Take a closer look at your insurance coverage. Does it cover loss of earnings in the event your clubhouse is damaged or destroyed?

INSURE your country club's intangibles

By John F. Gleason, Jr.

While most country clubs are cognizant of the need to provide adequate physical damage insurance to protect real and personal property, few carefully evaluate the need to purchase coverage which protects the country club's earning power should this also be interrupted by a fire, windstorm, vandalism or any other insurable peril.

There are various forms of loss of earnings protection and they may be procured rather inexpensively. Inexpensive considering all the financial obligations which will continue, even if the clubhouse is burned down and normal operation does not take place for a year or more.

Although the cost for most time element coverage is lower than the premium to insure buildings and contents, it is, perhaps, the most resisted form of insurance that can be presented to a board of directors for consideration.

Country clubs will insure old maintenance buildings, battered storm shelters, depreciated furniture and near-worthless golf course equipment—perhaps because they are tangibles—but when it comes to protecting earnings, the insurance proposal is regarded as unnecessary or too expensive.

In this article three forms of time-element coverage will be explained: 1) business interruption insurance; 2) earnings insurance; 3) extra expense insurance.

First, let's consider just what the policy indemnifies the country club for should a fire or other insurable perils render the clubhouse inoperative.

Modern country club operations are big business and require enough earnings to meet many obligations. Over and above monthly dues, an active country club derives from \$250,000 to \$750,000 (40 per cent or more in the main) from the operation of its dining facilities and cocktail lounges. In other words, the income derived from the social activities can make or break a country club. If this income disappears, it may mean the country club's demise.

Dues alone cannot meet the payroll, taxes and other continuing obligations, while a clubhouse is being restored from rubble and debris. By the time an assessment is enacted to meet these obligations, valuable personnel may have gone elsewhere to find employment.

Reliable lockerroom attendants, amiable waiters, a good chef and a trustworthy office staff are hard to find. Screening and training new employees is precarious, frequently expensive and creates membership unrest. Furthermore, the unforeseen assessment may create dissension within the membership from which it may take years to recover.

All these inevitables can be avoided. If a country club prudently considers the benefits of time-element insurance, it can survive interruption and keep both the membership and the employees tranquil until normal clubhouse operations are resumed.

The purpose of time-element coverage is to see that the country club does not suffer a reduction in its earnings because of physical damage to or destruction of the buildings in which these earnings are derived. The policy is designed to see that as far as it is possible, the club's profit and loss statement will not suffer because of the interruption of normal operations by an insured peril.

Many factors must be considered before deciding which form of time-élement coverage will best protect a particular country club and its unique circumstances.

Each form, however, has obligations and limitations. A competent insurance man can explain the policy provisions to the board of directors.

Some country clubs will decide that business interruption insur-

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ance covering the entire payroll and all other obligations is the form of protection which should be carried. Others may feel that the more limited forms would be adequate for their needs. Earnings insurance or extra expense insurance may be procured.

BUSINESS INTERRUPTION

This form will cover the entire loss of net gross earnings. Coverage is usually limited to the clubhouse or other activities buildings and the perils insured against usually include fire, windstorm, hail, riot, civil disorder, vandalism, and malicious mischief. Clubhouses under automatic sprinkler protection usually include protection from losses attributed to leakage.

Buildings insured for broader perils such as earthquake, collapse or flood, will also want their business interruption policy extended to include these perils.

Under the net gross earnings form, the entire payroll can be indemnified or the payroll coverage can be limited to a specific number of days or the payroll can be excluded entirely, except for certain vital employees such as the manager, chef, head waiter and the office staff.

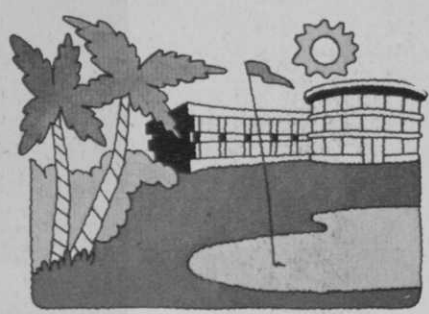
Business interruption insurance provides an emergency fund of tax-free dollars to meet continuing obligations and, moreover, enables the club to protect its surplus and credit rating. By including the entire payroll, the club also safeguards its unemployment compensation rate.

Because the policy penalizes an insured who fails to carry insurance to the full amount of its earnings potential, care must be taken to ascertain the actual amount of coverage required. Therefore, a calculator is provided whereby each club can accurately determine the amount of business interruption insurance it must carry.

To arrive at the net gross earnings requirement, briefly, the cost of the merchandise sold is deducted from the total annual net sales. However, in the case of a country club, certain income may be excluded. For example, most clubs deduct monthly dues as fixed income which would continue despite a disaster to the clubhouse, but the locker rental charges should not be deducted because this income might be lost if the lockerrooms were destroyed.

The total income from the dining rooms, lounges, grills and other activities rooms should be included because losing the use of these areas would mean losing earnings.

