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*Here are the ways a country club can
insure its real and personal property against
the various direct damage perils.*

by John F. Gleason Jr.

Country club insurance consultant

A country club may insure the value of its real and personal property against basic and broad perils under the standard fire insurance policy.

In this and the ensuing article, the various direct damage perils will be explained, along with various methods to improve a country club's protection.

The standard fire insurance policy insures against loss due to fire or lightning, and the building and contents form normally attached to the fire policy covers country club property for loss due to the extended coverage perils of windstorm, hail, explosion, riot, civil commotion, direct damage by aircraft or vehicles not owned or operated by the country club, and smoke damage when accidentally emitted from a chimney-connected cooking or heating unit.

It must be pointed out that the extended coverage endorsement excludes damage under various perils, but that the excluded occurrences are the subject of other insurance coverages to be explained later in this series.

Thus, it is hoped that, when the series is completed, readers will have the full view of how various insurance contracts, when dovetailed together, enable a country club to have a full, integrated portfolio of protection.

The explosion peril does not cover "sonic boom" or explosion of steam boilers or other pressure vessels. These units are the subject of the boiler and machinery policy. The latter policy also will cover damage caused by the shorting out

of electrical apparatus such as switchboards.

Sonic boom is covered under the special extended coverage endorsement, an "all risk" form that will be explained next month.

The extended coverage endorsement denies coverage for damage from flood, surface water, overflow of bodies of water or wind spray, water that backs up through foundations or doors or windows or the roof, or damage caused by an automatic sprinkler system or other piping, except when activated to quell hostile fire.

Consequently, the extended coverage endorsement appears limited to basic perils. This is true. By next month, readers will visualize how by superimposing other endorsements onto the basic form, the coverage is made virtually "all risk."

The first endorsement that is superimposed to broaden the protection is the vandalism and malicious mischief endorsement. The additional premium required to afford these coverages is very small, but every country club realizes that destructive acts by vandals can be quite serious.

The standard fire insurance policy states that it will indemnify a country club for the actual cash value of the property insured. Country clubs can, however, insure both their real and personal property for the replacement cost value by attaching the replacement cost endorsement to the policy and adjusting the values insured accordingly.

"Actual cash value" is defined as

Continued on page 97

the cost to repair or replace damaged property, but the settlement is subject to a fair allowance for depreciation. "Replacement cost" is the current price to repair or replace damaged property with materials of like kind, quality and size without any depreciation.

Because depreciation can be a serious loss adjustment factor, it is recommended that a country club insure its clubhouse and other valuable structures for their replacement cost value. Low-valued buildings may be insured for their actual cash value.

Underwriters are reluctant to provide replacement cost coverage on dilapidated storm shelters, maintenance equipment sheds and battered outbuildings.

Basically, the purpose of insurance is to transfer the possibility of serious financial loss to an insurance company. Many country clubs overlook this concept when they insist on insuring low-valued structures of no real consequence.

The premium required to cover old frame storm shelters in the open, for example, is comparatively high. The premiums would be better spent to equip the storm shelters with lightning protection rods, thus safeguarding the welfare of the membership.

Country clubs are accorded a substantial discount in the premiums charged when property is insured for 80, 90, or 100 per cent of its value. However, no country club should attempt to insure its buildings or contents under this discount method unless it can authenticate the values by the support of a certified appraisal that has been kept up-to-date by a professional appraisal company.

Arriving at values by applying the formulas employed to construct a financial statement for tax purposes will not constitute the certified values that must be presented to insurance companies in settling a loss under a fire insurance policy.

When losses occur, a certified professional appraisal is invaluable to the settlement. The standard fire insurance policy states that the

insured must be able to itemize and support in detail the actual cash or replacement cost value of all property, including the destroyed damaged and undamaged property.

If a club agrees to carry 90 per cent of the insurable values, for example, but only carried 50 per cent of the value, it has violated its part of the agreement and if a loss occurs the insurance company will be entitled to reduce its

loss payment by the proportionate deficit.

Thus, it is important for a country club always to carry adequate insurance to its current values and to have accurate professional records of the property insured. Insurance companies are fair-minded, but they cannot be expected to buy ashes, rubble and debris.

In determining the value of a building, the cost of the foundation is normally excluded. If a country

Continued on page 111



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club wishes to include the foundation value, the policy must so specify and the appraisal usually will contain the value of the foundation.

Unless a country club would relocate its clubhouse after a serious loss, the need to insure the foundation is rather remote.

Architects' and supervisors' fees may also be insured but an amount must be specified in the fire insurance policies. Usually, six to 10 per cent of the building value will cover these fees.

Recently, in most jurisdictions, it has been possible to insure the clubhouse furniture, fixtures and equipment for their replacement cost value. This is recommended because the depreciation of most clubhouse furnishings is rapid.

