This is the 22nd year Beecher Carlson has prepared the loss cost study for the American Hotel & Lodging Association (AH&LA). Beecher Carlson is proud to partner with AH&LA, assisting its members with benchmarking their casualty loss experiences against each other.

**BACKGROUND**

- **Lines Covered**  
  Workers’ Compensation  
  General Liability

- **Period**  
  2017 refers to the loss year that ended 31 December 2016.

- **Timeline**  
  The initial data request was filed in March 2017. All data was collated by November 2017 for presentation to the AH&LA Risk Management Committee in December 2017.

- **Data Shared**  
  Workers’ Compensation and General Liability loss information including allocated loss adjustment expense was provided. Workers’ Compensation indemnity loss refers to all loss and expense on any claim with an indemnity payment as determined by Beecher Carlson.

  All average rates and claim cost amounts are based on losses limited to $250,000 per occurrence.

  The data shown in the tables is the amalgamated data collected for the five years up to the year in question. For this reason, the 2016 results in the attached tables do not match precisely the 2016 data shown in last year’s report.

- **2017 Comment**  
  The 2017 study continued the analysis of loss information by department (housekeeping, food and beverage, and other) and date of hire.

- **Limitations**  
  Beecher Carlson reviewed the data submitted by the participants for reasonableness. We do not take responsibility for the accuracy of the data submitted.

**KEY FACTS**

- YEARS AH&LA HAS SERVED THE INDUSTRY: 100+
- YEARS BEECHER CARLSON HAS PREPARED THE STUDY: 22
- REVENUE OF COMPANIES PARTICIPATING IN THE STUDY: $181B
EXECUTIVE SUMMARY

Calendar year 2017 was anything but dull in the insurance industry. Running against all the losses seen in the market, this study shows stability through continued loss rate flattening. Hospitality companies experienced frequent storms and saw property programs hit with losses. The relatively benign movements of the casualty curves over the past few years have allowed risk managers time to focus on property issues. The investment made in past years to contain casualty trends during a soft insurance cycle appears to be paying off. Flattening loss rates not only reflect corporate investment in risk management but also the nature of legal changes in California and Florida. A potential hardening of the insurance market may force companies to take higher retentions, concentrating their efforts more and more on the management of claims in a larger retention. Analytics driven process improvements (including improving clinical quality and return to work programs as well as ensuring a positive rehabilitation experiences) continue to positively affect loss costs.

At the request of the AH&LA Risk Management Committee, Beecher Carlson continued to include in its analysis a departmental breakdown of losses between housekeeping, food and beverage, and other departments. Results show that claim frequency comes from employees whose tenure is less than five years. Claims severity is greater in employees with more than 10 years tenure. Added to this is the finding that, likely as expected, housekeeping drives claim frequency with roughly 47% of all claims (food and beverage with 30%).

For both Workers’ Compensation and General Liability, frequency and severity trends are flat year over year. Although the data reviewed is green and the mix of participants changes annually, the results of this survey are reflective of the trends that Beecher Carlson has observed in the insurance industry. Risk transfer costs may increase in 2018 following the catastrophic events of 2017. The market has suggested that property/CAT has been subsidizing much of the market over the past 10 years, and this will change in 2018. With uncertainty over pricing in the next year, companies may look to retain more and increase efforts to reduce overall exposure to loss. Combined ratios for carriers continue to fluctuate around 100%. Beecher Carlson believes that retention strategies within this market are still viable sources of cost saving; with relative rate certainty in the retained layers, larger entities with formidable balance sheets may consider expanded retention levels.

FREQUENCY

Frequency rates increased slightly between the 2016 and 2017 studies. In 2017, there were 0.41 indemnity claims per $1,000,000 in payroll compared with 0.40 claims per $1,000,000 of payroll in 2015. Given the population size, the relative greenness of the data, and the standard deviations within the analytical model, this is for all intents and purposes a static number. Of specific note over the past three years is the data arbitration performed by Beecher Carlson, prior to 2014 indemnity claims were reported to the study by the participant. As of 2014, all claim data is provided to Beecher Carlson and the assigned actuarial team delineates claim provenance. In the 2016 study, we mentioned this change would represent the new normal for the study, and it has remained so. Companies are taking control of retained layers through pre and post loss initiatives and have contained losses. As mentioned above, the delivery of a tailored, employee-facing return to work program has allowed for loss stability.

