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## **FREE Hotel/Motel Report!**

# **“7 Costly Mistakes Owners Make When Insuring Their Hotels/Motels!”**

**How Many Of These Mistakes Are You Making And Just How Much Is It Costing You?...**

**By Jim Groninger**  
Author, speaker, consultant

The saddest words I ever heard: “I never thought this could happen to me.”

Tragically, owners have uttered those very words to me – over and over again. Responsible, profitable, serious businesspeople.

One day, they’re running a business. The next day, they’re shaking their head, wondering how they’ll ever pick up the pieces.

Suddenly, they’re dreams are gone – and the next thing they know, they’re forced to tell their spouse and family that all their hopes and plans are shattered.

The real tragedy, of course, is that it didn’t have to happen that way. Usually, they made ONE small mistake. Something happened – outside their control – and they didn’t have the proper insurance to take care of it.

Sure, bad things happen to good people. And, with proper knowledge and planning, when they do, insurance is there to pick up the pieces and put everything back in order. In most cases anyway.

So let’s take a quick look at these “7 Deadly Sins” that so many hospitality professionals make. And let’s see what you can do to protect your property.

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## **DEADLY SIN #1: Trying To Protect Your Hotel With Market Value Instead Of Replacement Cost Insurance**

Penny-wise and pound foolish. Usually, market value coverage will save you a few bucks – while it just may put your out of business forever.

Why? Because “market value” means just that. If your hotel is destroyed, the MOST you’ll get from your insurance company is what the “market” would pay if you were selling it. But if you’re NOT selling it, that may not be enough...by a LONG shot.

For example, a hotel owner in Texas recently insured his property for market value – at \$1.7 million. When his 15 year old property was damaged, he was told it would take \$3 million to repair the damages caused by the fire.

He was \$1.3 million short...and cursing the day he did NOT hire a Hotel Insurance Specialist when he purchased his insurance.

If you’re insurance agent or broker has NOT discussed this with you, you must ask yourself: “are you dealing with an expert in YOUR field?”

\*Discuss the benefits of Replacement Cost instead of Market Value with your insurance agent.  
(And ask them why they haven’t discussed this with you before.)

## **DEADLY SIN #2: Not Checking For Previous Losses When You Acquire A New Property**

Your insurance agent should do more than “sell” you insurance. They should be an advisor to the total protection of your business. Protecting your property AND your bottom line.

Many successful owners realize the business-savvy of expanding their operation – and buy one or more additional properties.

If you’ve ever bought more hotels (or are thinking of it) and your insurance advisor has NOT counseled you to require a complete insurance history of previous losses, you could be in for a huge – and expensive – surprise.

Why? Because if that property does have a history of losses, you may discover that insuring that property is MUCH more expensive than you considered. (Sometimes motivated sellers know this...and won't volunteer this information.)

\* Make sure you ALWAYS require a complete history of insurance losses as part of your "due diligence" before you purchase additional properties.

### **DEADLY SIN #3: Ignoring The Need For EPLI Insurance As Part Of Your Protection Package**

EPLI: that's insurance lingo for "Employment Practices Liability Insurance."

Why bother? Because YOU can get sued for things that YOU would never do...but one of your employees might do. For example, sexual harassment. The definition for "sexual harassment" is hard to pin down...but lawyers will try to pin YOU down – so their clients get the big settlement. (And THEY get the big contingency!)

Did you know that it costs of minimum of \$20,000 just to defend yourself against a harassment suit...and that the settlements are often in 6 figures!

Some hotel owners choose not to buy it. But you should NEVER choose not to buy it out of ignorance. ONE LAWSUIT could shut you down.

\*Make sure to discuss EPLI with your insurance advisor. (And if he hasn't presented a FULL CASE of how this issue may affect your business, ask him "why not?!")

### **DEADLY SIN #4: Overlooking The Best Kept Secret In Hotel Protection: Business Interruption Insurance.**

Imagine this. That faint smell of smoke turns out to be Unit 6 – with black clouds blowing out from the cracks in the door...and orange flames pouring out the window.

Next thing you know, sirens are screaming, hoses are drowning half your property – and your hotel shows up on the evening news.

While the construction crew has your property draped in canvas and scaffolding, business in the remaining units drops to nothing...AND SO DOES YOUR INCOME.

