Risk Management: Alternative to Insurance

by Richard Baker

In today's world of consumer advocacy, multi-million dollar lawsuits and governmental restrictions, the need for adequate insurance coverage is clear. Golf course operations are particularly vulnerable because of the large numbers of non-employees that use the facilities. Because of this exposure to risk, and the high cost of insuring against *all* losses, the concept of *Risk Management* can be very important to a golf facility.

Risk management may be defined as the identification, analysis and evaluation of risk and the selection of the best method of treating it. Very few golf course operators take the time to identify all the risks facing their operations. Many owners, operators or managers treat risk by simply buying an insurance policy. As a result, many operations buy more insurance than they really need. They should be aware *buying insurance is not the only method of treating risk.*

The operator needs a systematic approach to evaluate and protect his property. Each golf course operation should be evaluated from the standpoint of risk and the management of these risks.

Total risk avoidance can be economically impractical, just as too high a risk retention can be economically and psychologically costly.

Management of the golf facility must concern itself with the prevention and control of loss. They must constantly reevaluate the financial capability of their facility to assume risk. Finally, they must select the best media for funding risk.

The first step in risk management is the development of an inventory of all possible losses. Management should be familiar with all assets, tangible and intangible, the sources of income, and have an awareness of the potential liabilities which can be imposed by law.

Once an inventory of exposures is completed, management must analyze with respect to the financial risk presented by each exposure. He must ask himself the following questions:

1. How frequently will the loss occur?
2. How severe will the loss be?
3. What are the total loss possibilities from a single occurrence?

For example, an explosion of a gasoline container in a maintenance area might do more than damage the structure. It could affect the maintenance of the golf course if equipment was destroyed; it could damage surrounding structures; it could injure or kill employees; or it might damage property of others or injure or kill third parties.

Once exposures have been identified and their financial risks measured, management can evaluate each risk in light of his ability to absorb it. There will be some risks whose loss potentials are too small to affect the financial stability of the operation. These can be safely ignored. If other certain losses can be predicted, they should be budgeted for, since other means of funding may be more costly. (For example, pilferage in the pro shop and bar, or loss of small tools in the maintenance area.)

Finally, there are risks too large, or occurring too often, to be ignored or treated as an operating expense. These are the risks which must be dealt with in one of the following ways:

1. Risk Elimination
2. Risk Reduction
3. Risk Retention
4. Risk Transfer

Elimination. This is the best way of handling any risk. If a course can completely eliminate a risk, then it does not have to worry about insuring against it. For example, the deep fat fryer in the kitchen is a major source of fire in this area. By eliminating deep fried foods from the menu, it is possible to eliminate the risk of fire from this source.

Reduction. Managers often find risk elimination is not possible. Their next consideration is reduction of loss potential. Proper housekeeping and the use of protective devices (such as sprinkler and extinguisher systems, firewall and fire doors, etc.) are often used to reduce loss. In the area of liability, techniques such as proper supervision, frequent inspection, proper training and good maintenance of equipment are used.

Retention. Many courses could safely retain more risk than they do, but the idea of buying insurance policies for all loss exposures is so popular many managers do not consider alternatives. As a result, unnecessary insurance is purchased and many premium dollars are wasted in first dollar coverage when deductible coverage or retention of risk would be less expensive. Management must consider the financial condition of his operation, cash flow position, availability of short and long term financing, and plans for capital improvements in order to make recommendations for risk retention.

Risk Transfer. For risks that remain on the inventory, the manager has little choice but to transfer them to someone else. This does not necessarily mean buying insurance. The first attempts at risk transfer usually involve non-insurance transfer, often in the form of hold-harmless agreements. It may be possible to force the supplier, customer or contractor to assume liability. The party assuming the liability may actually be in a weaker position than the one transferring, but may be forced to accept the agreement because of their relative position. For example, the golf car rental agreement that transfers risk from the operator to the customer.

The inventory should be complete, which will result in a clear understanding of the nature and value of the assets. The assets do not have to be owned to be included in the inventory. If rented or used facilities produce income or contribute to the well-being of the course in any way, they should be included. Later evaluation of risk may determine that some of the assets are too small to worry about, or reveal a low probability of loss. However, all assets should be included in the original inventory. It takes patience and persistence to develop an asset inventory. It is surprising how many operations do not have any record of their total assets.

