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ISSUE 2.01

AGENTS RATE MGAs

Peers provide keen insight on what's most important and why

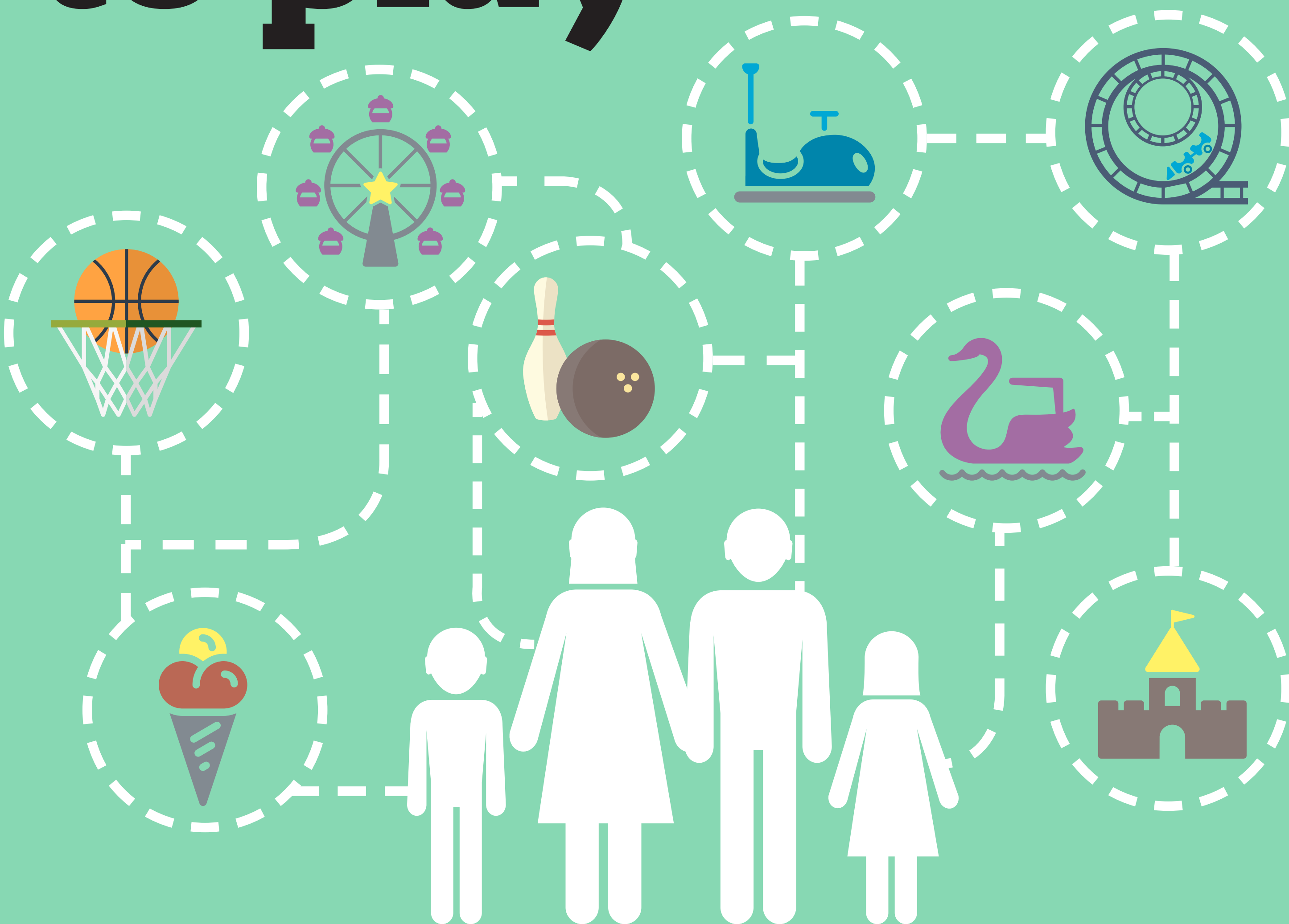
ENVIRONMENTAL
INCREASED VISIBILITY MEANS INCREASED OPPORTUNITY

THE ACA X-FACTOR
HOW IT WILL IMPACT WORKERS' COMP – AND YOUR BUSINESS

PROFIT IN NONPROFITS
THEY MAY NOT KNOW IT, BUT THEY NEED YOUR HELP

A BIGGER PLACE to play

As the family 'staycation' grows in popularity, an emerging market of entertainment centers and multi-activity facilities represents a golden opportunity for producers



