Global Leisure and Hospitality Risk Outlook 2023

Where next for leisure and hospitality as the sector navigates emerging risks, challenges and opportunities?

WTW Global Leisure and Hospitality Survey

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An industry getting back on its feet, slowly

When the Collins Dictionary chose 'permacrisis' as their word of the year in 2022, they might have had leisure and hospitality in mind. Few industries have been as heavily impacted first by COVID-19, followed swiftly by the global cost of living crisis.

Businesses are also feeling the impact of new technologies and competitors, from sharing platforms to fitness trackers. Consumer preferences are changing fast, making it hard to keep pace and maintain customer satisfaction.

How is the sector adapting?

We wanted to find out how businesses are coping in the face of these challenges – and also where they see the opportunities emerging that can lead to growth over the longer term. Our survey includes a broad cross-section of traditional leisure and hospitality businesses, as well as providers of in-home entertainment, such as gaming.

Taking small steps forward

We found that most traditional businesses including eating and drinking, hotels, venues, attractions and health and fitness, are focused on stabilization over the next couple of years, increasing margins where they can, rather than focusing on sales growth.

While in-home entertainment providers have flourished during the pandemic, they will also be impacted by the cost-of-living crisis and are similarly cautious about growth in the short term. Many firms are finding it difficult to manage their risks in a time of economic uncertainty and rapid change.

Despite the challenges of keeping pace with changing consumer tastes and digital technology, this is also where many businesses see their greatest opportunities for success in the medium term if they can adapt successfully.

About our survey

When:
September-October 2022.

Who:
600 senior decision makers, including CEOs, risk managers, operations managers and compliance managers.

Where:
Countries across Europe, North America, Asia-Pacific and Latin America.

Sectors:
Hotels and accommodation; health fitness and wellbeing; venues and visitor attractions; bars, pubs, nightclubs, cafés and restaurants; gaming and gambling; media and entertainment.

Size:
99% of companies with annual revenue over $300 million, 1% between $100-300 million.

Please note the survey contained all closed questions with different response options ranging from ranking questions and multi-select to single coded questions. In this report, we have included some of the findings from the survey, with breakdowns by industry sub-sector. For the full results, including breakdowns by region and job role, please contact us using the details on page 31.

Key findings

Post-pandemic recovery still a work in progress

COVID-19 hit traditional leisure and hospitality hard. **44%** of respondents said risk-related losses were higher or much higher than expected over the last two years. Businesses in our survey are still feeling the long-term impacts, including a skills gap from staff leaving the sector **(47%)** and the shift to leisure activities at home **(45%)**.

Switch to digital will be pandemic's greatest legacy

The pandemic may have provided a spur for companies to embrace new technologies and create innovative new offerings. Almost three-quarters **(70%)** said that an accelerated switch to digital first will be the greatest long-term legacy of COVID-19.

Profitability is higher strategic priority than growth

With the global cost of living crisis following hard on the heels of the pandemic, it's not surprising that company strategies are more focused on improving margins **(46%)** and growth through acquisition **(48%)** than on organic sales growth **(35%)** over the next two years.

Businesses feel risks are not within their control

The sense of permacrisis in the industry may be making it harder to manage risks. Only **28%** said the root causes of their risks were somewhat or completely within their control. Interestingly, almost three-quarters **(74%)** said they lacked the data or knowledge they needed to address their risks.

Competition from tech-savvy entrants is hotting up

From home delivery apps to fitness trackers, new providers are looking to disrupt traditional leisure and hospitality business models and eat into market share. More than half **(52%)** of our respondents said increased competition from outside the sector was among the greatest obstacles to achieving their strategic objectives.

Firms struggle to keep up with changing tastes

Younger consumers want new experiences and Instagram-able moments, both online and in person, which can be challenging to deliver. This may explain why changing customer tastes and preferences were the second greatest obstacle to achieving strategic objectives **(42%)**.

Reputational risk is rising up the agenda

A majority of businesses **(59%)** now measure and monitor their reputation to help identify and prevent potential threats that could tarnish their good name. **46%** think having insurance for reputation risks is necessary and **22%** say it's mission critical.

Key trends

Future leisure and hospitality trends to watch

Frontiers of new technology

- **Offering tech-enabled customer experiences:** more businesses will use tech, such as virtual reality and the metaverse, to create realistic tours pre-visit and personalized on-site experiences.
- **Making it frictionless:** we'll see more use of artificial intelligence to simplify booking and payment and RFID for keyless room access in hotels. With competition proliferating online, firms will also look to simplify apps and websites to improve the online experience.

Transformation of people and workforce

- **Improving the employee experience:** firms will need to do more to recruit and retain staff, creating work that feels more meaningful and rethinking recognition and reward schemes.
- **Blending automated systems and staff:** finding the right balance between people and technology will be key – for example, using self-pay tablets in restaurants could free up staff to offer a better service to customers.

Changing consumer preferences

- **Bridging the demographic gap:** the generations increasingly want very different things as younger consumers chase Instagram-able moments and new experiences, while older consumers require safety adaptations or mobility support. The increased desire for sustainable options is also influencing decisions for younger consumers.
- **Scaling to meet changing demand:** hybrid working and changing lifestyles will continue to affect how and where people spend in cities, suburbs and online. Businesses may find it increasingly difficult to scale up and down to meet changing demand.

Sustainability and ESG

- **Planning for climate impacts:** we're seeing heatwaves, wildfires, storms and floods in areas that never had them before. Businesses need to plan for these events happening on a regular basis.
- **Getting ahead of climate regulations:** more businesses will make net zero commitments and report in line with the Taskforce for Climate-related Financial Disclosures (TCFD). Initiatives to reduce plastic and food waste will also increase.

- **Emerging focus on water and biodiversity.** While climate has tended to receive most attention to date, concerns related to water and biodiversity will become more prevalent over time, especially for assets that are in areas of high water scarcity or biodiversity hotspots, or that have large footprints.

- **Integrating ESG into risk and materiality efforts:** as with many industries, risk leaders are incorporating ESG risks into their risk planning efforts, often expanding a generic 'ESG risks' labels in materiality summaries into detailed risk (and opportunity) descriptions that are specific to their business.

Market overview

Recovery and stability are top priorities

Disruption is no longer a temporary state in leisure and hospitality – it's becoming a way of life as the sector deals with a succession of external shocks, as well as new technologies and challengers encroaching on traditional business models.

Many businesses are still recovering from the impact of Covid-19, named by respondents as the top factor contributing to losses over the last two years. Almost a third (32%) said risk-related losses had been higher than expected over this period, while 12% said they had been much higher. Losses were greatest in areas most affected by Covid restrictions – 42% in hotels and accommodation said losses were higher than expected and 25% in health, fitness and wellbeing said much higher.

Legacy of pandemic looms large

The pandemic has left a legacy that firms are still grappling with, including the skills gap from staff leaving the sector, named by 47% among the greatest long term impacts, and the shift to leisure activities at home (45%).

Although 2022 saw a resurgence of interest in going out, which has helped the sector recover some ground, this upswing is largely being cancelled out by the global cost-of-living crisis, which looks likely to dampen demand in the near term.

Some areas, such as gaming and media, may have gained during the pandemic. Their main focus will be on maintaining that momentum post-COVID.

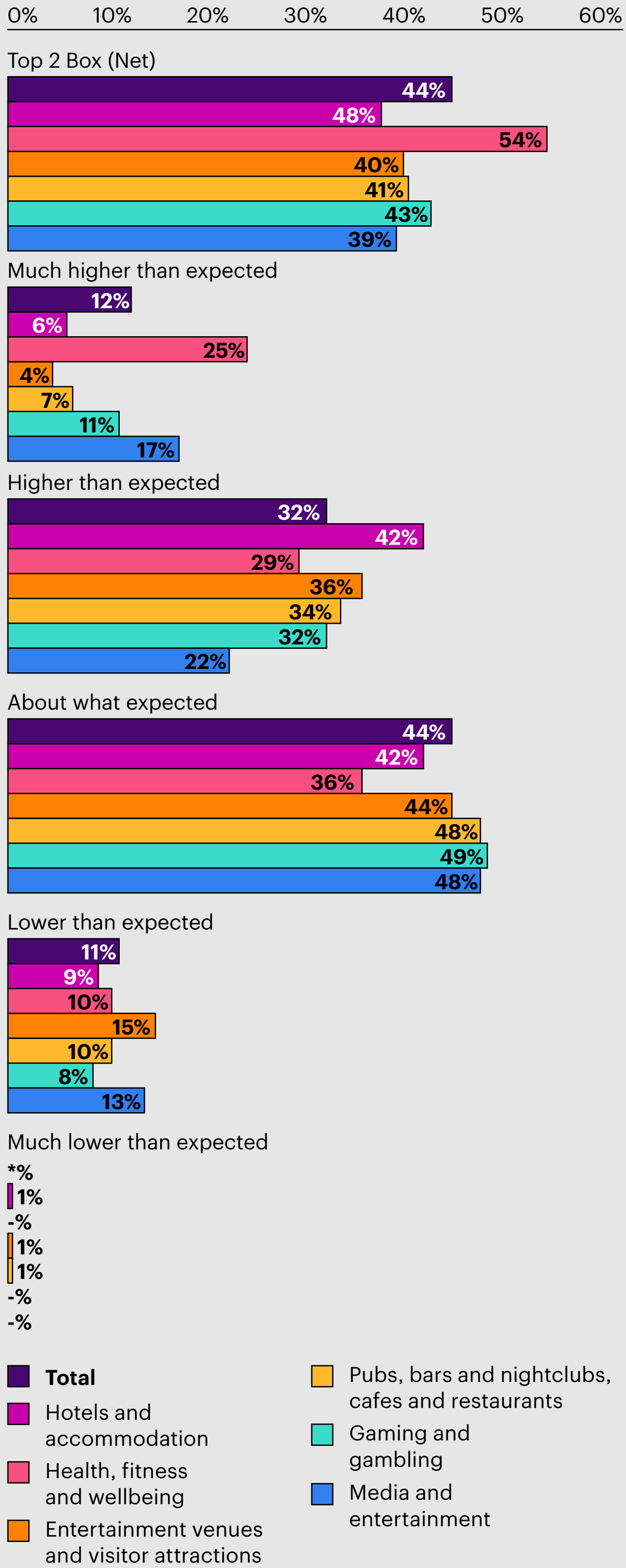
New entrants pose competitive threat

It's the impact of market upheaval and new competition that seems to worry businesses most looking forward. When asked what were the greatest obstacles to achieving strategic objectives, 52% said increased competition from outside the sector (67% in entertainment venues and attractions), while 42% said changing consumer tastes and requirements.

