

Purchasing Power

ABVI owners' collective value leading to enhanced insurance access

By Bruce Serlen

CORAL SPRINGS, FL—Vantage Hospitality Group has built its business on being responsive to the needs of the owners of its Americas Best Value Inns (ABVI) and Lexington Collection hotels. At the company's 2007 annual meeting in Las Vegas, Vantage brand members authorized company executives to establish an insurance plan that would enable members to save money compared to the insurance they were paying for on their own, while at the same time not reduce the level of coverage.



Consequently, Vantage has spent the past eight months working to make that request a reality. One early step was to create an entity known as VISION, an acronym that stands for Vantage Insurance Services, Inc. Owners Network. "Four lines of business insurance will be included—general liability, property insurance, worker's compensation and automobile liability," explained Bill Shaw, who later was named VISION president.

VISION started by working with the owners of ABVI's roughly 750 hotels nationwide. "The plan is to roll out the program to Lexington Collection owners subsequently," added Shaw, who noted that ABVI owners had begun discussing the possibility of establishing a business insurance program with ABVI's management as early as 2004.

At the 2007 convention, owners of more than 240 ABVI hotels were present and "approximately 77% voted to move forward on a plan that would pool the group insurance," Shaw said.

The Tampa, FL, office of Willis North America Worldwide, one of the largest insurance agencies in the world, was brought in to act as the insurance broker. Up until that point, each owner was obtaining its insurance coverage independently and ostensibly paying a higher rate. "Most have individual business owner policies they've gotten through small local agencies that broker out the piece of business," Shaw explained.

Owners look for insurance companies that will offer them the most comprehensive coverage at the best price they can find. "There's a definite advantage to being part of a group plan. You want to go where the savings are. That's the theory behind this kind of program. It gives you group purchasing power," Shaw continued. "When you bring 700-plus hotels to the table and can sit down in front of two or three major, A-rated, insurance companies, you're in a strong negotiating position."

The four lines of insurance VISION is offering are coverage that owners need to be able to conduct their businesses responsibly and professionally. Property insurance is probably most basic in that it provides coverage should a hotel burn down or be destroyed by a natural disaster on the order of an earthquake, flood, or hurricane.

"The effect of Hurricane Katrina in 2005, for example, really made a big impact," Shaw noted. "The intention was to provide whatever business insurance a hotel needs to conduct business."

By this spring, owners of more than 250 properties in the roughly 750-hotel ABVI system had expressed interest in what VISION was offering. "They sent back their 'yes-I'm-interested-get-me-the-package' response form. We're in the data compilation period," Shaw said. "In one two-week period 75 properties were uploaded into the system, meaning we have the information we need to get the owners of these hotels a quote. Then they'll make the decision whether they want to have it bound or not."

The rates eventually quoted depend on the number of owners who agree to participate. "In fact, there aren't final numbers until we know how many players are in. We're still at that building stage," Shaw continued.

Once the information is finalized, it will be sent to Willis, whose job is to line up the appropriate insurance carriers. The information then will go to the carriers for their best quotes. "Willis already has two insurance companies that are aware of what we're doing," Shaw said. "They're telling Willis that they definitely want to take a look at the material we're sending them, so that they can make a final decision on whether to make a bid or not."

Once the names of the insurance companies that are participating are definite, VISION will inform owners that the program is moving forward. Owners will be told what specific coverages will be included and the price of the coverages. Assuming owners are still interested, they'll need to indicate as much to VISION and that they're ready to proceed.

"Once that letter is in our hands, then the insurance can be bound for these hotels. Given how the process has been going so far, we expect overall combined premium savings to be in the area of 15% to 20%," Shaw said. "The average savings to a hotel owner should be between \$2,000 and \$4,000 [per year], depending on the size of the hotel and the premium they're paying."



Coverage is likely to begin in the third quarter, according to Shaw. If for some reason there's a snag in the program or a roadblock, then it could push the start date to the fourth quarter. In other words, the insurance companies may say we like all the data Vantage compiled, but need five or 10

more questions answered. "If that happens, it could mean a brief delay," Shaw continued. "When they start binding, that's when owners' inception date will be."

Owners are welcome to wait to take part in the new insurance program until the renewal date comes up on their existing insurance coverage or they can jump on board sooner. "Owners obviously have coverage right now with another insurer. So they can either terminate that coverage or wait until the existing coverage expires," Shaw said.

In the insurance industry, terminating existing coverage entails what are known as "liquidation damages."

"It's a prorated penalty," Shaw explained. If an owner is going to cancel a policy midstream in a 12-month binding period, for example, typically the insurer can charge up to, but not more than, 10% of the annual premium. Consequently, if owners have renewed or are waiting to renew, [the insurers are] going to have the option to say here's what it's going to cost to opt out of XYZ company, but the savings, working with VISION, are going to be XXX. Accordingly, if it makes financial sense to jump midstream, they're free to do so."

