

Q3/Q4 2022 State of the Insurance Market



eXpert Partner Team

*Industries of Focus:
Hospitality & Product Liability
in Manufacturing*

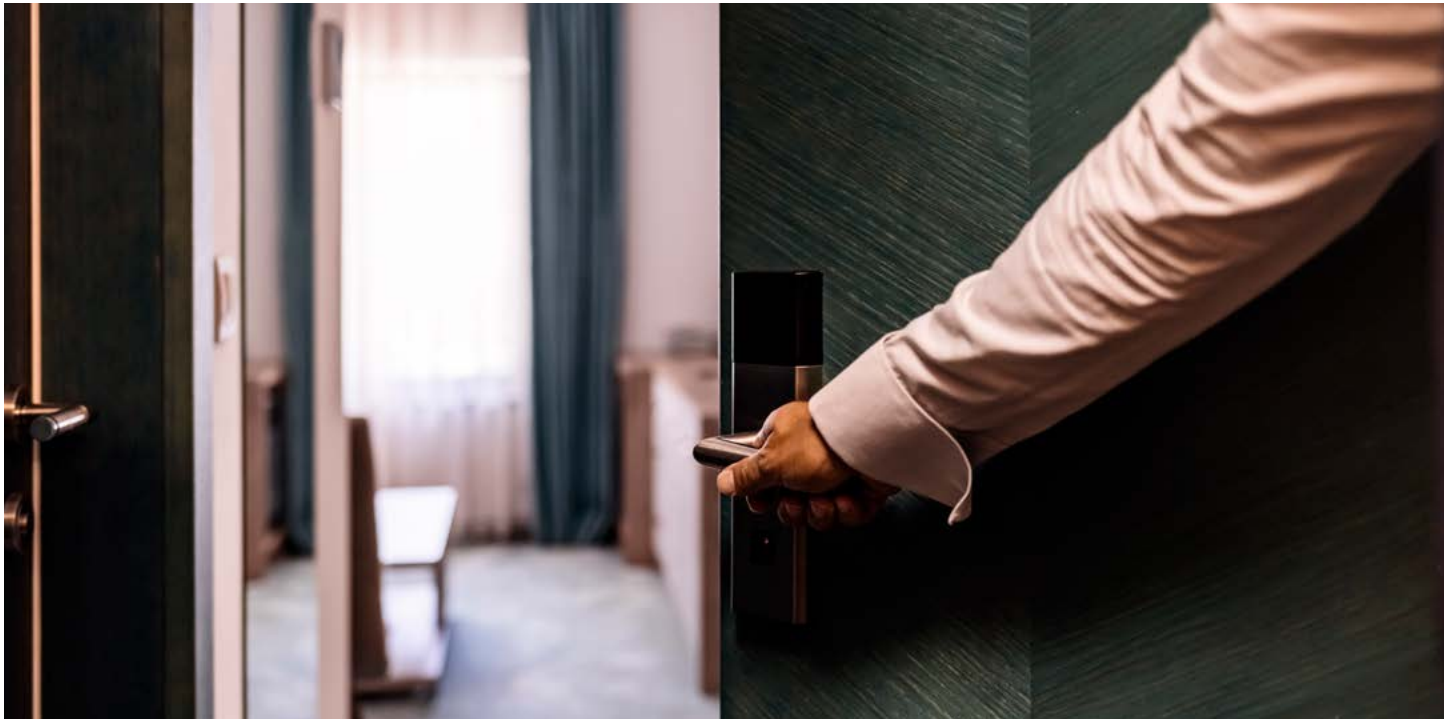


MARKET
REPORT

Record high inflation, the skilled labor shortage, supply chain challenges, and the lingering impact of COVID-19 are just a few of the factors shaping the current state of the insurance market. As a result, many insurance carriers are either limiting their writing capacity for certain lines of business or electing to exit the market altogether.

Carriers that remain in the game will likely continue to impose significant policy restrictions, broader exclusions and further reductions on limits to remain profitable. And while the insurance market is cyclical and can fluctuate between hard and soft conditions from year to year, [recent industry reports](#) show that the hard market is expected to continue well into 2023.