Firms focus on stability over sales growth

Given these volatile market conditions, it's perhaps not surprising that firms are focused on restoring profitability and stability rather than expanding sales right now. Almost half (48%) put increasing dividends and growth through acquisition among their top strategic priorities over the next two years, 46% increasing margins and 44% consolidation and stabilization. That compares to 35% who said organic sales growth.

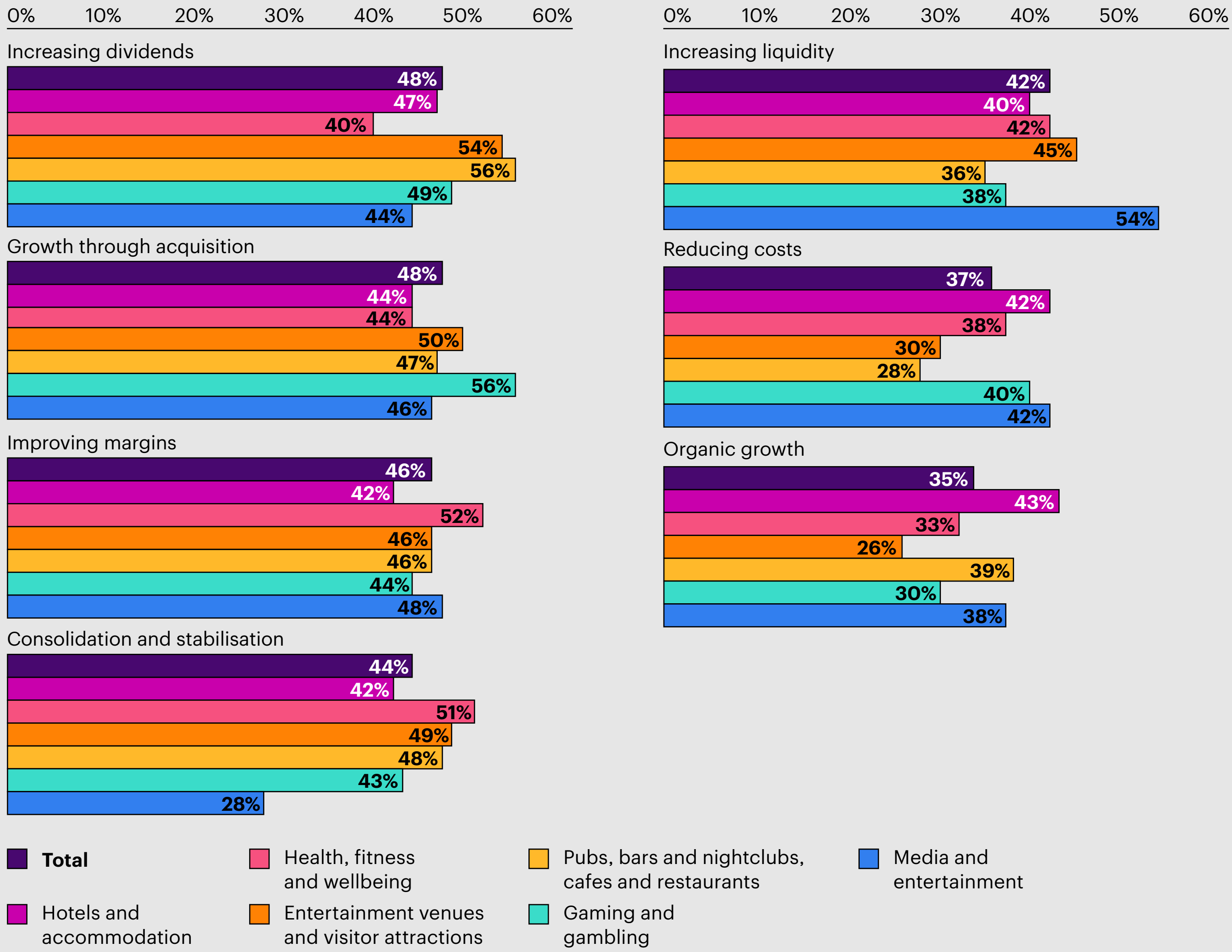
Figure 1: **Extent of risk related losses over last 2 years**
Over the last 2 years, which of the following best describes the extent of your business's risk-related losses?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Single code question

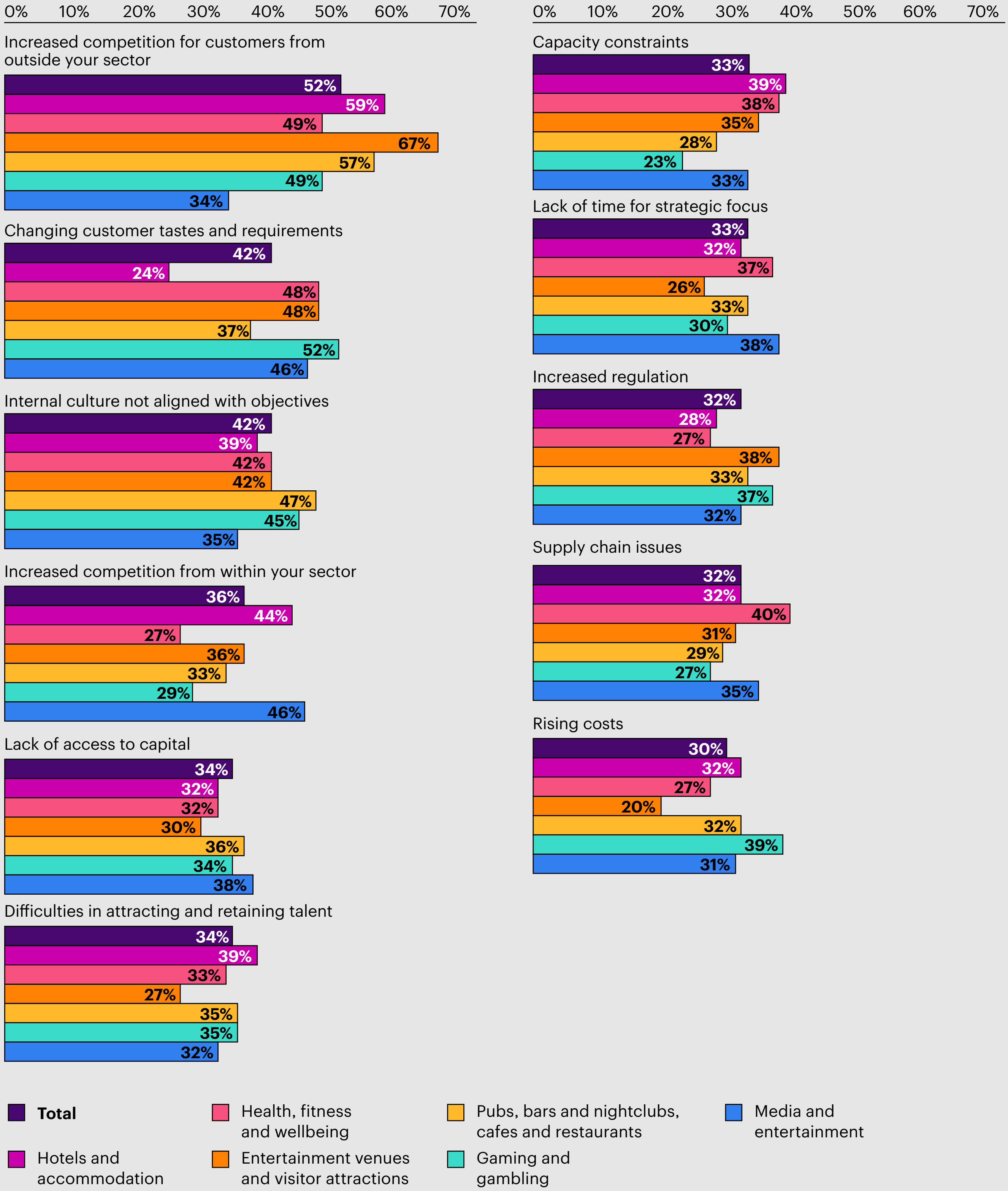
Figure 2: **Top strategic objectives for the next 2 years**
What are your organisation's top strategic objectives for the next 2 years?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Rank 1/2/3

Figure 3: **Greatest obstacles to businesses achieving strategic objectives**
Which of the following represent the greatest obstacles to your organisation achieving its strategic objectives?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)
Rank 1/2/3/4

New technologies and digitalization

Tech is the solution not the problem

Staying in vs going out is the contest that may define the future of leisure and hospitality. How well businesses adapt and innovate, either finding new ways to attract people out of their homes or offering exciting experiences online, could be the difference between success and failure over the next few years.

'Stay in' digital platforms, such as streaming services, home delivery apps, and fitness games and trackers, have gained a major foothold during the pandemic. Now these competitors are looking to entrench their position and increase market share, posing an increasing challenge to traditional 'going out' providers.

On the other side of the divide, media and gaming businesses that already cater to an at home audience have been doing well. But even here, there is pressure to stay relevant at a time of rapid change, when new technologies such as augmented and virtual reality promise to change the way that service and experiences are delivered.

Taking a digital first approach

Our survey suggests that firms across the sector are beginning to embrace digitalization and address changes in consumer preferences and demographics. It seems that despite the disruption and losses suffered during the pandemic, it did provide a needed spur to innovation. A large majority (70%) said the accelerated switch to digital first and digital logistics will be among the greatest long-term impacts of the pandemic.

More than half (52%) said that continuing with adaptations made in response to the pandemic was among their biggest business opportunities over the next two years (64% in entertainment venues and visitor attractions).

Half (50%) said engaging with younger consumers (58% in pubs, bars, restaurants and cafes), 49% consumer desire for experiences (56% in gaming and gambling), 42% digital technologies (52% in media and entertainment), and 40% changing tastes and preferences.

Creating new experiences online

When asked about their greatest digital transformation opportunities in the next three years, 42% said digital rewards, 41% improved data and data access, and 40% artificial intelligence.