After a bleak post-recession period, emerging macroeconomic trends suggest that Americans are ready to step out from the shadow of financial austerity and start to indulge in some of life's lighter pleasures.

However, American family entertainment looks a bit different this side of the Great Recession. The traditional 'T&E' budget is still modest for the majority of middle-class families, and most people are in search of local, low-cost entertainment as an alternative to the traditional summer vacation.

Enter the family entertainment center—'FEC' in industry lingo. Trips to FECs boast fewer Disney castles but promise a great deal more climbing walls; there's less lazing about on a Hawaiian beach but more rolling around in human hamster balls.

FECs boast a wide range of activities in one place for one price and are alluring to consumers both in terms of their proximity and affordable entry fees.

Access to go-karts, miniature golf, bowling lanes, trampolines, zip lines and an assortment of other activities obviously makes for major liabilities and insurance placement challenges. However, industry leaders believe it also represents a major opportunity for savvy agents and brokers.

MARKET TRENDS AND SIZE

When the economy went south in 2008 and family entertainment expenses followed, traditional recreation centers like bowling alleys and miniature golf courses started to expand their offerings in order to attract customers.

"No indoor center or fun center is identical in their operations and the type of attractions," says Sam Muradyan, co-founder and manager of Liberty United Insurance, a North Hollywood independent agency specializing in the family fun space. "There are usually multiple activities because, from their point of view, they need to be able to attract more clientele."

In his role as senior vice president of sales and marketing for insurance carrier HCC Specialty, Mark Barry has observed the same trend.

"Because of the economy, a lot of facilities are adding additional activities like climbing walls, bounce houses and laser tag," Barry says.

HCC Specialty recognized the potential for insuring FECs and other facilities early on, establishing its Sports, Hospitality, Recreation and Entertainment & Leisure division in 2010. The group started exploring the space by insuring bowling centers, afterwards expanding to facilities as varied as miniature golf courses, laser tag facilities and FECs.

From there, the insurer has seen nothing but growth—200% in 2013 and a projected 100% this year.

There is certainly no shortage of clients, either. The International Association of Amusement Parks and Attractions estimates there are more than 2,000 FECs in the US, 22% of which have two or more locations.

Consultants Amusement Entertainment Management even places FECs as the "third largest growth potential sector in the United States," and Muradyan affirms that "the industry is definitely growing."

Including the number of multi-activity and recreation centers that don't fall under the FEC heading, the potential market of family fun facilities swells even larger. "If you look around your own

ANNUAL COMMUNITY-BASED ENTERTAINMENT SPENDING PER FAMILY BY REGION

Northeast (24%)
$714

South (20%)
$515

Midwest (21%)
$574

West (22%)
$721

Source: US Bureau of Labor Statistics, 2000–8

JUMPING OFF FROM THE FAMILY ENTERTAINMENT CENTER STARTING POINT

There are several natural extensions from the FEC and recreation facility space, and producers can take advantage of where FEC-related risks overlap with other sports and recreation markets. According to Lorena Hatfield, K&K's experience in "insuring the world's fun"—as the company motto goes—is a good illustration of that overlap.

"Our program coverage often pulls from expertise in other K&K divisions," she says. "For example, a fairground may have musical entertainers, motorsports activities, food vendors and animal exhibits. Our staff focuses solely on sports, recreation and leisure program coverage, so we have the resources available to evaluate the unique risks inherent to entertainment activities."

K&K has recently developed programs for walk/run events in both the competitive and nonprofit categories, she says—a natural extension from insuring similar sports tournaments and competitions.