If a country club regularly schedules—and has already contracted for—outside parties involving a package price which includes golf fees, car rentals, lunch and dinner, then the entire package income could be included. Otherwise, green fees would be excluded because this income probably would



continue despite the inability to use the clubhouse facilities.

A complete understanding of which income items are to be included in the business interruption coverage and which will not be indemnified must exist in advance between the country club and the insurance company.

Earnings may be protected for an entire year or for as little as six months. Many clubs purchase coverage for a shorter period of interruption than would actually be the case. They forget that more than six months or a year may be required to rebuild a clubhouse completely gutted by fire.

If it is determined that it would take 18 months or two years to rebuild the present clubhouse if completely destroyed, then the actual amount of coverage might be 150 to 200 per cent of the anticipated annual gross earnings.

Recovery of earnings and payment of continuing obligations are limited to the time it normally would take to repair or replace the damaged or destroyed portion of an insured structure, using similar materials.

Because many clubhouses in operation today no longer structurally conform with the present building code regulations for a public assembly building, another serious problem must be considered. Modern building codes require that a frame clubhouse, for example, which is 50 per cent destroyed be completely torn down and restored with materials which conform to the present building code.

Reconstruction then would take longer than the time to restore the frame structure which was only 50 per cent destroyed. This would be a reconstruction period beyond the length of time spelled out in the basic policy form for which the country club would be entitled to reimbursement for lost earnings.

Special additional endorsements may be attached to the business interruption policy to cover the earnings lost while the undamaged portion of the clubhouse was being demolished and the entire structure was being rebuilt with approved materials.

Every country club, therefore, should learn whether its clubhouse structurally conforms with the current building code for a public assembly building.

EARNINGS INSURANCE

This is a simplified form of business interruption protection with certain limitations.

Earnings insurance does not require a country club to carry a specific amount of coverage. No loss-adjustment penalty is imposed should the country club fail to carry coverage equal to, for example, its annual or semi-annual gross earnings.

Instead, the country club may elect any amount of coverage desired, but the policy form limits recovery during any 30-day period to one-third, one-fourth or one-sixth of the total amount of insurance purchased.

A country club with seasonal

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income may find this form appropriate. If, for example, this club realizes $50,000 in each of its four peak months and then its income drops considerably during the remainder of the year, it might elect to purchase $200,000 earnings insurance with the recovery limited to one-fourth of the policy during each month of interruption.

Although no more than $50,000 can be recovered during any month of interruption, should the clubhouse be destroyed during the off-season when less than $50,000 could be claimed, the excess insurance over the actual loss sustained is subsequently recoverable if interruption extends beyond four months.

While earning insurance might provide "quick income protection" to a country club suffering nearly total loss of its earnings during a short season, it is not recommended for the country club that is active year-round, or for a club which could not quickly rebuild its clubhouse.

If year-round earnings are at stake, the premium to carry business interruption protection is favorable and the recovery of loss for the longer period of reconstruction more advantageous.

Earnings insurance would be a dangerous venture for a country club whose clubhouse did not conform to the building code for a public assembly building.

EXTRA EXPENSE INSURANCE

This form does not protect country club earnings. It is designed, instead, to reimburse the club for additional expenses required to set up temporary facilities in which to operate as normally as possible had no loss occurred. For example, it would cover the cost of temporary facilities if the actual clubhouse were destroyed.

The extra expense policy form also limits the amount which could be recovered during each 30-day period. The popular form limits recovery to 40 per cent the first month, 40 per cent the second month and 20 per cent the

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third month of restoration.

If, for example, a country club felt that it needed $10,000 in the first month to cover the cost of erecting temporary facilities, it would have to purchase $25,000 coverage under the 40 per cent, 40 per cent, 20 per cent plan to obtain $10,000 in the first month after the clubhouse was destroyed.

If the remaining $15,000 is not exhausted during the second and third months, then such unexhausted insurance can be applied to any expenses required to continue normal operations during the remainder of the period of restoration of the clubhouse.

Extra expense insurance will not reimburse a club for lost earnings. It only pays the abnormal expenses which occur in the attempt to operate as if the clubhouse had not been damaged or destroyed.

While extra expense insurance may not be the answer for an active membership which loses its clubhouse, it may be the answer to a golf professional who loses his golf shop. The policy would pay the cost of erecting a temporary shop and the expediting costs to quickly obtain new equipment.

If the building in which the golf cars are stored and recharged were destroyed and all the golf cars lost, it would serve to quickly expedite replacements.

However, because of the tremendous revenue derived from golf car rentals, unless a country club can be assured of immediate delivery of a new fleet, the rental revenue should be protected by either business interruption or earnings insurance.

Actually, there is such a wide variety of time-element protection available to country clubs that they could possibly tailor-make the coverage to meet the specific needs of their operations.

Judicious selection of the proper coverage will guarantee each country club indemnity of its earning power which might be lost as the result of damage to or destruction of its clubhouse or other important structures. □