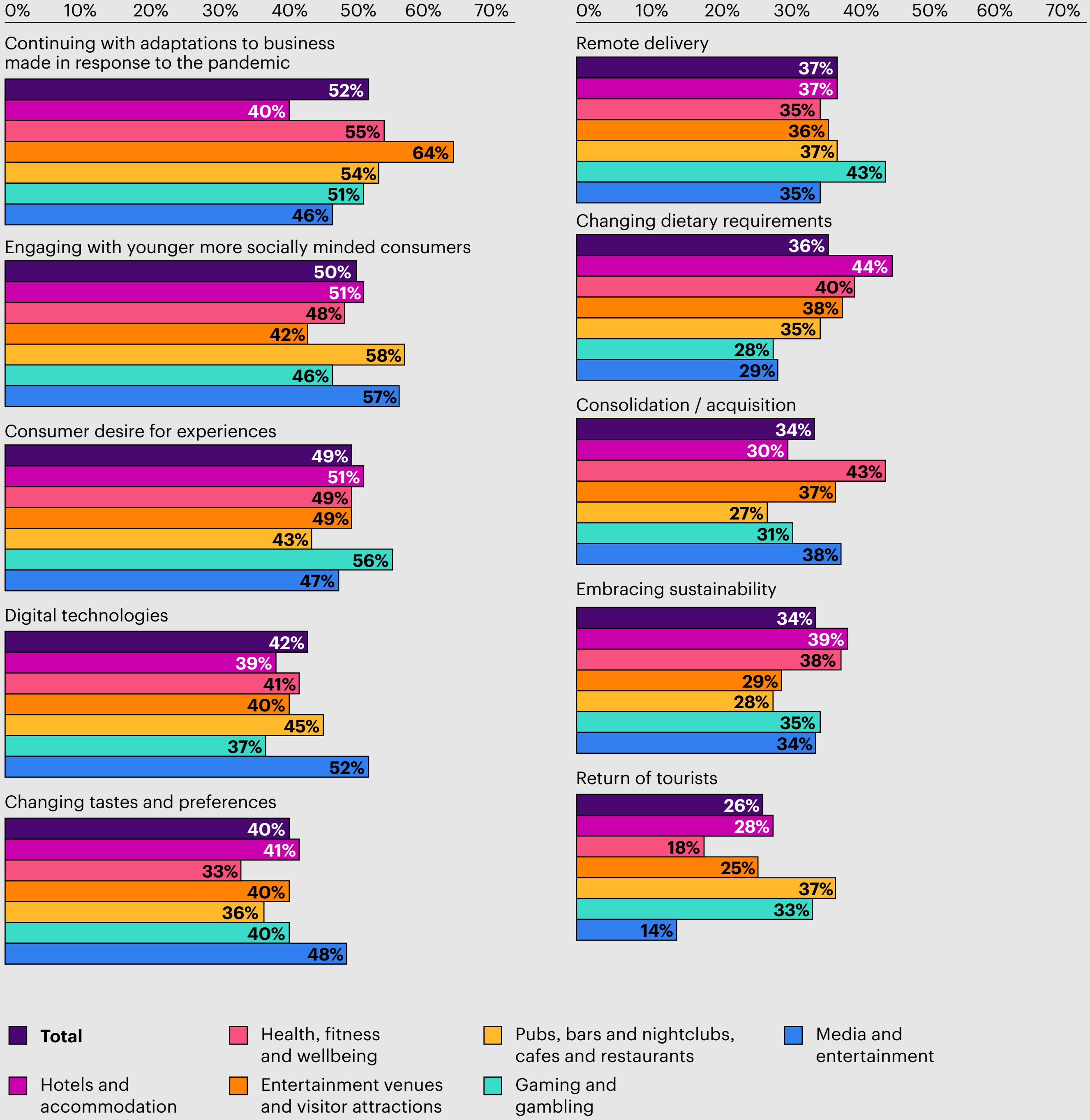
More than a third (35%) said online offerings including augmented reality but there was a wide range between sub-sectors with 50% in bars, cafes, nightclubs and restaurants seeing this as a top opportunity and only 14% in entertainment venues and visitor attractions.

92%

of people in the UK said they intend to scale back on entertainment spend outside of the home as a result of the cost-of-living crisis.[1]

[1] https://www.theaudienceagency.org/evidence/covid-19-cultural-participation-monitor/recent-key-insights

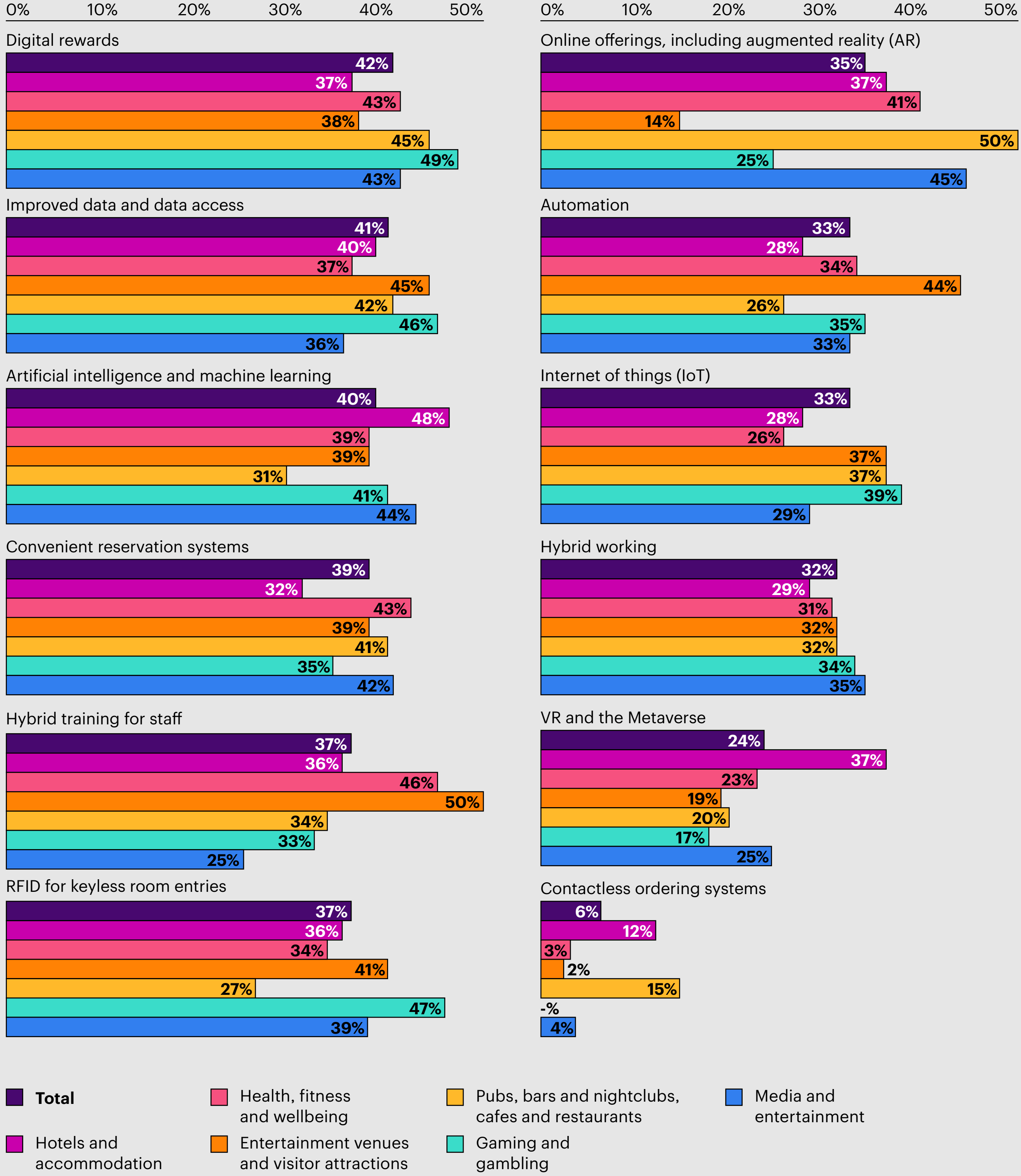
Figure 4: **Greatest opportunities for the leisure and hospitality sector over the next 2 years**
Which of the following do you believe represent the greatest opportunities for the leisure and hospitality sector over the next 2 years?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Rank 1/2/3/4

Figure 5: **Greatest digital transformation opportunities in the next 3 years?**
Thinking about digital transformation, which of the following do you think offer the greatest opportunities to your business in the next three years?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)
Rank 1/2/3/4

WTW insight: Cyber risk

Our survey shows an increasing digital focus in leisure and hospitality. Even businesses that don't offer online services are becoming reliant on technology for their operations, from customer bookings to supply chain management.

This greater dependence brings increased risks, from cyber-attacks and ransom demands to data breaches, loss of confidence in the business and potential reputational damage. An incident that might once have only caused temporary inconvenience may now bring the whole business to a halt.

Countries around the world are expected to add to consumer privacy laws and regulations in 2023, while litigants find new routes for claims.

For example, in California, class action lawyers are targeting websites that use chat bots to communicate with customers, alleging that they violate privacy laws by recording communications with consumers without their knowledge or consent.

To protect themselves against cyber threats and prevent data breaches, businesses should:

- **Implement cyber security controls** such as multi-factor authentication, privileged access management (PAM), encryption, endpoint security and rapid patch systems for critical assets.
- **Train staff in cyber security** and create a culture of openness. Never try to hide a cyber incident. A leading ride sharing company that failed to disclose a breach for a year was fined almost $150 million after the data of over 50 million customers was compromised.
- **Integrate cyber threats into business continuity plans:** make cyber a regular part of incident response and disaster recovery planning. Identify vulnerabilities and fix them.
- **Assess what insurance cover is needed:** even with the best controls, incidents can still happen. Cyber insurance can protect your business from incidents caused by cyber-attack, human error and technical failure.

Risk landscape

Firms face a spectrum of enterprise risks

In a complex, interconnected world, leisure and hospitality firms are concerned about a wide range of risks that affect their ability to do business – and reflect the current upheavals in the sector and the wider economy.

Economy and cost of living

With high inflation set to continue this year, it's not surprising that cost and availability of inputs including raw materials (28%) was named among the top risks to business success over the next three to five years. Social inflation, such as the rising cost of litigation, was a top risk for 25% (37% in health, fitness and wellbeing). The economic climate and reduced disposable income was named by 24%.

Property and business interruption

Leisure and hospitality suffered high levels of business interruption during the pandemic but very little of this was covered under traditional property insurance policies. This may explain why property comes high on the list of risks to business success (28%). Firms may also be concerned about the costs of running properties and climate and weather-related exposures.

Supply chain

Supply chain and infrastructure issues will continue to loom large this year, named by 28% among their top risks to business success. Looking at individual supply chain challenges, 42% said logistics and warehousing shortages are among their biggest concerns. This is especially true in health, fitness and wellbeing (52%), bars and restaurants (48%) and gaming and gambling (48%).

