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State of the Market

Hospitality, Golf, and Country Clubs

K&S INSURANCE
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HOSPITALITY, GOLF & COUNTRY CLUBS

Market Summary

While most golf and country clubs are enjoying increased club utilization and a high number of rounds played, many headwinds jeopardize their success. To protect prospects for growth, clubs need to manage key disruptors including inflation, supply chain issues, labor shortages, and the rising costs of commercial insurance and healthcare.

Fortunately, clubs determined to maintain their profitability are adopting strategic measures to better position themselves for a prosperous future. For example, to manage inflation, some clubs are negotiating terms with suppliers and implementing cost-cutting measures, such as using less expensive products and vendors if possible. When clubs must pass increased costs down to members, they might be able to offer tiered memberships with additional benefits and services to cater to varying preferences and budgets, which helps with customer retention.

Clubs are also facing delays in product delivery due to supply chain disruptions, labor shortages, and increased demand. However, they are adapting to this reality by identifying alternate suppliers to fulfill orders when primary suppliers are not able to fulfill their needs.

Currently, the property and casualty (P&C) insurance market for golf and country clubs is challenging, but clubs are actively seeking the necessary coverage to protect themselves from a wide range of risks. They are investing in safety controls and risk management software, demonstrating their commitment to resilience and cost-effective exposure management.

Another major challenge for clubs is employee retention. More and more, golf and country clubs are expected to offer greater benefits, in spite of growing operational and healthcare costs. To answer the call, some clubs are exploring alternative funding methods and innovative solutions, such as captives and consortiums to better manage healthcare expenses. Captives and consortiums are risk management strategies that involve pooling resources and sharing the financial burden of healthcare claims among multiple entities.

Accessing claims data through self-insured funding arrangements, such as captives or consortiums, can provide valuable insights into the utilization of healthcare services and expenses. With greater transparency, clubs can identify areas of high costs, analyze trends, and implement targeted strategies to manage and control their claims spend more effectively. This data-driven approach can help them make informed decisions regarding their benefit offerings and identify opportunities for cost containment and employee wellness initiatives.

Managing a club for long-term success is complex, but insurance and risk management are valuable investments that can help protect assets, investments, and the workforce. Though there are many variables outside a club's control, club owners can choose how they react to the circumstances at hand to improve outcomes. By partnering with experienced insurance advisors who understand both the unique needs of the golf and country club industry and the insurance solutions that support it, clubs can reduce the likelihood of losses, achieve optimal outcomes with insurance carriers, and improve business performance.

EMPLOYEE BENEFITS TRENDS

Reducing Worker Attrition with Employee Benefits

The recent pandemic brought with it an increased interest in golf, rounds played, and high unemployment rates. While most clubs continue to thrive and the number of rounds played remains high, labor shortages will continue to challenge most clubs in 2023 and into 2024. Though rising unemployment trends may ease some of the labor shortage woes for clubs, filling lower-paid maintenance positions will likely continue to be a concern.

One way to bolster recruiting efforts and employee retention is to differentiate your place of employment from others by leveraging your benefits program and communicating its value to both existing and prospective workers. In order to ensure that you are providing benefits that align with your staff's needs, conduct surveys that give them an opportunity to share which benefits they value most. This helps ensure that you are making meaningful investments in your benefits program that render the most value for your staff and ROI for your club.

Holistic Benefits & Cost Management – A Balancing Act

So, what role do benefits play in hiring and retaining talent? There is a balance between being fiscally responsible and offering competitive salaries and valued benefits that build a positive employee experience. One solution that requires very little capital investment is to promote and communicate the benefits you currently offer. A well-communicated benefits plan has a higher perceived value to employees than a plan with all the bells and whistles that they may not know about due to poor communication.

If you want to maximize your benefits communication strategy with your current offerings, contact your broker to learn what programs are included in your medical plan. Most medical carriers now include telemedicine benefits at no additional cost, and many Basic Life and Disability policies also provide an Employee Assistance Program (EAP) as part of coverage. Many carriers also offer wellness incentives that allow members to earn money for completed wellness activities. Creating a communication strategy to market the benefits of working at your club will add value to the positions you are filling and help retain talent as they appreciate and understand the value of their employment.

Benchmarking Data

You probably know how your club's initiation fees, monthly dues, and green fees compare to other clubs in the area, but when was the last time you benchmarked your benefits plan and contributions against other employers in your market? Golf and country clubs compete for talent against all employers, especially in lower-wage positions. Knowing how your benefits stack up will determine how you can position your benefits as a recruiting advantage. If your benefits are benchmarked below the market, a strategy to enhance your benefits might be necessary.