Once they began, it was easy to "continue to introduce new programs based on the needs of our clients and growth in the industry," Hatfield concludes.

ANNUAL ATTENDANCE BREAKDOWN FOR US FECs

Up to 50,000	34%
50,000–100,000	24%
100,001–250,000	18%
250,001–500,000	11%
500,001–750,000	5%
1m–1,250,000	3%
1,250,000–1.5m	1%
1.5m and up	4%

Source: IAAPA 2011 State *of the Industry Report*

DID YOU KNOW?

- The most commonly added attractions in a recreation center include **laser tag, educational water attractions and mini bowling**, according to Amusement Entertainment Management.
- While other entertainment sectors suffered heavily during the Great Recession, FECs actually saw an attendance bump in 2008 from 192,592 the previous year to **196,532**.
- **25% of Americans** surveyed by IAAPA in 2011 said they had visited an amusement park or FEC within the last 12 months, with another 43% indicating they planned to visit one within the next 12 months.
- A typical FEC is designed to attract guests within a **15-mile radius**, making it a solid community-based entertainment, according to Frazier Capital.
- **FECs** and other rec centers also hold events like lock-ins, Easter egg hunts, Hawaiian luaus and company nights that may require additional insurance.

town, you'll probably see places like this going up," Barry says. "I'm very bullish about this area."

He adds that as FECs and other recreation centers become better at marketing themselves and continue to expand their offerings, these numbers have nowhere to go but up.

INCREASED FUN MEANS INCREASED RISK

Lorena Hatfield, marketing resources manager for K&K Insurance Group, has also recognized the shift in activities offered by recreation centers. In addition to the market's potential as an insurance client, she sees the increased coverage challenges it represents.

"The creativity in recreation centers is definitely a trend. We're seeing trampoline facilities and other unusual risks like water walking and human hamster balls come into play," Hatfield says.

"While these activities may look entertaining, they definitely add to the risk level of the facility, and those activities may adversely affect premium or be excluded from coverage."

Muradyan also emphasizes premium variability, commenting that certain pieces of equipment represent higher risk. Trampolines, for example, are among the most difficult attractions to insure – something that is reflected in insurance rates.

Also affecting premiums is very high property and contents values, thanks to pricey furnishings and increased technological capabilities in some newer FECs.

"We're seeing brand new centers that are really upscale. Everything is swanky; it's hip, it's cool. It's not just an old frame bowling center with beer and hotdogs," says Barry, adding that the millennials who typically run these centers are looking to establish a 'club' vibe. "These are multimillion-dollar facilities that need to be protected with a variety of high-tech additions."

And then there is the looming threat of personal liability for a center's owners and employees. With such a great range of activities, the potential for a serious injury translating into a lawsuit is great. If the plaintiff's attorney is ambitious enough, everyone from the facility owner to the employee overseeing the activity in which the participant was harmed could be named in the lawsuit.

That's something Muradyan says many of his clients don't realize before they come to him.

"I would say only 5% to 10% of them are aware of their employment liabilities, and that there's a way to protect themselves through insurance," Muradyan says. "That's where an independent agent comes into the picture. We break down what they need and give them professional advice on their employment liability."

Fortunately, such complicated liabilities come with relatively easy answers. Uniquely crafted package policies are the industry standard for covering these unique and high risks, Barry says.

At HCC Specialty, a general liability package includes CGL, premises, personal injury, liquor, hired/non-owned auto and employee benefits liability coverage. A separate property package features equipment breakdown, flood and quake, business income with extra expense, and replacement cost coverage, among others.

"There are other ancillary coverages," he points out. "We may also have situations where clients elect not to purchase certain policies, and so our broker partners work with them to customize their packages with what they need."

OTHER TRENDS AND LIABILITIES IN THE RECREATION/ FEC SPACE

MARK BARRY
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LORENA HATFIELD
"Extreme sports and fitness activities are an emerging trend; as these activities become more mainstream we're hopeful that better risk management protocols and safety equipment will be developed and reduce the potential for injury."