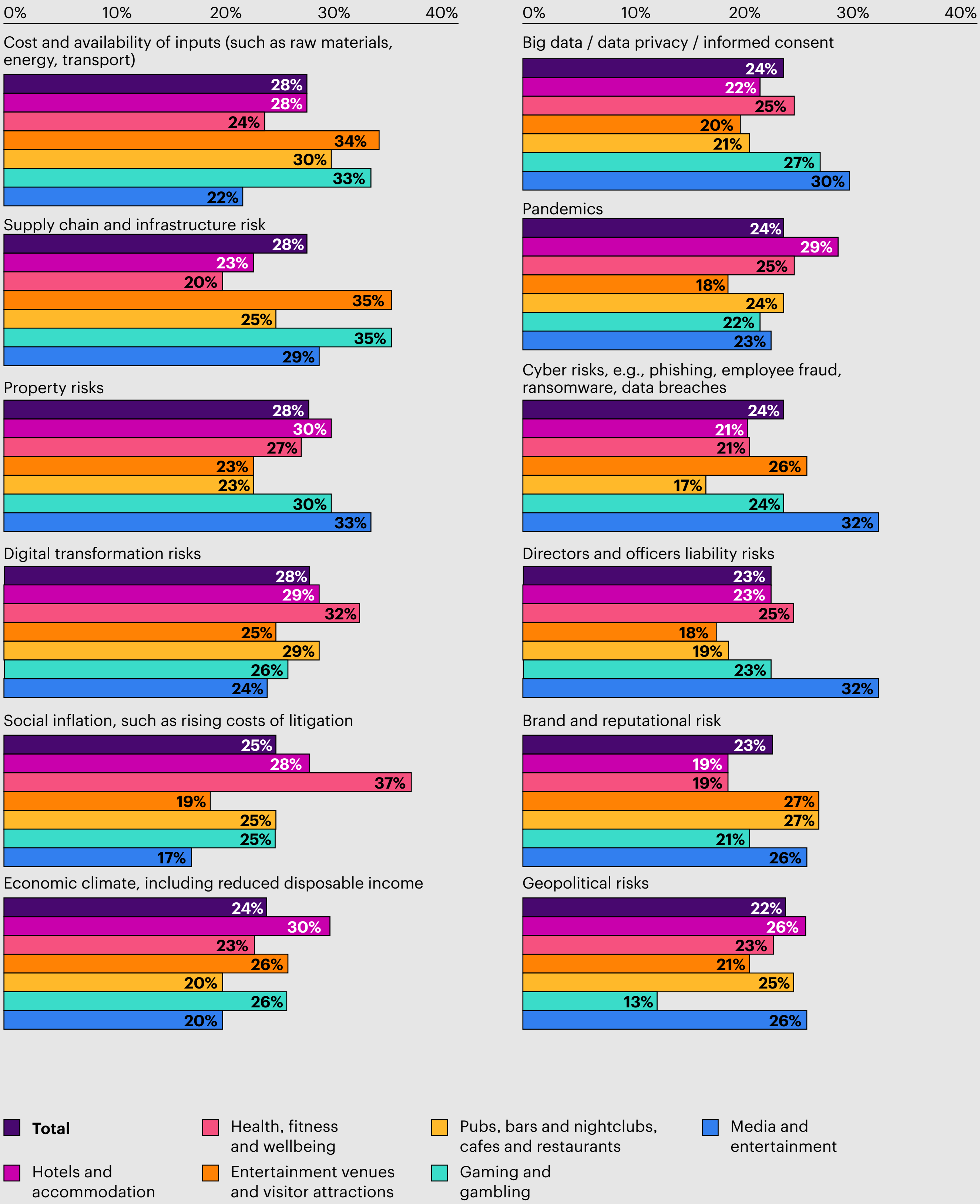
Cyber and data privacy

The sector's increasing reliance on digital technologies and migration of services from bricks and mortar to online also brings with it increased cyber risk, cited by 24% as a risk to business success, rising to 32% in media and entertainment. As they embrace digital transformation, firms will inevitably hold greater volumes of customer data, raising issues around data privacy and consent – a top risk for 24%.

Reputational risks

In a business built on word of mouth and good name, reputation risks are understandably front of mind, named by 23% of respondents among their risks to success. Incidents such as customer abuse by employees or injury or illness at a restaurant or venue, can be picked up and spread on social media. One complaint that gets traction can damage a reputation built up over many years.

Figure 6: **Greatest risk to business' success in the next 3-5 years**
Thinking about the next 3 to 5 years, which of these factors do you believe pose the greatest risk to your organisation's success?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)
Rank 1/2/3/4/5

Figure 6 (cont'd): **Greatest risk to business' success in the next 3-5 years**
Thinking about the next 3 to 5 years, which of these factors do you believe pose the greatest risk to your organisation's success?

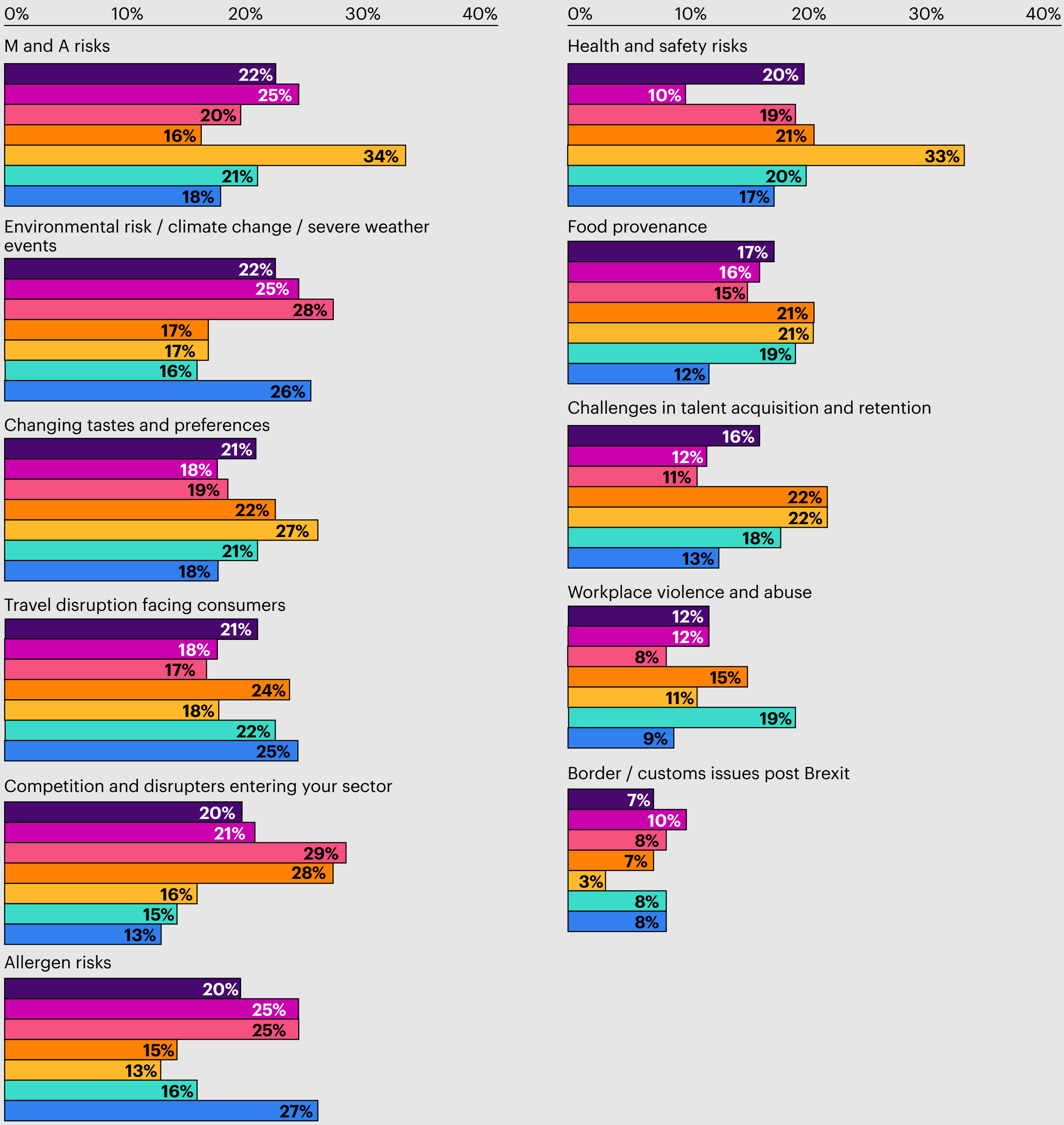
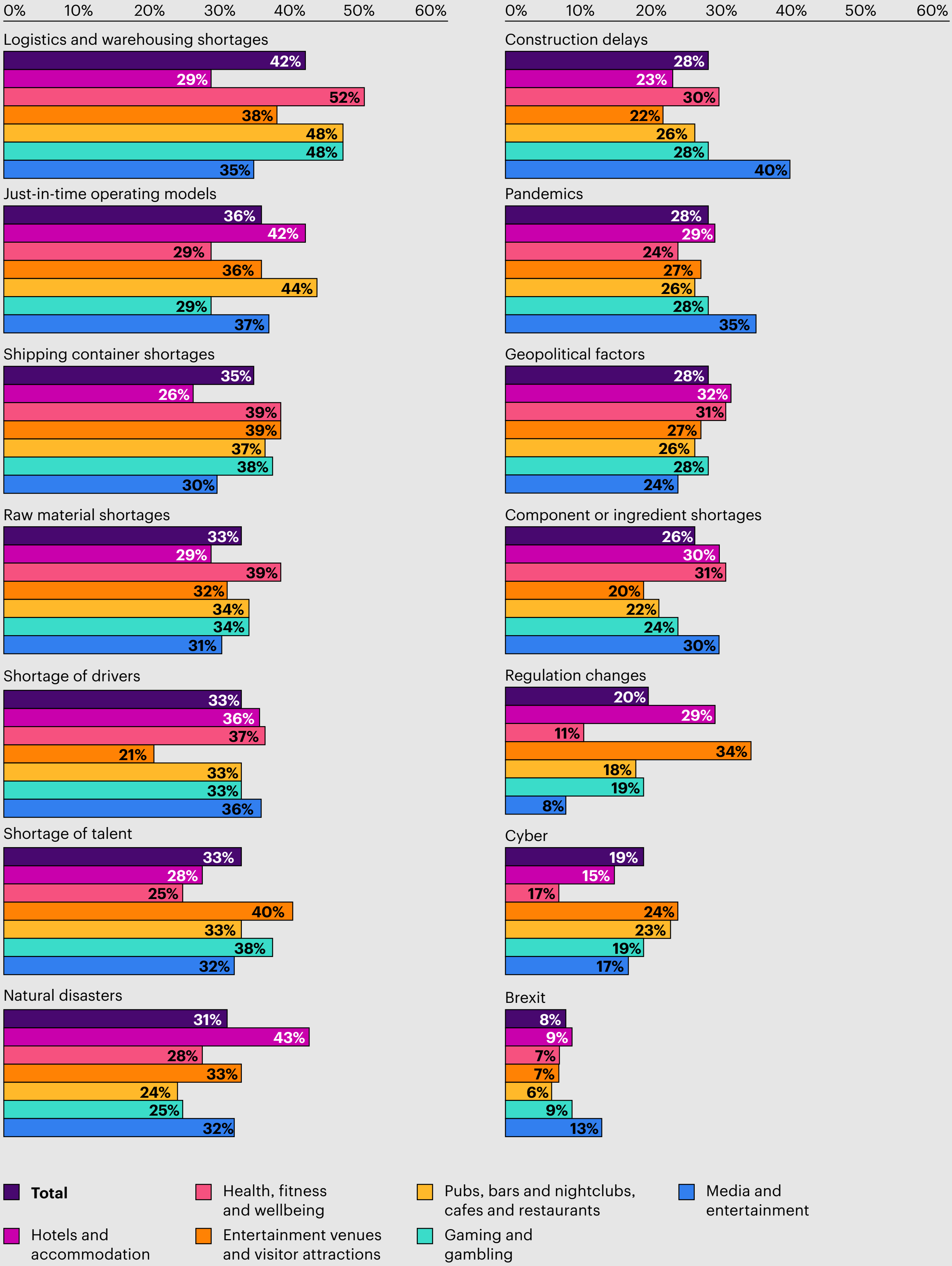