The California only frequency rate conclusion mirrors that for all states. In the 2016 study, losses per $1,000,000 payroll were 0.79 indemnity claims per $1,000,000 of payroll – 193% of the “all states” number. In 2016, the percentage was 214%. The improvement of the California results may be directly correlated to SB 863; although California continues to outstrip all other states, its trends are positive.

SEVERITY

Once again, severity was flat in the 2017 study. Incurred losses per $100 of payroll were $1.45 in the 2016 study and $1.48 in 2015. For California, incurred losses per $100 of payroll were $3.09 in the 2017 study and $3.33 in 2016. As mentioned in last year’s discussion on severity, medical cost inflation may be a slight red herring in the management of severity. Although a factor, its management through large retention programs and analytics have offered companies a greater handle on risk. Healthcare costs certainly continue to rise, but that doesn’t always directly translate into Workers’ Compensation results with fee schedules/repricing.

“The data in this study allows participants to prepare themselves for a changing insurance market. With the 2017 catastrophic events and a hardening market on the horizon, understanding benchmarked data will be key for companies.”

-Scott Davis
Hospitality Practice Leader
Beecher Carlson

“Seeking to provide value for its membership through partnerships with subject matter experts, AH&LA has collaborated with Beecher Carlson on this study for past 22 years.”

-Craig Kalkut
Vice President of Government Affairs,
AH&LA
FINDINGS

WORKERS’ COMPENSATION

The overall Workers’ Compensation direct cost of losses has reduced from $1.79 per $100 of payroll in 2005 to $1.12 per $100 of payroll in 2011. This represents a marked increase with the trough to a high water rate of $1.43 per $100 of payroll in 2014 steadying through 2017 to $1.45 per $100 payroll.

The bell curve shown in the chart below defines losses by size. This is, essentially, a severity chart, but it has frequency implications. The loss stratification indicates that 95.1% of losses occur within the $0 to $250,000 band for the “all states” classification. Many hospitality management companies purchase guaranteed cost insurance to assist with the allocation of insurance costs to each property; however, consideration should be given to the retention of risk in the $0 to $250,000 layer, as this is the industry frequency layer.

By retaining frequency and transferring severity, companies can keep an element of actuarial budget certainty while protecting themselves from downside risk.
FINDINGS

The real exposure to adverse development comes in the layers above $250,000. Given the frequency of loss in the excess layers, this is where the purchase of risk transfer insurance makes the most sense. Many hospitality companies retain frequency through a captive. This structure offers cost savings, as risk transfer markets use premium receipts not only to pay losses but also to pay administrative expenses. Through a retention strategy, many of these administrative costs can be removed. There is little point paying a premium to an insurance company for losses they know are going to happen. This is called dollar swapping, and savings are available to companies by transferring risks only in excess of the “dollar swap” layer. Rate stabilization for large accounts with appropriate retention structures and claims management tools are being utilized. Market stability is affected by the following factors:

- Overall Property and Casualty (P/C) underwriting profit in 2016 appears modest. The combined ratios of P/C carriers is fluctuating around 100% but is improving, leading to some rate flexibility. Investment income’s return may also allow rate flexibility.
- Industry surplus hit a record $680.6B as of 30 June 2016 ($672.4B as of 30 June 2015), and the last fall of any note was 2011.
- Alternative capital (i.e. hedge fund, private equity, and pension fund) is searching for long-tail business as shown by the rise of alternative risk backed reinsurers with clean balance sheets, mostly in Bermuda. Beecher Carlson is seeing a continued expansion in this area.
- Underwriting profits are returning to insurers’ overall books, but competition remains intense as many seek to maintain market share.

CALIFORNIA

California makes up 40% of the data for this study; therefore, it is an important focus area for many of the participants. Severity in 2017 is trending slightly downward as shown below. This may be caused by the increased focus on operations in the state and the implementation of return to work programs, medical cost control management, and more analytical resources to address claims.
FINDINGS

The cost per $100 of payroll in California in the 2017 study is $3.33 – significantly higher than the “all states” number. Companies with a large California footprint are heavily focused on the deployment of resources to understand, model, and develop solutions to control frequency and severity. As this study is limited to losses under $250,000 and a large number of the participants retain at least this amount, it is expected that the fruits of these efforts will show up in this study (participant mix notwithstanding) over the next few years.