Sure, insurance will put your business back together. But how long can you sustain the loss of income?

That's where Business Interruption Insurance takes over. This should be a critical part of your Annual Insurance Review with your insurance advisor. Is it?

\*Be certain to discuss the coverages and benefits of Business Interruption Insurance every year with your insurance agent or broker. (And if he hasn't presented a FULL CASE of how this coverage may protect your business, ask him "why not?!")

### **DEADLY SIN #5: NOT Preparing A Risk Management Strategy To Protect Your Hotel.**

What can go wrong in your hotel?

TONS! From accidents to lawsuits to fires to employees doing "bad things." But here's a VERY powerful secret: MOST of these "bad things" can be prevented before they ever happen...with VERY little planning. Thorough planning, for sure. But it takes MUCH less time to prevent than it does to clean up the mess. And it's MUCH less expensive.

Even if you have the proper insurance, you still have the cost of deductibles, increased premiums in the future – and the headache and wasted time that gets sucked out of your valuable schedule.

For example, did you know you need to make sure the "ownership name" on your policy needs to match the actual ownership of the property. Sometimes, a small clerical error can cost a hotel owner unbelievable grief. (And it could ALL be prevented!)

Or...do you have a fool-proof checklist that makes sure you get background checks on prospective employees. (Are you checking for criminal records, a history of health claims AND work history?) Background checks can uncover hidden "landmines" – and protect you from VERY serious problems in the future.

Those are just a couple of SMALL examples of things that should be in your Risk Management Strategy.

\*Be certain your agent or broker prepares a thorough Risk Management Strategy, including easy-to-follow checklists for your protection. Be absolutely certain your Risk Management Strategy is tailored for a hotel...NOT "business in general!" (And if they haven't presented a thorough Risk Management Strategy designed for YOUR business, ask why!)

**DEADLY SIN #6: Make Certain Your Agent Or Broker Has Enough “Markets And Volume” In The Hotel Industry To Negotiate The Best Price For Your Hotel.**

First of all, let’s clear up the “insurance lingo.”

Markets. That means “insurance companies.” Insurance companies like to appoint agents who are experts in the company’s specialties. That means that the average agent may represent some great companies for home and auto insurance...even for “Main Street” businesses like the local shops and retailers. But not companies who specialize in hotels. Hotel insurance experts can represent several companies – and that helps get you the best possible price.

Volume. That’s “insurance talk” for the total amount of insurance that an agent writes with a company. Volume gives an agent more influence with the company’s underwriters. So, if an agent writes a LOT of hotels, he’s more likely to get you a better price.

\*Be certain to work with a broker or agent who SPECIALIZES in the “hotel niche.” That way, they can get you the best price for your insurance. (Your “personal agent” may be great for your home and car...but think twice about going to him for your business. You’ve got too much at risk!)

**DEADLY SIN #7: Make Certain Your Agent Or Broker Is An EXPERT In The Hotel Industry – To Help Make Sure You Get The Best Protection.**

You wouldn’t hire a bus driver to fly your plane would you? Sure, they can both maneuver “big machines.” But one’s an EXPERT in planes...and one’s not.

You wouldn’t hire a dentist to perform heart surgery, would you? Sure, they’re both doctors. But one’s an EXPERT in hearts...and one’s not.

Your property represents everything that’s important to you and your family. Security, income...your piece of the “American Dream.” Why trust it to someone who’s not an EXPERT?

Your insurance advisor should be able to protect you with coverages the “average” agent doesn’t know anything about. (Why should they? They spend their time on other issues...NOT on yours!)

Of course, inadequate coverage is usually cheaper...until you have a claim that’s not covered! Your agent should be able to review ALL the options with you – and help you make smart, informed choices about your protection!

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About the author...

Jim Groninger CEO of Groninger Insurance Agency LLC, an independent agency specializing in serving the insurance needs of Pennsylvania contractors. Everyone on staff is a licensed insurance agent dedicated to educating and protecting their client's from financial disaster. Jim Groninger can be reached at:

Groninger Insurance Agency

240 5<sup>th</sup> Street Northumberland Pa 17857

Phone (570) 473-8107

Toll-free 1-800-722-3743

Fax 1-866-672-6037

Email: jim@groningerinsurance.com

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