Figure 7: **Greatest supply chain risk for business' in the next 2 years?**
Which of the following supply chain risks do you believe will have the greatest impact on your business in the next 2 years?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)
Rank 1/2/3/4

WTW insight: Property and business interruption

Property emerged as one of the greatest risks to success in our survey, even in sub-sectors such as gaming and gambling which are moving increasingly online. For most traditional leisure and hospitality operators, it's the core of their business.

But protecting buildings and assets from damage, and associated business interruption, is becoming more difficult and costly.

Extreme weather events are becoming more common and unpredictable, increasing risks for hotels and leisure attractions located in high catastrophe risk areas.

Meanwhile, soaring inflation is leading to higher reinstatement costs and insurance rates. Reinsurance rates are likely to see a jump in 2023 and this will have a significant knock-on impact on the cost of property insurance.

As the market hardens, some businesses may find it difficult to get adequate cover or struggle to afford the limits they would like to have. It will be the job of the brokers to communicate with the businesses the different options and solutions available to them.

Businesses should engage earlier with their brokers to prepare renewal submissions that will help them maximize cover and keep control of premiums.

Key to this is updating their schedules of values to reflect the latest inflation numbers and the true cost of rebuilding. If insurers see a well-prepared realistic submission, they're much more likely to be flexible and negotiate terms.

Having up to date values can also help businesses ensure they are adequately funded for any property risks they retain within the company.

Risk analytics can also play an important role in assessing and quantifying risks to identify what limits are needed. This can also help inform decisions on which elements of risk to retain.

WTW insight: Supply chain risk

For many leisure and hospitality businesses, the pandemic was the first time they experienced serious supply chain issues. Typically, businesses in the sector can easily switch providers for most of the items they need. But in a global supply chain crisis that didn't work.

Suddenly it was much harder to find alternative supplies even for basic items, leading to delays and business interruption.

Some businesses operating on a just-in-time model were left without stock and unable to change to bulk ordering as there was no warehouse space available.

Although many of the pandemic shortages have now eased, the Ukraine conflict and increasing extreme weather events highlight continuing global risks. Leisure and hospitality businesses need to think more carefully about what it takes to keep their businesses running and be more proactive in projecting and managing fluctuations in demand.

Being able to document and understand your supply chain is crucial in minimizing interruption. Analytics tools such as WTW's Supply Chain Risk Diagnostic can help businesses map their supply chains and quantify risks at each location and stage of the journey.

This can enable scenario planning and lead to better decision making and business continuity planning.

Although there is no one insurance solution to cover all supply chain risks, some cover is available through extensions to property and business interruption policies.

Marine cargo policies will cover goods while in transit, which is an increasing source of delays and therefore potential cost to leisure and hospitality.

How to protect against terror threats

Terror attacks and active assailants are a continuing risk for most leisure and hospitality businesses, particularly those that welcome large crowds. In some countries, such as the UK, these businesses are facing new regulatory duties to protect the public from these threats.

As part of their crisis management planning, firms should consider measures to make their venues less vulnerable to attack and respond effectively if an incident occurs.

- **Deter:** fences, lights, signs and security personnel will let attackers know your business is not a soft target.
- **Detect:** training your staff to spot suspicious behavior and installing CCTV and alarms can help you prevent an attack before it happens.
- **Delay:** vehicle barriers and rollershutter doors can delay or stop assailants getting into your premises, giving more time to prepare your response.
- **Mitigate:** simple protections such as anti-blast film on windows can reduce the damage from an attack.
- **Respond:** a good incident response plan, including first aid and links to emergency services, will help minimise harm and loss of life. This should be tested in regular drills and exercises. Staff should be trained to make sure they have the right capabilities and know what to do if an attack occurs.

ESG risks

ESG issues are increasingly front and centre

Sustainability is now an essential in leisure and hospitality, not a nice to have. Businesses are facing pressure from governments and regulators to reduce their emissions, while many younger, socially-minded consumers are looking for visible commitment to energy consumption and water usage, ethically sourced food and drink and, increasingly, awareness and action on social issues.

In our survey we found that businesses are taking these issues seriously across all sub-sectors. The vast majority (88%) have a formal process to manage ESG risks that everyone is trained in (in a range from 93% in hotels and accommodation to 73% in entertainment venues). For about a third (34%) the process is measured and evolves over time.

Environmental: natural resources are top concern

Interestingly, when asked which environmental factors posed the greatest risk to their business, 70% named natural resources such as water, raw materials and biodiversity among their top concerns, compared to 50% who said carbon emissions.

Part of the reason for this is that, having already set emission inventories and taken steps to reduce emissions, many organizations are now focusing on the depletion of the natural resources they rely on.

Social: community relations rank highly

Companies are actively integrating their focus on gender and race and diversity issues into their overall ESG priorities and metrics.

Community relations (64%) and labour standards (63%) emerged as the top social risk factors, reflecting the industry's high dependence on local goodwill and staff recruitment and retention to operate successfully.

Gender, race and diversity (57%) also ranked highly, with businesses that welcome the public needing to be mindful of issues such as gender identity and unconscious prejudice.

Governance: risks reflect financial scrutiny

Audit committee structure and board composition was easily the biggest governance factor, named by 59% among their top risks. This may indicate concern about potential legal action or claims if they are found to have breached financial regulations. Shareholder actions emerged as the top concern for directors and officers, named by 45% among their leading risks.

Health and safety: homeworking risks increasing

Hygiene and infection (43%), working with machinery (38%) and slips and trips (38%) top the list of biggest health and safety risks. But newer concerns also featured, including assault by customers (33%) and risks related to homeworking incidents (30%), reflecting the changes in society and the way work is organized.

WTW insight: ESG risks

In common with most public facing sectors, sustainability has moved from a 'nice to have' to a business essential in leisure and hospitality. Businesses that ignore ESG issues run an increasing risk of being isolated by consumers and investors.

Consumer preferences are changing, and people are looking for more environmentally sound options. Customers now expect to see ethically sourced food and drink, evidence of reduced carbon footprint and, increasingly, awareness and action on social issues.

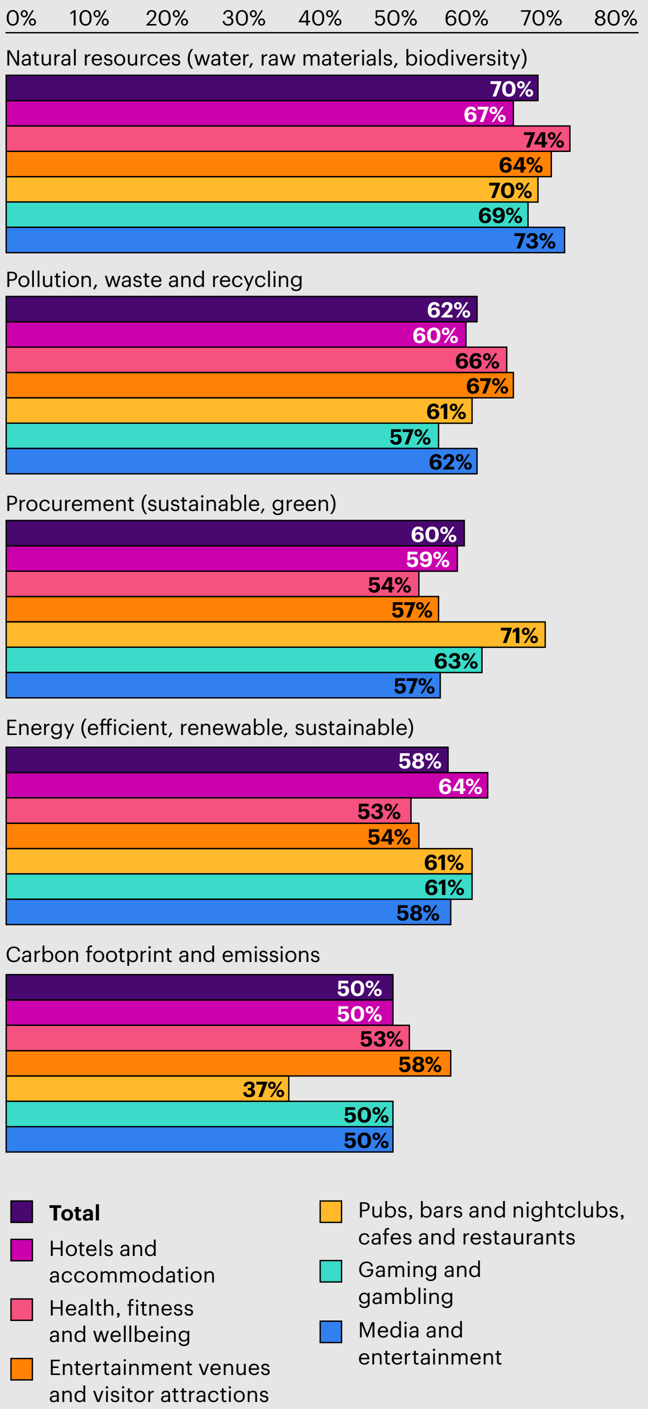
Firms are also facing increasing regulatory requirements. For example, in many countries, businesses are being required to disclose climate-related financial information based on Taskforce for Climate-related Financial Disclosures (TCFD) guidelines. To meet these growing requirements, ESG needs to become a priority at board level and be integrated in business continuity planning.

