how to contain the ripple effect, but also the time it takes to re-establish the balance that has been disrupted.

"The leisure and hospitality, and insurance industries are now asking what the new normal looks like in these severely affected areas," says Hunt. "Some have been devastated, and for the hospitality arena there will undoubtedly be a new industry benchmark set even after all of the facilities are up-and-running, the infrastructure repaired, and the airlines and cruise lines operating again.

"From a financial perspective, your organization may still be suffering a loss and will continue to do so for a period of time," adds Morgan. "But is this something which can be directly attributed to an insured event, or is it simply a reflection of the new economic climate which pervades not only the sector but the region as a whole?"

Taking a step back

HIM has certainly stimulated a period of reflection for the hospitality sector and has led many to reassess their policies and overall insurance strategy. "I don't mean to sound self-serving," Hunt states, "but it is imperative companies have nominated experts with a sound working knowledge of their program and a solid relationship with their risk manager. During HIM, there were numerous resorts and leisure facilities

The blame game

Unsurprisingly, the age-old coverage issues relating to establishing the source of damage when both extreme winds and flood conditions are in evidence arose on a number of occasions.

"Hurricanes bring up different coverage challenges which can prove extremely challenging from an adjusting standpoint," explains Hunt, "because frequently you are dealing with the fact that there are two different policies for wind and flood in place.

"At a number of locations, you had a situation where you had extremely powerful winds of up to 200mph as well as experiencing extensive wave wash. The question then arises as to whether it was the wind or the water that caused the damage to the property. If your resort is located a mile away from the coast then it is fairly obvious that wind was the source of damage, but in many cases buildings were located on prime coastal locations and that created a lot of coverage uncertainty."

Another particularly pertinent issue for coastal real estate is the potential for rezoning in the aftermath of a major loss which has caused extensive damage to coastlines.

"Take a situation where your hotel is located on the beachfront," Hunt says. "However, a rezoning exercise following a major storm means that the authorities will not allow you to rebuild on the site. This will significantly extend the BI period; yet the insurer may well state that had the area not been rezoned it would have been possible for the hotelier to rebuild within a four-month period, and as a result the business income calculation will be limited to that four months."

Government rezoning of areas can be excluded from policies and can often become a contentious issue in the aftermath of a major hurricane.

Complexities can also arise from the requirement placed on insureds to take all necessary steps following a damaging event to reduce the potential for further damage. With materials often in limited supply and skilled labor difficult to procure, carrying out the necessary temporary repairs can be extremely difficult.

However, according to Jenna Morgan, courts tend to be fairly lenient when it comes to clarifying what they consider to be prudent steps to protect a property in the aftermath of an incident.

"We've seen instances where the roof has been blown off a building," she states, "and the owner of the property has attempted to cover the exposed area with tarpaulin, but the wind has ripped that off. The court, however, has recognized that the owner has done everything in their power to limit further damage and has not simply abandoned the property."

"The point here," she adds, "is not so much whether the temporary repairs have been successful, but rather that the person has taken steps to protect the building."

scrambling for adjusters when resources were being stretched to the max, while those with nominated experts were dealing with the aftermath almost immediately."

Having that day-to-day working relationship with the risk manager means the adjuster is fully up-to-speed on the components of the policy and as a result can sometimes pre-empt the challenges before they arise or at least be better prepared to respond.

"For the hospitality arena there will undoubtedly be a new industry benchmark set even after all of the facilities are up-and-running"

Terry Hunt, Crawford

"That closeness," he continues, "means that when disaster strikes not only can you respond quickly but, in some cases, also creatively based on the situation."

He cites an instance following Katrina, where Crawford worked with a major hotel to enable it to become in effect a 'dorm' for 1,000 students displaced from a large university, with the facility's convention center serving as temporary classrooms. "That was a really good outcome because we knew the risk manager and this enabled us to be creative in how we approached the challenge."

For Morgan, it's a time for insureds to review their insurance policies, particularly considering major refurbishments that may have been undertaken. "You need to ensure that you are up-to-date on property-related developments, but also factor in changes in the market climate you may now face. You need to actively re-evaluate your policies in light of this new norm, rather than letting them carry over."

Crawford

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