At XPT Specialty, the best way for us to serve you, our retail partners, is to examine current market conditions that can impact your business. In our latest state-of-the-market report, our industry experts provide professional insight into key trends and challenges that are affecting the hospitality and product manufacturing industries.



INDUSTRY FOCUS: HOSPITALITY

General Market Trends

With most COVID-19 restrictions lifted and more people getting back to traveling and eating out, the hospitality industry is beginning to make a slow recovery. Yet however positive that may seem, the industry continues to grapple with lingering challenges associated with supply chain issues, inflation and the ongoing labor shortage.

“Lack of staffing and delays in the supply chain have many establishments cutting back on hours and even days of operation,” said Betty Sikora, regional executive VP for XPT Specialty. “This has resulted in reduced food sales and, consequently, an increase in the percent of liquor sales that ultimately can increase rates for businesses that serve food and alcohol.”

Pricing and Market Capacity

The hospitality insurance market remains very tight. Unfortunately, the lack of interest in new business and capacity for some risks will continue to drive higher premiums.

Also impacting insurance premiums is the increase in claims inflation – making it difficult for insurers to monitor the adjusted cost of products and services from year to year. Because the same factors that drive inflation also increase the cost of a claim settlement, the result is a rise in premiums as insurers try to recoup some of their losses.

“Inflation is definitely throwing the industry for a loop in securing adequate insurance rates. As a result, carriers in the hospitality industry are having to make premium adjustments to ensure they are getting adequate rates in the midst of rising inflation,” said Kyle Stevens, group executive VP for XPT Specialty.

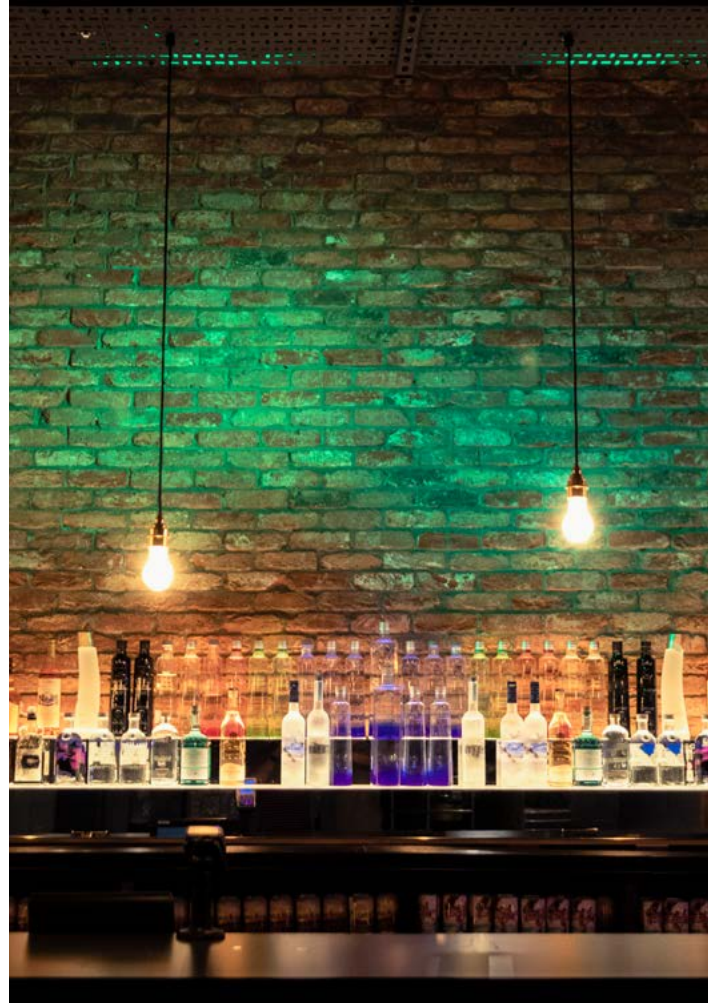
Today, we are seeing more carriers pulling out of the hospitality market and imposing capacity restrictions. In addition, many carriers are applying tighter underwriting guidelines on specific lines of business. For example, a restaurant’s liability policy that once allowed for 50% or 60% of alcohol receipts of their total gross may now be restricted to just 30% of receipts.