Make the Most of Your Resources

Below are a few recommendations to realize savings and offset the cost increases of pay raises and premium increases.

1. USE DATA TO TRIM BENEFITS

Poll your employees to learn which benefits they value most. You can also learn which ones are seldom used and consider removing them from your offerings. Consider analyzing your health plan claims data to see which employee trends may inflate overall costs. For example, you can spot recurring charges for expensive care when more economical options are available, then take action to reverse the trend and pocket the savings.

2. COMMUNICATION

After learning how your benefits compare to industry peers, promote those benefits throughout the year. Building an ongoing communication strategy will remind your staff of your significant investment in their health and well-being. It will also be a resource for members about where to go for the lower cost for care.

3. OPTIMIZE LOWER-COST SITES OF CARE

To help rein in costs associated with health insurance benefits, ensure employees understand which options can deliver the most appropriate care at the most cost-efficient sites. For example, telehealth, urgent care facilities, imaging centers, infusion clinics, and ambulatory surgery centers (instead of in-patient hospitals or ERs) can all help to cut costs.

4. LEVERAGE ALTERNATE FUNDING OPTIONS

Alternative funding options can offer some employers a choice over fully insured models of healthcare (i.e., where employers pay health insurers for coverage) and a way to manage healthcare costs over the long term. These include self-funding, level funding, referenced based pricing, captives, and consortiums.

THE COMMERCIAL INSURANCE INDUSTRY

Commercial P&C insurance remains one of the top expenses for golf and country clubs and continues to rise, with average premium increases expected to be 25%+ for property in 2023 and into 2024, depending upon the age and construction of the property and proximity to the coastline. Due to a severe shortage of available reinsurance for CAT-exposed properties, we expect the more coastal clubs to see increases of 50-100% or more, with some insureds not being able to purchase full wind limits at any price.

There are several factors driving these conditions. Severe catastrophic events in 2021 and 2022 continued to hammer insurers. Here is what those losses amount to, by the numbers:

- 2022 Hurricane Ian resulting in losses over $112.9 billion, ranking as the second costliest insured loss in history,[1] of which $65 billion are reported to be insured.[2]
- In the United States, economic losses from natural disasters reached $275 billion in 2022, of which $125 billion were covered by insurance.[3]
- As of Q1 of 2023, US P&C insurers suffered a $7.34 billion-dollar net loss, the largest underwriting loss on record driven primarily by these events.

These losses have led to an unprecedented shortfall in the availability of reinsurance capacity, which is now estimated to be over $40 billion. Reinsurance is the coverage that primary insurance companies purchase to protect their balance sheets. With this shortfall, the price for reinsurance has climbed dramatically and underwriting requirements have tightened. The valuation of assets as it pertains to insuring to value is also under critical review. These prices and restrictive terms and appetite are passed on from primary carriers directly to their insureds.

According to McKinsey's 2023 Global Insurance Report, property insurance CAT reinsurance rates increased by 37% in January's treaty renewals – the highest increase reported since 1992.[4] Reinsurance rates continued to harden during June 1st and July 1st renewals, with prices rising between 25% and 40%.[5]

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Reinsurance is a major component of an insurance company's ability to provide coverage to golf and country clubs. The reinsurance market sits on a global stage and is affected by global events. Examples of 2022 events include North American wildfires, Hurricane Ian, the Russia-Ukrainian War, and significant earthquakes in Papua New Guinea, Afghanistan, and Mexico.

Additionally, rising interest rates in 2022 and 2023 cut the value of reinsurers' bond-heavy investment portfolios, leading to unrealized losses and depleting shareholders' equity. Rising interest rates also weakened the alternative CAT bond market as investors sought safer havens.

On the casualty side, nuclear verdicts, social inflation, and third-party litigation funding remain big concerns for insurers for general liability and employment practices liability. Nuclear verdicts are when a jury provides an award in a civil liability case that's so steep that it surpasses what most people would consider reasonable. In 2022, the median verdict amount ballooned to $41.1 million, with the number of verdicts doubling.[6] Nuclear verdicts are driven by social inflation and third-party litigation funding.

Fortunately some states have started to pass tort reform legislation, which should have meaningful impact on the size and frequency of these claims over time. Because the new laws will have to be tested in the courts, meaningful rate reduction is not anticipated until 2025. However, clubs with good loss records can anticipate flat or low single digit increases on their primary insurance with their umbrella and/or excess Layers seeing slightly higher percentage increases.