The members of a midwestern country club were shocked recently when they learned how much depreciation was actually taken in

settling the contents loss of their clubhouse after a fire. Because the resale value of the furniture was far below the purchase price, the loss settlement was far below that which the members would have received had they insured the contents for its current replacement cost.

The most frequently overlooked structure on the country club premises is the swimming pool. It is reasoned that because the pool cannot burn, it need not be insured. While this is true, lightning has been known to damage swimming pools. The steel steps have been dislodged from the foundation, causing cracked foundations.

Windstorm damage to pools has occurred and vandals have been known to have done extensive damage to the filtering equipment.

When a country club learns the rate for which its swimming pool may be fully insured, rarely will it be omitted from the structures that are insured.

Here is an example, from my own experience, of poor judgment

in insuring country club real property: A battered caddiemaster's stand valued at \$300 and three weather-beaten storm shelters worth \$250 each were insured at one country club while a \$50,000 swimming pool, a \$13,500 golf car storage building and a \$8,500 walking bridge spanning a fairway valley were omitted.

Disgruntled caddies have blown up bridges. The fire hazard in a golf car storage building is serious, and the pool loss could be severe.

Furthermore, the premiums to insure the swimming pool, car storage building and the bridge were little more than the high rates to cover the low-valued outbuildings, which, if lost, would cause the country club no real financial hardship.

Many country clubs operate on a seasonal basis, being closed during the winter with the exception of the clubhouse. The standard fire insurance policy and the endorsements that can be attached have certain limitations under various perils with respect to protection when an insured structure is va-

Continued on next page

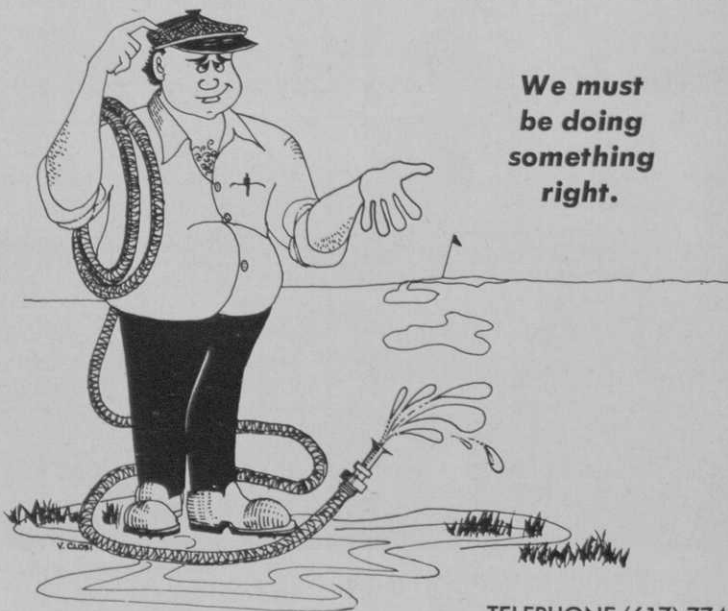
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Insurance

Continued from preceding page

cant or unoccupied. Therefore, it is important that country clubs which partially close have the seasonal vacancy and unoccupancy permit attached to all fire insurance policies.

There is no charge for the endorsement, and its attachment avoids any argument concerning unoccupancy of certain buildings beyond the time specified in the policy.

Frequently, the question arises whether golf course greens and key trees may be insured. The cost to insure trees is very high. Consequently, many clubs equip valuable trees with lightning rods and take their chances against windstorm losses.

However, it is interesting to note that golf course greens can be reasonably insured for a limited amount per green against the perils of explosion, riot, civil commotion, vandalism and malicious mischief.

In most jurisdictions, the average 18-hole country club can insure each putting green, plus its practice greens, for \$1,000 each, subject to \$100 deductible, for a little more than \$100 a year.

For country clubs that have been plagued with many destructive vandalism losses, consideration of this additional protection is worthwhile.

The coverage on greens can be extended in certain areas to include the perils of aircraft and motor vehicle damage for an additional premium charge.

This article has explained the basic insurable perils, contained some ideas to broaden the policies, outlined the importance of having a certified appraisal to support the values of the real and personal property that has been insured, and has pointed out the common error made by many clubs in insuring insignificant structures while overlooking important ones.

In my next article, other important aspects of the standard fire insurance policy will be brought into focus, including the possibility

of an uninsured loss because of the nonconformity of the clubhouse to comply with the building code regulations for a public assembly occupancy building.

Many older country clubs that have been fully insured have suffered serious losses because of their failure to insure against this contingency. □

Spring cleaning

Continued from page 102

items can go through periodic cleaning and repair at leisure, rather than being subjected to crash programs. And, the appearance of each area is unimpaired. This "rotation" policy is followed by many leading hotels in their public areas with very satisfactory results.

Often a room will lend itself to the use of area rugs, or accent rugs, that can be turned around from time to time to equalize wear in heavily travelled spots.

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