As we recover from the pandemic, some businesses are running into challenges regarding audits and updated sales estimates. In many cases, this has resulted in additional premiums that most businesses simply aren’t prepared for. While every insured wants to see their renewal policy quoted as expiring, the reality is that rates will likely be much higher and increased sales compound the increase in insurance costs.

“We understand it’s difficult for a broker at renewal to go back to their insured and get updated sales because they know the premium is likely to increase. Today, it takes a really good retail broker to work closely with their insured on how to properly estimate sales and to coach them on the impact an inaccurate reporting of revenue on an audit can have on their rates,” said Stevens.

Cyber Liability

Cybersecurity remains a top issue of concern in the hospitality industry. However, despite the growing need, many businesses aren’t including cyber liability insurance



as part of their risk management program. This will become increasingly problematic as more businesses increase their reliance on technology in an effort to help improve operations.

“When it comes to cyber liability insurance, I believe education is key to helping insureds better understand the importance of having a policy in place to protect them in the event of fraud or a breach. If brokers can focus a bit more on the educational side of cyber liability insurance, we may see more coverage being purchased,” said Sikora.

Hospitality Conclusion

It is an undisputed fact that COVID-19 continues to have a tangible effect on risk management and insurance coverage for the hospitality industry. Moving forward, brokers must be proactive in helping their insureds better manage key issues such as rising alcohol sales and the lack of staffing.

At XPT, we recognize the pandemic-related challenges that the hospitality industry has faced over the past two and half years and what still remains ahead. It’s why we take the time to understand current market conditions and work closely with our retail broker partners, helping them secure the coverage they need to better serve their policyholders.



INDUSTRY FOCUS: PRODUCT LIABILITY IN THE MANUFACTURING INDUSTRY

General Market Trends

The product manufacturing industry continues to face a number of challenges attributed to rising costs, the ongoing labor shortage and constant changes in regulations and the legal environment. As a result, much of the industry is experiencing a slowdown of product development and limited growth.

“The top issues in manufacturing right now center on regulation,” said Tami Singer, commercial lines SVP for XPT Specialty. “With the volume of new rules and policies that a business must monitor and comply with, it’s not surprising that manufacturers are struggling to focus on more important matters – such as growth opportunities and how to stay ahead of the competition.”

Environmental sustainability – especially when it comes to food products – has become a growing sector of product development in manufacturing that many businesses are concentrating on. Moving into 2023, we’ll likely see more startups enter this space, particularly in emerging markets such as cannabis.

Product Liability Claims

The misuse of products by consumers is creating growing product liability issues for manufacturing businesses.

“Unfortunately, it isn’t always understood that if a consumer misuses a product and causes harm to themselves or a loved one, the manufacturer isn’t necessarily off the hook regarding liability,” said Sonny Ramezani, senior commercial lines broker for XPT Specialty. “This solidifies the importance of having product liability insurance, so manufacturers can better mitigate losses when they do occur.”

Like many other industries, manufacturing is experiencing a severe shortage of skilled labor. “When you have untrained or overwhelmed employees who are trying to keep up with consumer demand, they are more prone to make mistakes that can lead to poor quality control and result in product recalls and litigation. Currently, that’s where we are seeing a lot of claims activity, as the quality control just isn’t there,” said Ramezani.

Consumer goods from China are another issue, due to the lack of quality control and standards. Even though a vast majority of consumer goods and parts come from East Asia, more carriers are continuing to stay away from these risks as much as possible. Over the next few years, we’ll likely see this trend continue, along with limits being placed on imports coming from China that can cause product shortages and product liability issues.