A CLOSER LOOK

In an environment stymied by layers of unpredictability, it is crucial your club takes a proactive approach to your upcoming renewal, especially with respect to property placements. Begin implementing a plan that can help mitigate the impact insurance and risk management will have on your financials. Your club's approach to insurance can have a profound impact on its ability to endure unexpected incidents beyond the premiums to be paid at renewal. The decisions your leadership team makes this year could impact the club for years to come.

PROPERTY

Unfortunately, the property market remains extremely challenging, especially for businesses in disaster-prone areas. In 2023, insureds are averaging a 20.4% increase in commercial property insurance premiums, though we are seeing that renewals have been significantly higher for CAT-exposed properties, in some cases 100% higher.

It is important to remember that occupancy class, geographic location, and construction type have a great impact on the pricing and availability of coverage. Because of persistent, severe loss patterns driven by inflation, supply chain disruptions, labor shortages in key industries, and weather events both large and small, the underwriting process has become extremely stringent. Carriers have intensified their focus on valuations and will want to see evidence of loss controls before pricing and placing coverage.

FLORIDA: A CLOSE UP

In 2022, many carriers became severely overextended in Florida, and in 2023 they are trying to reduce their exposure by offloading business. In 2022, we saw carriers trying to reduce their book by cutting coverages and raising premiums dramatically, but still offering renewals. For example, carriers are excluding tee and green coverage and raising named storm deductibles from 3% and 5% up to 7% and 10%. This year, many of those same increases are expected to persist throughout 2023 and into 2024 with renewals ranging from 25% to 50% or more, depending on loss history, risk quality, and exposure.

Renewals expected to increase
25% to 50% more

GENERAL LIABILITY

In 2022, general liability exposures worsened, and carriers have responded by increasing rates anywhere between **5% to 15%**. Liquor liability remains a concern for golf and country clubs since many carriers lowered their liquor liability limit offerings to $1 million, which can cause a gap in coverage, as most umbrella carriers are looking for $2 million attachment points. Additionally, abuse and molestation coverage remains difficult to obtain and retain at renewal. To obtain the best underwriting results, be ready to provide carriers evidence of safety controls, written programs, hiring practices and employee awareness training that you have implemented at your club to avoid losses.

AUTO LIABILITY

Auto rates will increase **5% - 15%** year over year, with the cost of repairing autos continuing to rise and commercial fleets feeling sustained pressure from third-party litigation funding, nuclear verdicts, and social inflation. Pressure on auto rates remains in 2023, as 2022 continued to experience high incidences of motor vehicle deaths, distracted driving, rising costs for medical care, and vehicle repair cost inflation. Also, as a result of Hurricane Ian, the auto physical damage market experienced the largest loss on record as thousands of cars were washed away or damaged by storm surges. Replacement vehicles and parts are at an all-time high.

To get improved rates, even clubs with small fleets should implement driver safety programs, incorporate vehicle technology to monitor driver safety, run motor vehicle records, and limit those who can operate motor vehicles on the club's behalf.

UMBRELLA LIABILITY

Nuclear verdicts and reduced capacity have significantly disrupted the umbrella market in recent years. Though 2021 and 2022 saw monumental rate increases, in 2023 we are seeing signs of rate moderation, with increases leveling off **between 10% and 15%** depending upon loss experience and individual club exposures. Some of the claims filed for golf and country clubs that breached the umbrella threshold include golf cart injuries, drowning in club pools, auto accidents related to liquor liability and the over-serving of guests, residents injured while on course after hours, and more.

Increases are levelling off between 10% and 15%

Clubs that implement and document the best safety, operational, and financial controls will likely achieve the best outcomes. And if you did experience a loss, be able to explain why it happened, what lessons you learned from it, and the steps you will take to try and avoid it in the future.

CYBER LIABILITY

Though the cyber insurance market saw steep rate hikes year after year, in 2023 we are fortunately seeing rates moderate, with increases **averaging about 8%**. Golf and country clubs that leverage technology to improve customer experience retain sensitive data about their members, which is why they are susceptible to cyberattacks. Clubs that have bolstered their IT infrastructure in prior years can anticipate favorable renewals with minimal increases, if any. Unfortunately, most clubs do not prioritize cybersecurity best practices, leaving clubs and their members' personal information vulnerable to attacks.

While cyberattacks are not entirely avoidable, clubs can and must take steps to mitigate their likelihood and minimize risks, such as investing in employee cybersecurity awareness training and cybersecurity controls, in addition to staying up to date about carrier requirements for coverage.