Tools such as WTW's Climate Diagnostic provide excellent insights on physical climate risk, while our ESG Clarified platform enables our clients to track and report on ESG. Our experts also help companies complete TCFD efforts and identify, measure, and mitigate priority climate and ESG risks.

Though not a highly polluting sector, leisure and hospitality also faces similar risks to any large company with complex operations. For example, untreated or poorly disposed waste can be damaging to both humans and wildlife if it gets into groundwater or rivers. Building work could bring historic pollution to the surface, which can contaminate the soil and cause toxic runoff.

To mitigate these risks, companies should apply a global standard for environmental management across all global operations, ideally with a dedicated team to oversee and enforce policies.

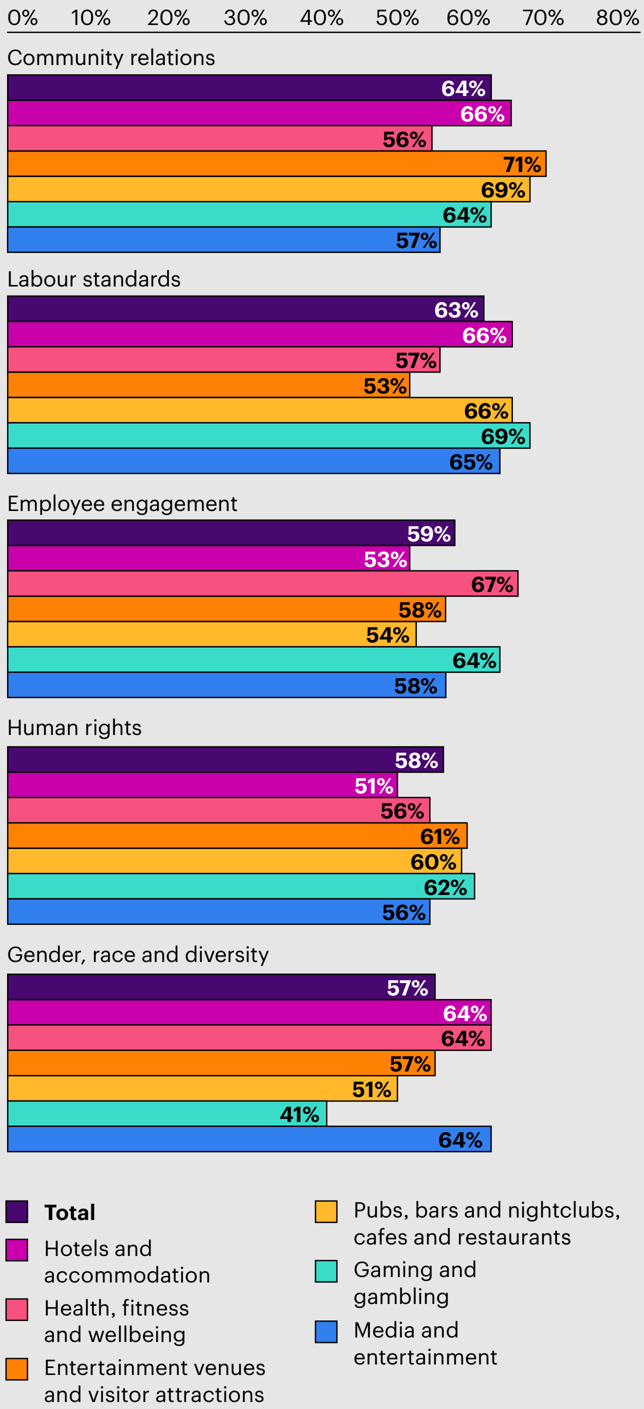
Figure 8: **Greatest ESG risk to business (Environmental factors)**
Which of the following environmental factors pose the greatest risk for your business?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Rank 1/2/3

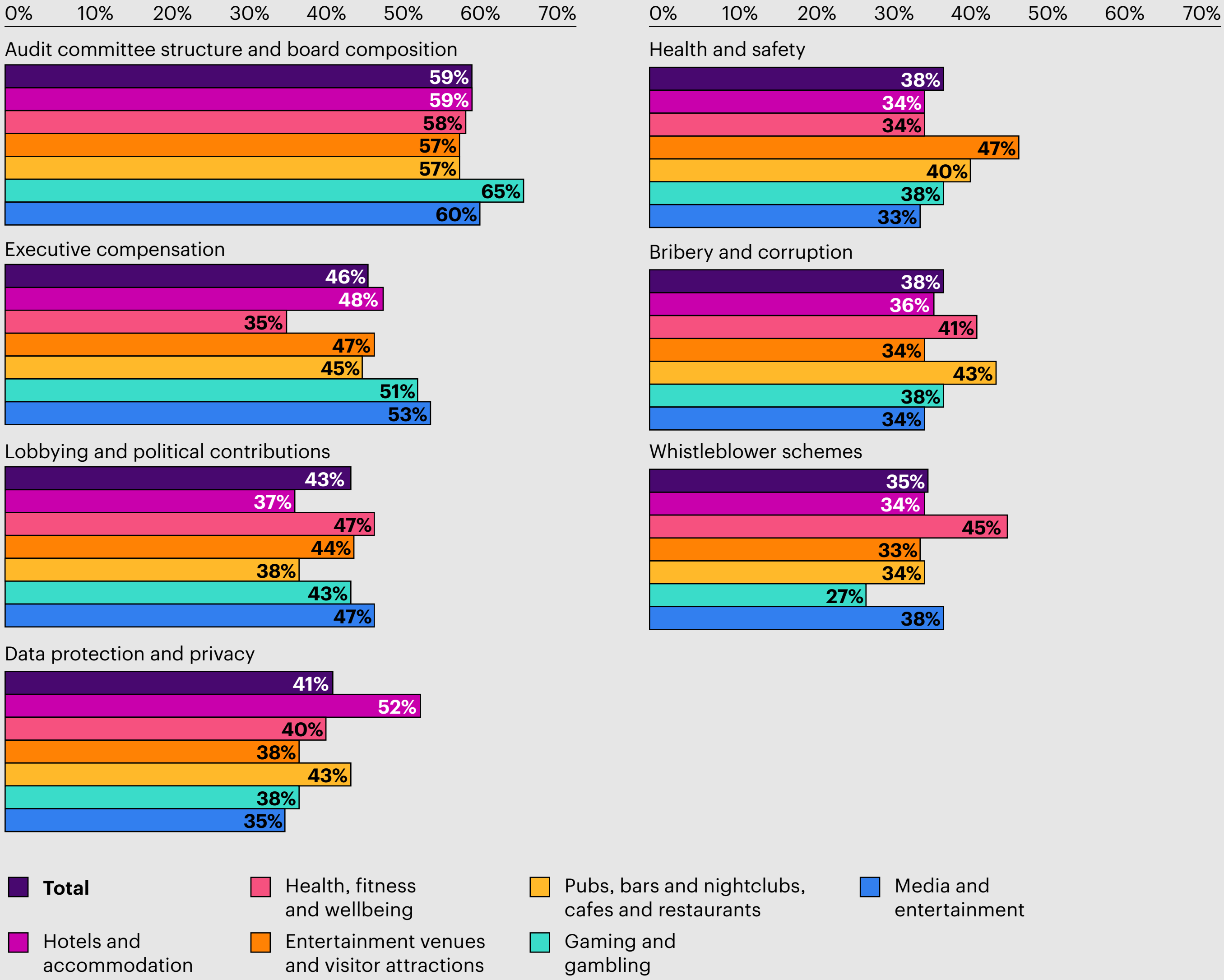
Figure 9: **Greatest ESG risk to business (Social factors)**
Which of the following social factors pose the greatest risk for your business?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Rank 1/2/3

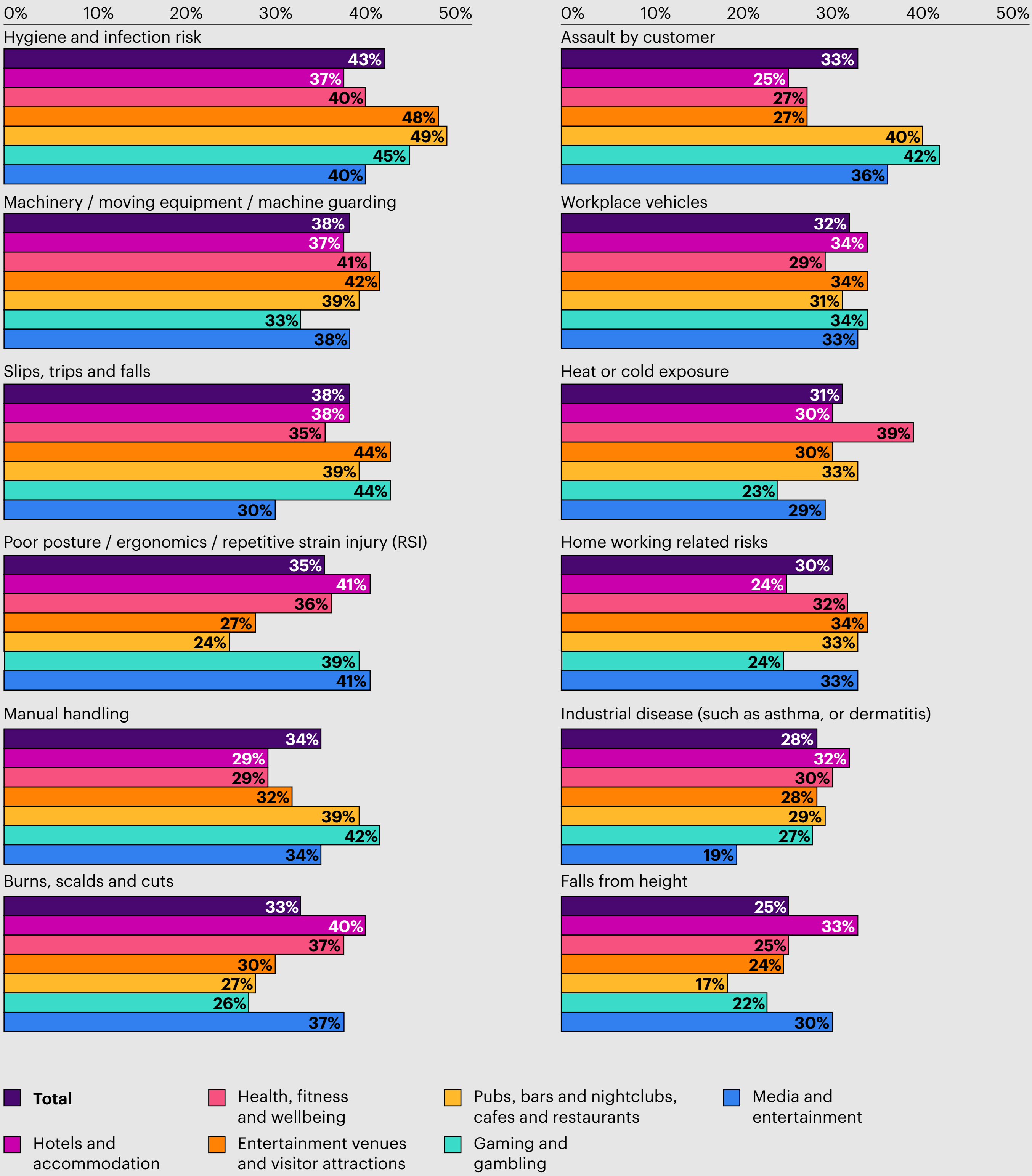
Figure 10: **Greatest ESG risk to business (Governance factors)**
Which of the following governance factors are the greatest priority for your business?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Rank 1/2/3

Figure 11: **Biggest health and safety risks to the workforce**
What are the biggest health and safety risks for your workforce?



