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IMPACT OF COVID 19 VIRUS ON HOTEL INSURANCE PREMIUMS. ARE REFUNDS POSSIBLE?

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Much has already been written about insurance issues arising from the Covid19 virus.

With many hotels closed throughout the world it's inevitable that hotel owners/ investors are looking to their insurance policies for compensation under the Business Interruption section.

But, sadly, for almost all hotels the probability is that their Business Interruption wording will not provide any protection for hotel owners or operators.

There may be a few policies out there where the wording will allow a claim but they will be very few and if cover exists for a particular hotel or group it may well be under a Business Interruption extension worded imprecisely by the insurance company thus giving policyholders hope of a successful claim.

The fact is that if the majority of insurance contracts issued for hotels did provide Covid 19 protection for lost income then most of the international insurance industry would be bankrupt.

There is no doubt the impact on hotel trading and profitability is being hard hit worldwide and the luxury, top end hotels in major European cities such Berlin, Rome, Paris, Madrid, London and elsewhere are particularly badly affected.

Also the projections for revenue recovery are not good for perhaps 18/24 months. How can they be with different countries slowly emerging from lockdowns, air travel cut to a fraction of the normal and social distancing rules affecting the practicality of arranging conferences, weddings and other profitable hotel business?

Can someone explain to owners how social distancing will work effectively in a hotel lift or restaurant if the hope is to achieve a high occupancy level?

Luxury hotels may well have been the first businesses to be affected by the virus impacting revenue and the probability is the same hotels will be the last to see recovery to 2019 income levels.

So setting aside the many different insurance questions being raised by hotel owners let us focus on one issue which may give some owners very useful premium refunds right now.

A large city centre or resort hotel, perhaps with turnover exceeding €30m or more, is probably paying over €250/300k a year on insurance which will be a mixture of different policies with Property/Business Interruption and Third Party Liability accounting for the bulk of the cost.

But many hotels are closed. They have no guests, few employees, and little or no revenue.

Therefore the risks for insurers have reduced. Yes, the hotel property insurance has to be maintained but there are two elements of the premiums paid by hotels where the risks to insurers have dramatically reduced.

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1. Business Interruption (BI). With high end hotels often fully sprinklered the BI risk for insurers generally is restricted to the first 12/18 months following a major loss. With a hotel closed and planning to reopen later in the year perhaps with reduced staffing and fewer rooms being made available the risk in the next 12/18 month for insurers is very low.

2. Third Party/Public Liability. With no guests there is virtually no risk. Gradual recovery of business over a year or two presents a low risk of claims compared to full operations as in 2019.

For those hotels renewing their insurance policies in April or May the insurance companies have accepted the reduction in risks and renewal premiums on property insurance have reduced due to lower BI projections. Same on liability. Those hotels which have renewed their insurance in April or are about to do so will mostly see premium reductions except where the hotels are using the insurance offered by the brand managers under HMA conditions.

Some of the international brands who run insurance programmes for owners have suffered badly the past few years from claims relating to riots, floods, hurricanes and other risks and those brands are seeing premium increases as insurers try to recoup past losses. As always it's the owners who pay the higher costs not the managers. Unfortunately it means high quality hotels in low risk territories are having to pay higher premiums due to claims from hotels insured in high risk areas by the same brand managers.

For hotels which renewed all insurance policies in December last year or January/February/March this year, before the virus had a serious impact, the premiums paid would have reflected normal trading projections.

For those owners with policies which were renewed just prior to the virus closures the premium paid now looks and is far too high. **Those premiums reflected the future risks to the insurers assessed at that time.** Those risks have reduced considerably and will remain low for probably the rest of the policy period.

On that basis it is reasonable to expect insurance companies to adjust premiums now to reflect the new reality.

The premium saving could be considerable. Rebates could exceed €20,000 per hotel and be boosted by return of premiums on terrorism schemes such as Gareat in France, Concorcio in Spain as well as premium taxes. In some countries such as Netherlands and Italy the taxes can exceed 20% of premiums.

Our advice is to approach your insurance brokers or whoever arranged your insurance for you and ask that the policy premiums be reviewed immediately to reflect the dramatic changes in current and projected trading. Some policies will have a facility for premium adjustments at policy year end and that can be brought forward and dealt with now.

There are a number of major hotel brands who place insurance as part of the HMA and are having these rebate discussions with their insurers on behalf of owners. Many insurance brokers are doing the same on behalf of their clients. There are promising signs the major insurers understand the issues and are seeking to be flexible and assist policyholders .

Every hotel owner/investor should investigate the position with their own insurance and take action to obtain premium recoveries where justifiable.

Global Asset Solutions

Coronavirus

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Global Asset Solutions, your key partner in hotel asset management, has partnered with a team of five students and one alumna from Ecole hôtelière de Lausanne, recognized by industry leaders as the best hospitality school in the world. Together, we are working on compiling the best practices to help hotel owners and operators navigate through the COVID-19 crisis. By combining diligent research, expert opinions, and our own experiences, we will be publishing the best practices on the most current topics facing our industry. Team APAC is composed of Paloma Guerra and Zhaoyu Zhu, while Eliana Levine, Larina Maira Laube, and Vani van Nielen make up our Team EU & US and Remy Rein (EHL Lecturer).

Co-Published with Alex Sogno (CEO - Senior Hotel Asset Manager at Global Asset Solutions). Mr. Sogno began his career in New York City after graduating with honors at Ecole Hôtelière de Lausanne, Switzerland. He joined HVS International New York, and he established a new venture at the Cushman & Wakefield headquarters in Manhattan. In 2005, Mr. Sogno began working for Kingdom Hotel Investments (KHI), founded by HRH Prince Al-Walid bin Talal bin Abdul Aziz Al Saud member of the Saudi Royal family, and asset managed various hotels including Four Seasons, Fairmont, Raffles, Mövenpick, and Swissôtel. He also participated to the Initial Public Offering (IPO) of KHI at the London Stock Exchange as well as the Dubai International Financial Exchange. Mr. Sogno is also the co-writer of the 'Hotel Asset Management' textbook second edition published by the Hospitality Asset Managers Association (HAMA), the American Hotel & Lodging Education Institute, and the University of Denver. He is the Founder of the Hospitality Asset Managers Association Asia Pacific (HAMA AP) and Middle East Africa (HAMA MEA).