MARK BARRY
"In my experience, you do have the aspect of family businesses [in the FEC space]. Traditionally, these facilities were passed on from one generation to another, so you still do have a fair amount of that. We're also seeing ones that are being run as new facilities, and particularly some of these new high-end ones built from scratch with all of the different attractions within it."

AVERAGE US CONSUMER ANNUAL SALARY DISTRIBUTION

Housing
34.43%

Food
12.99%

Transportation
15.61%

Insurance and pensions
11.15%

Apparel and services
3.52%

Healthcare
6.37%

Entertainment
5.49%

Everything else
10.45%

Source: Dept. of Labor, 2009

While producers seek coverage for the more obvious liabilities associated with unusual and extreme activities, they shouldn't forget to counsel clients on limiting simpler risks associated with any sports and recreation facility.

"Often [clients] simply overlook basic safety such as a parking lot that's poorly maintained, stairs that are not well lit, wet floors or trees with dead branches that need to be trimmed," Hatfield says.

"Clients can reduce their risk of claims just by taking a walk around the facility and taking a hard look at the upkeep of the premises. Slips, trips and falls consistently contribute to a majority of claims."

Muradyan also says he makes a regular practice of referring FEC owners to risk management strategists specializing in the family fun and recreation space, such as Northern California's Event Planners Association.

"There are a few different safety programs online for family entertainment centers, so we refer [clients] out to these programs where they can take an online course and even get certified," he says. "We strongly recommend this to everyone, especially the newer ventures."

It won't necessarily help clients find lower insurance rates, Muradyan says, but could definitely decrease claims activity.

BRANCHING INTO THE FEC/MULTI-ACTIVITY MARKET

While competition and increased commoditization in the professional and amateur sports insurance space has edged out many would-be producers, Barry believes the recreation and leisure market is ripe for prospective producers in all market sizes.

"I would say this is the space to really think about as an agent or broker," he says. "Big brokers aren't targeting this account because it's not big enough for them. There are brokers who specialize in this category, but most of our business is coming from local, main-street brokers."

While there is "no real profile" for the ideal producer, Barry says experience in insuring other recreational facilities such as roller-skating rinks or bowling alleys could be a step up for producers making cold calls to FECs.

"If a broker has already been targeting bowling centers, then there would be synergy to get into other types of family entertainment centers," he says.

"It's a different risk, but the broker is already well versed in exposures faced by activity centers and I think it would be easier for them to go to a prospect and demonstrate expertise in the sports and family fun center category."

Whatever producers lack in personal knowledge about FECs, they can make up for it by partnering with an experienced, qualified carrier, Hatfield adds. Of the more than 6,000 brokers who work with K&K, "some specialize in sports and recreation

risks, but many of the agents … only place one or two accounts with us."

She notes that experienced underwriters are "a great resource for agents who may not have great depth of experience within the specialty programs" required by a family fun center.

"We're also able to support agents with books of business or larger risks with complex coverage and loss control needs," she says.

Once producers have built up a solid book of business, servicing the account becomes fairly straightforward. As with clients in most sectors, owners of recreation facilities should be revisited at least once a year, at which time producers should inquire about any plans to add new activities or attractions.

"If there are any major changes in the operation, [brokers] need to know about it in case of a specific exclusion for something like trampolines or climbing walls," Barry says. "That doesn't mean you can't get the coverage [if you have those exclusions], but you've got to notify the insurance companies and have them assess it and probably get a premium change."

A yearly tour of the facility is also in order, as brokers can identify any new risks or equipment that may necessitate new or altered coverage. And when claims come up, the same mentality required for servicing accounts in any sector is needed.

"Brokers should advocate on behalf of the client, make sure the claim is submitted properly, and ensure adjusters arrive on a timely basis," says Barry. "You need to develop a relationship of trust with the client."

For those who get it right, the rewards are great.

"It's a lot of work, but it's been a blessing," Muradyan says of Liberty United's choice to focus exclusively on family fun clients. "We set a very good reputation in the industry for our services, and we're very happy with what we've accomplished so far." IB