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Rank 1/2/3/4

Risk management and resilience

Gaining control over risks is a struggle

Overall we found that businesses have a good approach to managing risk. More than three quarters (76%) said their C-suite is largely aligned with risk management, while 92% said they had a formal process for business continuity planning.

However, as we've discussed, many leisure and hospitality businesses are reeling from the impact of successive global shocks and the pace of change in technology and consumer behavior.

Our results suggest that events may be running ahead of capability to manage the associated risks effectively. For example, only 27% of respondents in our survey said the root causes of their risks were somewhat within their control, while only 1% said they were entirely within their control.

Firms lack the knowledge to address risks

When asked about the greatest challenges to addressing their risks over the next three to five years, almost three-quarters (74%) said they lacked the necessary data or knowledge, 69% said they didn't have access to the right insurance and risk transfer solutions, and 56% lacked the right risk management tools and insight.

Most businesses rely on general insurance to cover their main risks. As the risk landscape evolves, with new risks emerging and some cover being restricted, this may leave significant exposures and gaps in cover.

Climate-related risks are not well covered

For example, despite the increasing frequency and severity of climate-related extreme weather events, a majority of businesses (52%) said their insurance covered damage to property only and not the cost of business interruption if they are forced to close.

Entertainment venues and visitor attractions were a notable exception with 70% saying they had business interruption cover.

Almost a third (32%) said they have no insurance for the impact of extreme weather in their supply chain, while 55% said they had some cover but weren't sure if it was sufficient.

Climate risks are more than just physical risks. Companies are increasingly focusing on climate-related transition risks, such as emerging regulation, changes in consumer preferences, reputational impacts, business-specific impacts of carbon reduction and the shift to renewables, and more.

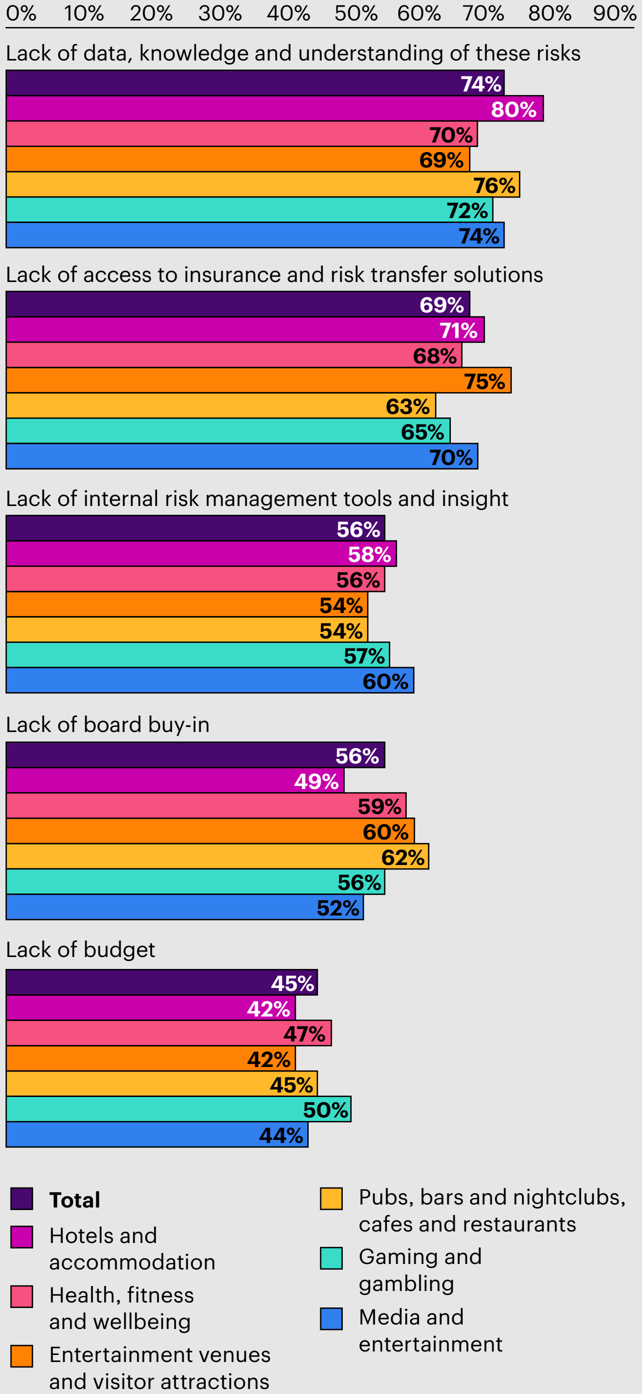
Reputation risks are hard to manage

While 46% think having insurance for reputation risks is necessary and 22% say it's mission critical, only 21% have specific insurance that could cover the costs of crisis management and recovery.

A majority of businesses (59%) now measure and monitor their reputation (67% in health, fitness and wellbeing). Almost half (49%) think reputation is critical to their ability to make money, rising to 66% in media and entertainment.

But more than half (51%) think reputation risks are harder the manage than other risks (61% in hotels and accommodation). Many firms (47%) think social media has increased their reputational risks (56% in hotels and accommodation).

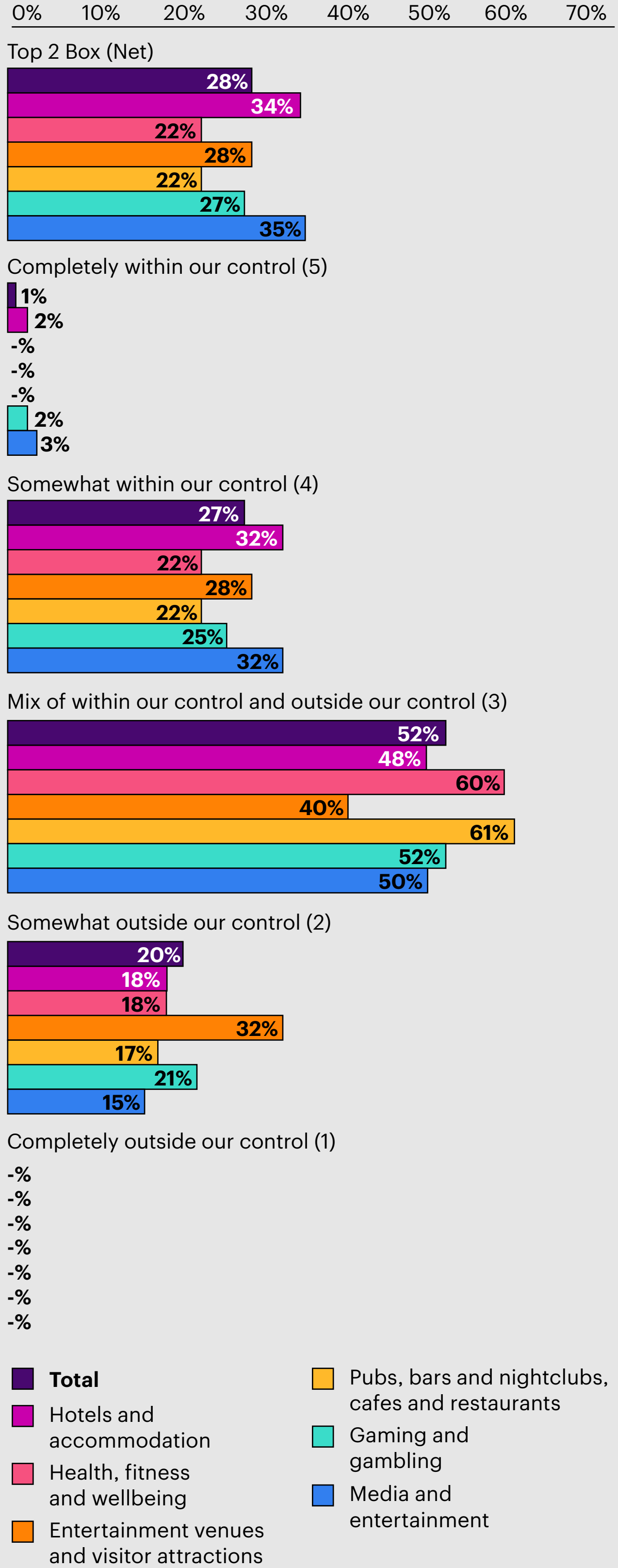
Figure 12: **Greatest challenges to addressing businesses' risk over the next 3-5 years**
Which of the following will pose the greatest challenge to addressing your risks over the next 3 to 5 years?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Rank 1/2/3

