



## HOSPITALITY LAW

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Week 14: Managing Insurance

# What is Insurance?



Insurance is a financial product sold by insurance companies to safeguard you and/or your property against the risk of loss, damage or theft (such as flooding, burglary or an accident).



Natasha Turak (2023), Turkey's devastating earthquake comes at a critical time for the country's future, [https://image.cnbcfm.com/api/v1/image/107190011-1675773362930-gettyimages-1246861557-AFP\\_338P6DU.jpeg?v=1675925989&w=740&h=416&ffmt=webp&vtcrop=y](https://image.cnbcfm.com/api/v1/image/107190011-1675773362930-gettyimages-1246861557-AFP_338P6DU.jpeg?v=1675925989&w=740&h=416&ffmt=webp&vtcrop=y)

# Examples of Largest Insurance Companies in the World

In billions USD

Ranking	Company	Global ranking	Country	Class of business	Turnover	Profits	Assets	Market value
1	Ping An Insurance Group	17	China	Life and non-life	181.37	15.74	1 587.11	121.69
2	UnitedHealth Group	22	United States	Life and health	297.55	17.45	221.24	490.15
3	Allianz	35	Germany	Life and non-life	138.62	7.81	1 324.62	96.42
4	AXA Group	48	France	Life and non-life	145.19	8.39	839.85	65.75
5	China Life Insurance	71	China	Life and health	130.5	7.87	769.88	43.02
6	AIA Group	73	Hong Kong	Life and health	45.16	7.43	334.88	120.19
7	MetLife	74	United States	Life and non-life	71.08	6.55	759.71	57.39

Forbes (2022), op 20 largest insurance companies in the world, [https://www.atlas-mag.net/sites/default/files/images/AtlasMagazine\\_2022-06-No192/Fb/forbes-2000-2022.jpg](https://www.atlas-mag.net/sites/default/files/images/AtlasMagazine_2022-06-No192/Fb/forbes-2000-2022.jpg)

# INTRODUCTION TO INSURANCE

- Every individual faces risk. **Illness, accidents, the acts of others, and even death**, are all potential hazards each of us faces in life. Your business will face possible **calamities, also**.

- **Floods, fire, and the acts of guests, employees, and others** can all put your business at risk. **To guard against** the financial loss these risks can bring, both individuals and businesses need **to insure** themselves

- Hospitality businesses seek insurance, or protection **from risk**, for two basic reasons. First, because doing **so makes good financial sense.**

- Second, some types of insurance coverage are required either **by law** or **by lenders** to protect their collateral

- The insurance industry is built upon four fundamental premises:
  - **1. The type of hazard**
  - **2. The monetary value**
  - **3. The premiums (fees) for the insurance**
  - **4. The risk must not have the possibility of occurring so frequently**

# Important Key Concepts:

- **Actuary:** A mathematician or statistician who computes insurance risks and establishes premium rates.

- **Insurer:** The entity that provides insurance.
- **Premium:** The amount paid for insurance coverage; it can be paid in one lump sum or over time, such as monthly

- **Insured:** The individual or business that purchases insurance against a risk
- **Annuity:** Fixed payments, made on a regular basis, for an agreed-upon period of time or until the death of the recipient.

# ANALYZE THE SITUATION 14.1

- SAMUEL RENKO, PRESIDENT OF THE SENFRAME HOTEL MANAGEMENT COMPANY, authorized the purchase of a **\$2 million fidelity insurance policy**, the purpose of which was **to protect the company in the event of employee theft or fraud.**

- In discussing the purchase with the insurance agent, Jana Foster, Mr. Renko assured Ms. Foster that all hotel controllers were subject to a thorough **background check before** they were hired

- As a specific condition of the insurance policy, background checks on controller candidates were required **prior to employment**

- The insurance policy was purchased and went into effect on January 1, 2003. On June 1, 2003, the Senframe company took over the management and operation of the Roosevelt

- Hotel is a **300-room property** in a resort area.  
As part of the operating agreement with the Roosevelt Hotel's owners, the hotel's controller and its director of sales were **retained by Senframe**

- On December 20, 2003, Senframe management discovered that the Roosevelt Hotel's controller **had been creating and submitting false invoices.** The invoice payments were deposited in a bank account he had established for himself five years earlier.