The next area of concern should be *Liability Exposure* information. Liability may be divided into two broad areas: liabilities to the general public; and liabilities to employees.

Liability to employees is usually defined in the workmen's compensation statutes. There may be additional considerations outlined in union contracts for hospitalization, accident and sickness or disability.

Liability to the public may be divided into three different categories: Premisis; operations: and vehicle.

1. Premisis liability refers to the physical assets of the course: land, buildings, machinery, fixtures and equipment.

Some considerations management must examine are the construction, physical condition, and use to which the assets are put. If assets are rented, they must know what obligations have been assumed in the lease or rental agreement. They must be aware of the means of ingress and egress to the property, and any problems or impediments connected with them. They should know if fire or smoke detection equipment is available, what kinds of alarm or supervisory service is connected to the equipment, and what kinds of automatic extinguishing equipment exist. This kind of information is important because the owner of the property could be liable for bodily injury resulting from negligently failing to install proper safeguards.

2. Operations are of obvious importance, because what goes on or even away from the golf course can create liability exposures.
3. Vehicle liability is an exposure that must be considered by most golf course operations.

Vehicular exposure may be further divided into two categories: owned or leased vehicles and non-owned vehicles. A full list of all owned or leased vehicles is necessary, along with a description of their use and garage locations. Maintenance programs should be audited to determine the regularity and quality of inspections and service.

While gathering the information on vehicles, it is important not to overlook the drivers. Recently a young man was hired as a maintenance worker on a California course. The superintendent spent an hour discussing equipment checks, operations, procedures and general safety rules. However, he failed to check the man for a valid driver's license. It turned out that he did not have one. He was involved in a traffic accident, but fortunately for the golf course owner, was driving his own vehicle and was not on company business.

Risk Evaluation and Analysis. The next step in protecting the property. Once the data on risk exposure is compiled, it must be analyzed to determine the extent of its financial implications. Exposures must be evaluated to see which are significant and which are of no consequence. This process of evaluation is often a subjective process rather than an objective one. Certain people, by nature, are more willing to take risks than others. The golf course owner should attempt to analyze his own unconscious attitude toward risk. If he is generally a high risk taker, he should temper his evaluation of company risks. If he finds himself to be a low risk taker, he could be more bold in his evaluations. The important thing is to be aware of these subconscious factors which may have a bearing on decision making, and try to eliminate them as much as possible.

With these factors in mind, the manager proceeds with the analysis of his risks. This process turns the exposure information into an inventory of risks. Financial loss can arise from destruction of buildings, machinery, equipment, or inventory; from theft or embezzlement; from a lawsuit; from injuries to an employee; or from any one of a large number of other causes. All such possibilities should be included in the original inventory of exposures whether they seem significant or not, and whether they are insurable or not.

The objective at this point is to completely list everything "that could happen." The manager is now ready to evaluate which risks are significant and which can be safely ignored.

Risk evaluation, like exposure identification, is a continuing process. Risk cannot be evaluated once and filed away. Risk must be constantly appraised and reappraised in light of changes in the economy and the financial position of the operation. The manager should attempt to keep abreast of changing conditions and the changing relativity of risk.

Risk Control. One of the most important aspects of risk management. It begins after an inventory of risks has been identified, analyzed and evaluated. The most efficient method of treating these risks is to eliminate them completely. Obviously this is not always practical. Therefore, whatever risks remain must be *reduced.*

Risk managers for large organizations often say one of their main objectives is to avoid using insurance. They want to control risks so closely insurance will be needed only for a catastrophic situation.

Two categories of risk accounting for almost all non-business risks to which a course operation is exposed are property risks and liability risks. A list of property risks would include: damage to real and personal property, (including fire, wind, collapse, water and smoke damage, and vandalism); loss of money or securities (which would include robbery, burglary and employee fidelity); and any business interruption due to any of the preceding.

Liability risks may be divided into losses which affect employees, such as workmen's compensation and non-occupational disabilities, and losses affecting the general public.

For fixed property, risk control

Risk CONTINUED

begins with the basic construction of the structures. If the buildings are in existence, little can be done to alter their basic construction. However, the fire insurance rate schedule, which may be obtained from a local rating bureau, may indicate charges for certain deficiencies and unsafe conditions which could possibly be corrected.