MANAGEMENT LIABILITY

Directors and officers (D&O) liability is another coverage line that has seen rates moderate, and significantly so, with rate increases averaging about 3% so far this year. To get or keep management liability premium increases to a minimum in 2023 and into 2024, clubs need to be mindful of the primary underwriting concerns, which include having a full set of financial statements, copies of employee handbooks, and the experience and expertise of the club's board of directors (BOD) along with their management staff. Clubs with strong financials that retain an experienced general manager and sound BOD will fare well during this process. However, clubs with less experienced leadership will face scrutiny in both terms and pricing.

It is important to note that excess liability policies are restricted from going over management liability coverages. Clubs are required to build up their own limits for D&O coverage. Most boards are purchasing between $5,000,000 and $25,000,000 in limit depending on their exposure.

SOLUTIONS FOR YOUR UPCOMING RENEWAL

RISK MANAGEMENT

With increased underwriter scrutiny, taking the necessary steps to implement loss controls at your golf or country club is more important. Underwriters are looking to see that both proactive and reactive practices are in place. Proactive loss controls can be demonstrated in how you structure your operations to prevent losses and claims from happening. Here are some proactive loss controls you should consider for your club:

- **Crime Prevention** – Prioritize enhancing your security protocols, particularly for assets with a poor crime score. Examples include improving lighting, upgrading locks, and installing security cameras.
- **Roof and HVAC Maintenance** – Implement regular roof and HVAC maintenance programs, especially for office buildings and industrial assets, as well as across older properties.
- **Freeze Mitigation** – Have procedures in place to reduce the likelihood of water loss due to freezing temperatures.
- **Solar Panel Management** – Contract with a structural engineer to ensure that panels are placed properly and that the weight load is safe.
- **Improved Contract Agreements** – Third-party vendor contract agreements are more important than ever. Carriers want to understand who your providers are, and what their contracts include from an insurance requirement, indemnification, and risk transfer perspective.
- **CAT Preparedness Measures** – Carriers will inquire about risk mitigation and preparedness measures for the type of events applicable to your geography.
- **Employee Safety and Training** – Training employees regarding workplace safety, sexual misconduct, cybersecurity, and any other relevant risks can help prevent significant losses in the future. And should a claim arise, you will have evidence that you did your due diligence as an employer, while also proving that you have a foundation from which to build on to prevent similar losses from reoccurring.

Reactive loss controls are a plan of action the club takes in the event of a claim. This includes having clear claims protocols in place that your employees and management team fully understand. How a claim is managed can have a tremendous impact on the final claim result. Underwriters want to see that part of the claims process includes a requirement to determine the cause of loss and develop a plan of action to prevent this type of loss moving forward.

YOUR RENEWAL – CONTROL THE NARRATIVE

In addition to investing in proactive loss controls, addressing the following will better position your knowledge and financials going into renewal. No club should be subject to surprises at the eleventh-hour regarding rate or premium increases or restricted terms, limits, or policy conditions.

- **Conduct Premarketing Inspections** – You can improve the visibility of your risk control operations by completing comprehensive premarketing inspections of all major building systems. Consider reaching out to BRP's Risk Mitigation Service Team to discuss our inspection process and options. This may also shed light on possible areas of concern, which give you an opportunity to address issues prior to renewal negotiations.

- **COPE Document** – Construction Occupancy Protection Engineering (COPE) documents should be as robust as possible. Submissions with the most specific and accurate data receive more underwriting attention and achieve better cost and coverage results.

- **Budget Comprehensively** – Failure to properly budget for your insurance spend can adversely affect a property owner's balance sheet, impact financing, and result in being unprepared for premium payment. Your insurance advisor should create an accurate insurance budget each year – both conservative and aggressive target pricing. As market conditions change, the budget should be revisited and revised accordingly.

- **Regular Communication** – It is never too early to discuss renewal strategy with your advisor. At minimum, you should be prepared to leave 90 days or more for the carriers to work on your submission. The larger or more at-risk your club is, the more time the market will need.

A PARTNER WITH A PROVEN TRACK RECORD

With underwriting scrutiny at an all-time high, now is the time to work with a team of experts that knows how to navigate both a hardened market and the unique insurance and risk management needs of golf and country clubs.

Connect with our team of dedicated golf and country clubs experts today to learn more about our approach to risk management. Our team will help you overcome your challenges by thinking outside the box — allowing your business to thrive regardless of the economic climate and insurance landscape.

SOURCES

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