Pricing, Underwriting and Capacity

In general, carrier rate increases have been anywhere between 25% to 50% and, in some cases, even higher. In addition, certain classes of business are being asked to meet minimum premiums.

Currently, we are seeing major underwriting shifts with almost all carriers and in all lines of insurance. For new business and renewals, brokers should expect significant changes in policy sublimits for certain products. For example, a carrier may impose a sublimit on one product manufactured by a business and not on others. "Every day, we are seeing carriers become even more specific with their policy forms by limiting or sublimiting coverages or putting a cap on claim costs (such as defense expenses) to better limit their exposures," said Singer.

In addition to property risks, more carriers are cutting back coverage limits on liability and excess liability. "As drastic as

it may seem, we are seeing some carriers reduce \$10 or even \$15 million in excess policy limits down to a mere \$5 million in an effort to limit their losses," said Ramezani.

Product Liability Conclusion

The insurance market is getting tighter, and with more carriers cutting back on manufacturing risks, brokers will need to have extensive markets available in order to place certain accounts. In addition, brokers must be diligent about having complete and full submissions well in advance of an account's expiration date. "Gone are the days of simply submitting ACORD forms and loss runs. Today, carriers want to see full and complete submissions that tell the story of a business so they can properly evaluate a risk," said Ramezani.



In addition to several markets for Hospitality and Products Liability, including an exclusive underwriting program, XPT Specialty has over 14 P&C Binding facilities and access to over 100 P&C Brokerage markets. XPT is continually on the lookout for products, services and technologies to best serve clients. Close industry connections allow XPT brokers/underwriters insight into upcoming market shifts, giving clients access to the latest developments and innovations.

XPT Specialty offers Binding and Brokerage solutions for a wide variety of industries including Transportation, Hospitality, Agribusiness, Contractors, Oil & Gas and Commercial Property.

XPT is your eXpert Partner Team for wholesale commercial insurance. A team of specialist experts collaborating to efficiently bring the greatest value. Listening to client partners enables the service culture that anticipates needs and leads to true partnership. The unique win-win approach multiplies the value XPT brings to its clients and market partners.

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Betty Sikora has been in the insurance field since 1984, starting out as a retail insurance agent. She began her career in the MGA/Wholesale sector in 1989, working as an underwriter and then moving up to Vice President of Underwriting. In 1998 Betty and her husband Patrick started S&H Underwriters which later became part of XPT.



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Kyle Stevens began his career with Western Security Surplus, later becoming XPT. He has held various positions including COO and President/CEO/Owner, now serving as Group Executive Vice President. Kyle has played a key role in XPT's industry leading growth and commitment to service through new product development, services and technologies to best serve clients.



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Tami Singer joined XPT in 2018, bringing with her extensive industry experience and knowledge focusing on E&S. She began her career building a large commercial book of business while also starting up her own E&S business. Prior to joining XPT, Tami served as Commercial Lines Manager at one of the top wholesale firms.



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Sonny Ramezani serves as Senior Broker, operating in XPT's California division. He has been in wholesale insurance since 2005 and began his career as a retail agent. Sonny specializes in Property & Casualty insurance, collaborating with XPT's specialists to efficiently deliver the greatest value and offer true partnership.

XPT SPECIALTY

As dedicated to your success as you are

The brokers at XPT have deep industry expertise to find the best coverage for your hospitality and manufacturing clients. Our specialists have the combined knowledge to help you find solutions to problems when other wholesalers can't. How do we do it? By working closely with you, our retail partners, to better understand the specific needs of each insured and risk — including tough, hard-to-place accounts.

At XPT, we believe that having access to insurance products isn't enough; it is how you deploy them that really counts. From the moment you reach out for a quote to the day we close the deal — and while binding, securing coverage and managing the insured through the service life cycle — we'll be at your side, working hard to prevent disruptions before they happen. This process allows us to get you the best quotes quicker and find solutions to your challenges sooner, so you can provide differentiating service to your own clients.

For additional information, visit xptspecialty.com or email info@xptpartnersllc.com.

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