- Total losses for the five-year period that the falsification occurred were **over \$500,000**. The controller resigned, but the hotel owners sued Senframe for the portion of misappropriated **fund (\$70,000)** taken during the period the hotel was under Senframe's management

- Ms. Foster maintained that her insurance company was not liable to indemnify Senframe, because the controller had not been subjected to a background check, as Mr. Renko had promised.

- Mr. Renko countered that the controller, although not background-checked, **had no criminal record** of any kind, and thus a background check would not have prevented the hotel from hiring the controller

# Your comments:.....!

- 1. Must Ms. Foster's company defend Senframe in the litigation brought by the hotel's ownership?

- 2. If you were on a jury, would you hold Senframe responsible for the employee theft?

# TYPES OF COVERAGE



JAMES CHEN (2021), Insurance Coverage,  
[https://www.investopedia.com/thmb/7vAGFxIVKzF985DatoaVSTpcAFI=/1500x0/filters:no\\_upscale\(\):max\\_bytes\(150000\):strip\\_icc\(\)/umbrella-2904775\\_1920-d61c2ad2409a446aab33a7c0a9080607.jpg](https://www.investopedia.com/thmb/7vAGFxIVKzF985DatoaVSTpcAFI=/1500x0/filters:no_upscale():max_bytes(150000):strip_icc()/umbrella-2904775_1920-d61c2ad2409a446aab33a7c0a9080607.jpg)

- Property – Casualty
- Liability
- Employee Liability

- Dram Shop
- Health/Dental/Vision
- Workers ' Compensation

# SELECTING AN INSURANCE CARRIER

- Most insurance companies sell their products through **agents**, rather than directly to the public.
- Some companies use agents that represent them exclusively, while others use independent agents.

- These independent agents may **represent several insurance companies**, and can be a real asset in selecting the best policy at the best price. The **premium rate**, however, is set by the **insurance company**, and generally it cannot be changed by the agent.

- Insurance companies are rated based on their **financial capability** to pay claims. According to analysts, **the stronger the rating, the more financially solvent the company is projected to be**

# SELECTING THE INSURANCE POLICY

- Once you have found two or three companies that you feel are **financially sound**, the next step is to get **quotes, or bids**, to provide coverage from each of the companies

- **Analyzing an insurance policy** consists of determining both **what is and what is not covered**. You are responsible for knowing and understanding the types and amounts of coverage that are **written into your insurance policy**.

- There are a variety of policy types, but they can be conveniently **grouped into three categories:**
  - ✓ Life insurance
  - ✓ Health insurance
  - ✓ Property - casualty (often referred to as “ property - liability ” )

- Because insurance protects against risk at an agreed - upon price, it is critical that you as a hospitality manager know:

- ✓ The **risks** you are insuring against.

- ✓ The **amount** of coverage you will receive.

- ✓ Any **exceptions** to your coverage that are written into your policy.

- ✓ How **much** the insurance will cost.
- ✓ The **likelihood** that the insurance company is financially sound enough to pay, if it becomes necessary.

- **Exclusions:** Liability claims that are not covered in an insurance policy

- **Exceptions:** Insurance coverage that is normally included in the insurance policy, but that will be excluded if the insured fails to comply with performance terms specifically mentioned in the policy.

# References

[1] STEPHEN BARTH (2009), Hospitality Law: Managing Legal Issues in the Hospitality Industry , p 437- 453 ,<https://www.pdfdrive.com/hospitalty-law-managing-legal-issues-in-the-hospitality-industry-e157128399.html>

[2] Jaswinder Singh Safety & Security Concerns in Hospitality Industry, <https://www.researchpublish.com/upload/book/Safety%20and%20Security%20Concerns%20in%20Hospitality-639.pdf>

Thank you!

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