

## RUNAWAY INSURANCE PREMIUMS:

# IS YOUR CLUBHOUSE AT FAULT?

### THIRD OF A SERIES

Properly modified fire insurance on the clubhouse or buildings presents special, serious problems. Yet, it is necessary—nationally, one out of four clubs has a fire

by JOHN F. GLEASON JR.

The first two articles of this insurance series explored the various policies that would provide broad protection on personal properties needed to operate a country club. In this article, we will examine aspects of coverage on the real property of a club—its buildings.

Although the building coverages purchased may not be as inclusive as the inland marine all risk coverage, which may be provided on the equipment, there are serious aspects that must be reviewed if a country club is to feel secure about the insurance covering its buildings.

Many country club officials are unrealistic about the problems related to the purchasing of fire insurance on a highly-valued clubhouse. They complain that the premiums are outrageous. Very few officials examine the reasons why fire underwriters do not want to provide protection on clubhouses or other club buildings.

Country clubs are one of the worst fire risks that underwriters are asked to consider. The national fire loss record of country clubs is tragic. Each year, nearly one out of every four clubs suffers a fire loss—many are very costly. In 1970 there were 10,188 clubs in the United States. That year 2,900 of them had fires. The aggregate total property damage was \$13,700,000. Although 1971 figures have not been compiled, but indications show no improvement in the record.

If a country club wants to purchase adequate fire insurance at a reasonable price, the club must look realistically at its own circumstances and demonstrate its willingness to correct the existing fire insurance at a reasonable premium.

Progressive country clubs spend money to increase activity and revenue, but are reluctant to invest in items that would help reduce the cost of insurance. For example, many country clubs have spent

thousands of dollars to upgrade their fairway irrigation systems, but very few are willing to install automatic sprinkler systems in their clubhouses. They contend that this expenditure will not produce more revenue.

What they do not consider is that a new irrigation system takes 10 years to pay for itself in labor-cost savings. An automatic sprinkler system will pay for itself in premium reductions on the average clubhouse in about four years. The house committee wants to spend more money to refurbish the cocktail lounge, because this may bring in more revenue to the club, but it downs the insurance committee when it states that the fire insurance needed to cover the additional furnishings may be hard to find.

The house committee fails to realize that the clubhouse may have a frame construction or be located in a town that has limited fire protection. The fire underwriters review these facts, which the committee ignores. Here is how one fire underwriter describes the situation at many country clubs:

"Frequently, they [clubs] are situated in towns of inadequate fire defense, devoid of public hydrants or sufficient water supply. Venerable but vulnerable in their rambling, unprotected construction, they often contain substandard, overtaxed kitchen equipment,

substandard furnace and boiler safeguards, antiquated wiring and no fire retardant devices. They are not rodded and covered with unapproved roofing materials. Their stairways are not equipped with fire doors to restrict the spread of flames. They contain false ceilings, concealed spaces, ornate decorations, festooned drapes, which are not flame-proofed, fescued walls or wood panelings with flammable varnishes and overstuffed furniture.

"In many clubs the housekeeping is poor. Smoking and cooking hazards are pronounced during the busy golfing months, while unoccupancy increases other dangers during inactive seasons. Blustery golf course winds find rolling fairways of little restriction in converting small rubbish fires into total clubhouse destruction as firemen skid over icy private roads to fight fires with frozen dead-end water mains."

Until country clubs are willing to place fire protection higher on their priority lists, the foregoing attitudes by fire underwriters will exist, and the problem of purchasing fire insurance on a highly-valued clubhouse will remain.

#### AMOUNT OF FIRE INSURANCE

When a club takes the time to ascertain what may be done to improve its hazardous circumstances and takes the proper steps to overcome these conditions, then the purchase of adequate fire insurance protection will no longer be a problem and the premium savings will more than reward the country club.

After a country club makes itself attractive to the fire underwriters, the next consideration is how much fire insurance should be purchased on each building and its contents. Many country clubs have no authoritative yardstick to determine the amount of insurance that should be carried on each building or the contents within each building.