The best method of risk control begins in the planning phase. The manager should consider risk controls when planning any new construction, additions or alterations. For example, a site chosen for a new clubhouse or maintenance building may be inappropriate because of natural risks such as earthquake, landslide or flooding possibilities.

There are several other methods of controlling risk:

1. Safety precautions: explosion proof light fixtures or unbreakable glass in high vandalism areas.
2. Fire protection systems: automatic extinguishers over stoves and grease ducts. Sprinkler systems in larger buildings.
3. External security in the form of fences or night watchmen to discourage vandalism and burglary.
4. Good housekeeping procedures: can prevent fires and personal injuries.
5. Maintenance: preventive maintenance should be scheduled and followed, and repairs should be made promptly. The use of equipment in damaged condition exposes employees to unnecessary risks. Building and other structural damages exposes employees and the public to unnecessary risks.

Personal property risks such as the theft of pro-shop merchandise, money, fixtures or food and beverage items may be controlled in the following ways:

1. Burglar alarm systems properly installed, maintained and serviced can greatly reduce the risk of burglary. There are numerous types of systems available. A competent alarm company should survey each location and recommend the proper system.

2. One of the best methods of controlling the loss of money due to robbery is to control the amount of cash in the registers and on the premisis. The manager should insist that no more than several hundred dollars is kept in any one location at any one time. As receipts accumulate during the day, money should be deposited in the manager's safe. Nightly deposits to the local bank are a necessity, and it may be necessary to make a midday deposit on busy weekends.

3. Good inventory control procedures are an excellent method of controlling losses in the pro shop, restaurant and bar. Weekly inventories of major food items and liquor, along with daily liquor breakage counts will help control losses. A semi-monthly inventory of sensitive golf shop items will help reduce the loss of merchandise.

4. In many golf course operations there is a danger of embezzlement. One of the fundamental controls is the separation of duties. Employees who handle money should not be responsible for the records which keep track of it. Bank reconciliations should be made by persons other than those who write checks or make deposits. If possible, different people should handle merchandise and the records that keep track of the merchandise.

That takes care of the property risks. The next area of concern is *liability risks.* As mentioned earlier, liability risks are divided into two categories: injuries to employees and injuries to the public.

The major work safety standards are defined in the 1970 Federal Occupational Safety and Health Act. Rather than discuss the OSHA requirements, suffice it to say all jobs on the golf course should be examined from the risk point of view.

A final step toward controlling risks is that of employee attitude. All employees, from pro shop and restaurant to golf course maintenance personnel should be schooled in proper customer contact behavior, proper safety procedures and proper operation of all equipment.

Now that the risks connected with the inventory of potential loss exposures has been evaluated and attempts have been made to reduce risk through the techniques of avoidance, elimination and control, it becomes necessary to consider financing. The first consideration is called *Risk Retention.* Retention may have been used during the evaluation stage when some risks were removed from the original inventory because they were considered inconsequential. The operator must now concern himself with the conscious retention or larger known risks.

Many course operators have always purchased insurance for particular risk situations and are therefore reluctant to think in any other terms. Attempts are being made to change this traditional type of thinking. For one thing, many operations are practicing risk retention through numerous exclusions in existing policies. Many practice a form of "unconscious" risk retention in areas where exposures to losses have not been carefully studied. For example, under a "named peril" insurance policy, there may be no coverage for flood, earthquake, collapse or other incidents which could cause a loss. Even so-called "all risk" property insurance policies will usually exclude war, mysterious disappearance, inventory shortage and other perils.

There are several different reasons for retaining risk. The first and foremost is financial. It is a fact it costs money to operate the insurance companies. Files must be set up, claims adjusted, overhead paid and a profit generated. Therefore, it is clear that for losses the golf course can absorb, they may be able to operate the system for themselves less expensively than the insurance company. For example, all maintenance type losses should be borne by the golf course operation. The major function of the insurance company should be protection from catastrophe. It is a fact that for certain types of losses it is simply less expensive to retain them than it is to transfer them to a company.

There *are* alternatives to buying insurance. Purchasing an insurance policy should be the last resort when dealing with the many risks associated with operating a golf facility.□