STATE BY STATE COMPARISON

As Beecher Carlson receives data on a number of operations in a number of states, we have collated the below chart of loss cost data across significant locations with a credible amount of loss data.

Loss Cost Data for Class code 9052-Hotel Employees
(9050 for CA)

The above chart outlines the loss costs per $100 payroll as fully developed. What is interesting in the above data is the level at which the New York data is beginning to distance itself from the other states. Other than California (data from WCIRB), the other states in this portion of the study are relatively stabe in loss costs. New York is rising in 2016 even as the others fall, perhaps due to unionization within the state. As trends go, the above shows that the most likely area for the next round of action items now that California continues to decline will be New York.

MARKET CONCLUSION

- For Workers’ Compensation, the 2015 combined ratio showed a profit for the first time since 2006.
- Indemnity and medical costs continue to outpace inflation.
  - Medical severity experienced a slight decrease in the 2016 and 2017 studies.
  - Although lost time claim frequency decreased in the 2016 and 2017 studies, indemnity costs are still increasing.
- Jurisdictional issues impacting rates in certain states are as follows:
  - The Florida Supreme Court recently ruled that the attorney fee schedule is unconstitutional. Carriers were concerned this would significantly increase expenses associated with Workers’ Compensation claims; therefore, the NCCI affected a 14.5% rate increase in Florida that began on 1 December 2016.
- For General Liability, despite volatility, the marketplace is still seeing flat to single digit rate reductions with continuing concerns over active shooter preparedness and cyber liability.
FINDINGS

ALLOCATION BY BUSINESS UNIT AND TENURE

In 2015, Beecher Carlson amended its data request to the participants of the study. In addition to the standard data request, we asked for data supporting the loss costs broken down by sector (housekeeping, food and beverage, and other) and date of hire. We continued this data request in 2017, and it proved to be a fruitful exercise. Risk managers are able to focus on tailored training for employees meeting specific criteria, largely around position tenure and department. Since this request, the results have remained largely consistent.

<table>
<thead>
<tr>
<th>Department</th>
<th>California</th>
<th>All States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-1</td>
<td>1-2</td>
</tr>
<tr>
<td>All Departments</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Housekeeping</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>All Other</td>
<td>15%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Hospitality companies have a propensity towards loss frequency for employees in housekeeping who have been with the company under one year. Severity is greater for employees with service over 15 years. These are the same results as last year with housekeeping having the most claims (47% in 2016 and 48.1% in 2015) followed by food and beverage (30% in 2016 and 31% in 2015). This has always made intuitive sense, as mattress flipping and slip and fall incidents typically have the highest claims frequency.

Relative to tenure, the above chart shows that the distribution is skewed for frequency towards employees with less than five years of experience (46%). The below chart shows that for all departments losses for new employees, although more frequent, are less severe (zero to one year of service at $22,996 and more than 15 years of service at $35,142).
General Liability is often not as controllable as Workers' Compensation. That said, the same strategies can be used to manage frequency and severity – inspections, training, on-site visits, customer interactions, etc.

The above graph shows that severity for General Liability is slightly increasing from $1.21/$1,000 sales in 2016 to $1.23/$1,000 sales in 2017. The following graph shows the distribution of loss payments; similar to Workers' Compensation, most of the losses occur in the $0 to $250,000 range. The portion of losses in excess of $250,000, however, increases for General Liability to 24%. When setting an insurance retention strategy for General Liability, it is important to understand this stratification of losses. Risk transfer costs in the frequency layers are much greater than in the severity layers, and as frequency can be controlled more easily than severity, purchasing insurance above a $250,000 retention may reduce costs.

Beecher Carlson recommends a risk stratification study for each reviewer of these statements to ensure that a full net present value financial review of all different loss retention structures can be made. The below chart shows loss stratification for General Liability – 85% of claims are less than $500,000.
SEVERITY
In short, severity is the average cost of a claim. The drivers of severity are both internal to a company (e.g. claim procedures, claim mitigation, claim settlement procedures) and external to a company (e.g. benefit level changes, medical inflation, wage inflation, systemic fraud, settlement costs). Consequently, these drivers 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, frequency is 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
Exposure base is the basis on which premium is determined. For Workers’ Compensation, this is payroll. For General Liability, this is revenue or the number of rooms.

ABOUT BEECHER CARLSON

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