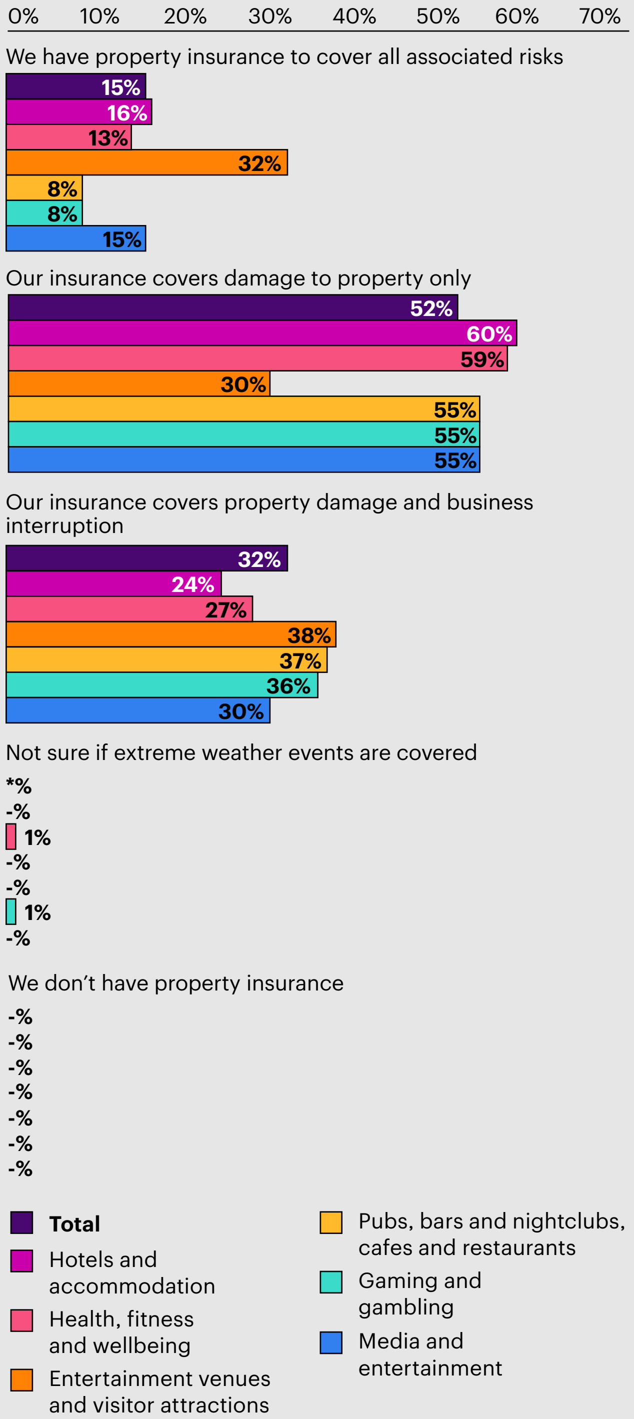
Figure 13: **Businesses' control of root causes of risk**
How would you describe the level of control your business has over the root causes of the risks it faces?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Single Code Question

Figure 14: **Insurance for impact of extreme weather events to property and business interruptions**
What best describes your property and business interruption insurance for the impact of extreme weather events?



Base: All respondents (600) Hotels and accommodation (100) Health, fitness and wellbeing (100) Entertainment venues and visitor attractions (100) Pubs, bars and nightclubs (100) Gaming and gambling (100) Media and entertainment (100)

Single Code Question

WTW insight: General and employers' liability

Leisure and hospitality businesses are facing increasing gaps in their casualty cover because of blanket exclusions imposed by insurers. For example, many policies contain a blanket communicable diseases exclusion, which left operators seriously exposed to claims during the pandemic.

However, these exclusions can sometimes be avoided if you have the right information and data. Insurers might agree to drop the communicable diseases exclusion if you can demonstrate strong protocols for disease prevention and document how and when you clean rooms and facilities, including the cleaning materials used.

Likewise, carriers may be persuaded to reduce exclusions around customer abuse caused by employees if you can produce evidence of vetting and police checks when employing customer-facing staff.

As mentioned elsewhere in this report, leisure and hospitality customers are increasingly looking for experiences and Instagram-able moments.

This can lead operators to offer more extreme activities, which can increase the risk of injury and liability claims. Where these activities are run by concessionaires, businesses need to get contractual indemnities from them accepting liability for any injury and damage.

Theft or misuse of customer data by employees is another increasing source of liability claims. Firms should have robust firewalls in place to ensure that staff cannot access information such as credit card numbers.

WTW insight: Reputation risk

Understanding the risks to your reputation can be the first step to minimizing them. Based on our experience of cases and claims in leisure and hospitality, we've identified the factors most likely to lead to negative publicity. These include:

- Harm to people on the premises
- Allegations of unsafe or unhygienic conditions
- Discriminatory attacks or abuse on customers
- Active assailant
- Employee abuse or poor working conditions

If an incident happens in any of these areas, it can be magnified in the glare of social media – negative experiences can go viral and even hit the mainstream news. Knowing how to overcome the fallout is key to maintaining a good reputation.

Customers will scrutinize how you respond to a crisis as much as the crisis itself. They want to see that you're handling the situation, taking action to avoid future incidents and facing up to your responsibilities.

It's a good idea to keep your ear to the ground and monitor how your business is perceived, whether that's in the press, on social media or among your peers. WTW has partnered with Polecat to develop a risk monitoring tool powered by artificial intelligence (AI) linked to crisis management response that can help you get ahead of any brewing story before it hits the headlines.

Our Reputational Risk Readiness Review can help you clarify your reputational risks, identify the potential impacts, map any gaps in your mitigation measures, and prioritize the matters of greatest concern.

You can also benchmark your business's resilience to reputational risks against the strategies used in 500 of the world's leading companies on our Reputational Risk Benchmarking portal.

We also offer Reputational Crisis Insurance specifically designed to help companies understand and manage the risk of reputational damage.

Risk alerts for 2023 and beyond

Data privacy and consent

With digitalization, automation and use of new technologies such as virtual reality, businesses are collecting and storing increasing amounts of customer data. This not only increases the risk from cyber attack, it also raises fresh data privacy concerns.

Firms can stray into privacy breaches if they don't have clear and adequate consent for how they use and manipulate this data.

Virtual reality health and ethics

Virtual spaces such as the metaverse create a new reality which also brings new risks. As these spaces become more like alternative worlds, who is liable for any harm that might occur in them?

For example, long-term use of virtual reality could create as yet unknown physical and mental health impacts. It's also unclear who will regulate transactions or disputes that occur in these spaces, in which jurisdiction.

Reputation and cancel culture

In a heated social media environment, companies as well as celebrities can be targets for cancellation. Activists are particularly quick to pick up on any perceived hypocrisy – saying one thing in public while private actions or past behaviors demonstrate the opposite.

Firms should go through their history and make sure there is nothing that conflicts with current positions on issues such as diversity and sustainability.

Compliance and codes of conduct

Regulation is increasing in areas such as anti-terror, food safety, gambling and anti-money laundering. Firms need to keep up to speed on latest legislation and have clear procedures and codes of conduct in these areas if they want to stay on the right side of the law.

Conclusion: finding a way through the permacrisis

The leisure and hospitality sector has taken almost everything that could be thrown at it in the last few years. Even if many business haven't come up smiling, most are finding a way to survive and are busy laying the groundwork for future success.

They're turning adaptations made in response to the pandemic into opportunities. Learning to use digitalization to their advantage, streamlining processes, creating a better customer experience and finding the right balance between bricks and mortar and online.

As the sector evolves, so does the risk landscape firms need to navigate. Doing more in the digital and data space means increasing cyber risks. External threats from global instability to climate change may put supply chains and business models under further strain. Workplace transformation could increase the risk of employment-related claims.

To build resilience against these risks, it's a good idea to reassess the critical risk issues in your business, where you need to focus, how you can manage the key risks you face, and where you might need more protection.

WTW offers a range of insurance and consultancy solutions that can support you through this process, helping you quantify, model, mitigate and transfer your risk, while protecting your reputation.

Survey sample and methodology

Our survey was carried out by our partner Coleman Parkes Research in September and October 2022, using a mixture of phone interviews and web-based survey forms. We received 600 responses from senior decision makers within leisure and hospitality businesses based in Europe, North America, Asia-Pacific and Latin America.

Study detail

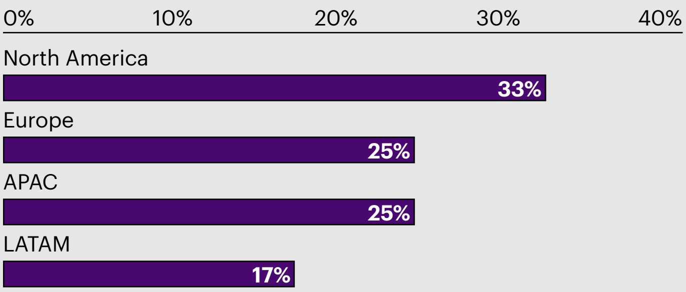
Methodology
Phone to web

Sample size
600 Globally:
- North America (200)
- Europe (150)
- APAC (150)
- LATAM (100)

Audience profile
All respondents are global senior executives responsible for risk strategy in companies with revenues of US$300 million + (except LATAM Entertainment sector with some US$100-299 million)

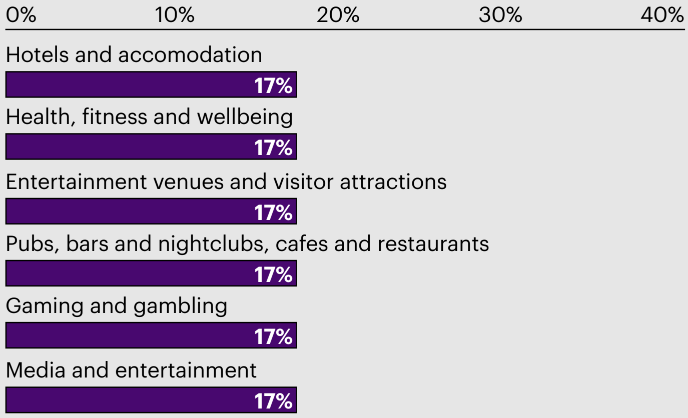
Fieldwork dates
September to October 2022

Geography

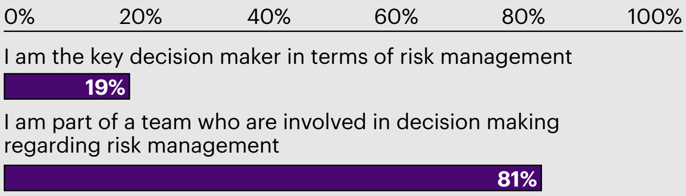


Audience profile

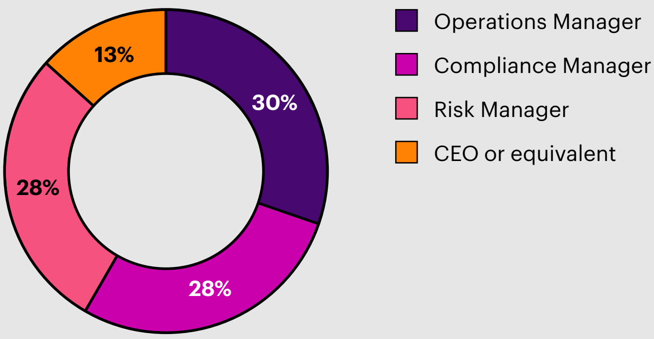
Industry



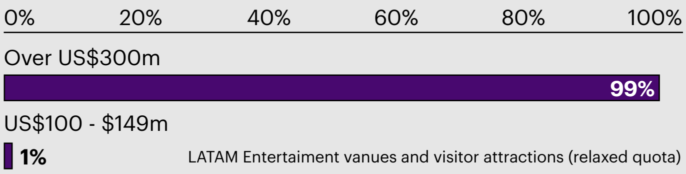
Decision-making



Role



Company revenue



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