Some clubs ask a member in the construction business to set values on the buildings and ask the bookkeeper or club accountant to set values on the contents. At best these are "guesstimates." There is no guarantee that these valuations are correct for insurance purposes, or in the event of a serious fire, that the amount of insurance based upon these methods will provide adequate recovery to replace the destroyed property.

I am always troubled when I find that a club does not have a detailed certified appraisal to establish the value of its buildings and contents. An appraisal company's valuation of property is known as its insurable value. It is set for insurance purposes and differs from other kinds of property evaluations required for tax, accounting or management purposes.

When an appraisal firm determines building values, certain portions of a building excluded under a fire policy are deducted. Moreover, the building construction cost uptrend is reflected in its figures. This is a most important consideration and is frequently overlooked by unqualified laymen when setting values, particularly when replacement cost coverage on a clubhouse is desired.

Architects' fees are also excluded under a standard fire policy. Many clubs want coverage on these fees. Appraisals reflect these fees, which may then be insured by modifying the policy forms to include the additional expense.

In setting values on contents, appraisal firms take into consideration the age, condition and utility value of each item. Proper depreciation is applied in setting the insurable value. If replacement cost coverage on contents is desired, a certified appraisal will also reflect the present replacement value of these items. When completed, the country club will have a complete inventory record of all its

furniture and equipment; the depreciated and replacement value will be listed separately on each item of personal property. This is a valuable record not only for the purchasing of insurance or settling a loss, but also for control records.

If a serious loss occurs, the appraisal firm will help the country club determine the property that has been destroyed, that adequate insurance to value was carried and the correct amount of the claim to be presented to the insurance companies for payment.

Reliable insurance companies want to be fair in their settlements, but they should not be expected to pay just because a clubhouse basement is filled with ashes. Every fire insurance policy contains a clause that states the insured, not the company, must clearly establish the value of its insured property, the value of the property that has been destroyed, and present this information to the adjusters for payment.

When a country club suffers a serious loss and is unable to reconstruct this information, it is not unfair to state that the club will not realize the full settlement that it would have obtained had it obtained a certified appraisal to assist in complying with the loss requirements of the fire insurance policies.

It is tragic that many clubs resist the cost to have their real and personal property appraised by a qualified appraisal company and annually keep their inventory and property values updated by this appraisal firm. These clubs fail to realize that the amount, which would otherwise have been recorded with the assistance of an appraisal company, will far exceed the cost of the appraisal service.

#### OTHER BUILDING INSURANCE

The perils, which a country club should insure its buildings and contents against, is a difficult problem to resolve. Certainly, fire and

lightning, the extended coverage perils, which include windstorm and riot, and because of the increased destruction of clubhouse and golf course property by vandals, the vandalism and malicious mischief form.

Thereafter broader perils will have to be considered in the light of various circumstances, such as club finances, territorial location and underwriters' willingness to extend the fire policies to include broader perils.

A country club under the sprinkler system protection will want sprinkler leakage coverage on the clubhouse and its contents. Those subject to earthquake will want coverage against this peril. Flood insurance is a difficult protection to purchase, but coverage is provided in certain areas by an agency of the Government.

Because of the high-risk potential of country club property, it is not uncommon to find 10 to 20 different policies, each insuring a proportion of the various buildings and contents on club property. Furthermore, it is common to find that many members in the insurance business share a part in the placement of these policies. Herein lies a dangerous problem.

All the policies are not written in the same manner. Some show different values on different buildings; others fail to have forms attached to broaden the coverage that are found on the majority of the policies. This inconsistency works a real hardship on the country club when attempting to settle a loss.

For example, I once reviewed about 24 fire policies, each of which covered a portion of the total insurance on a large clubhouse for its full replacement value. Six of these policies failed to have the replacement cost endorsement attached. If all the policies had been for the same amount, the club would have been deprived 25 per cent of

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the replacement cost settlement because these six policies would only respond for the depreciated value of the building.

Unless every fire policy that covers a proportion of a building or contents is consistent with respect to all the other policies, serious problems arise in an effort to obtain a full settlement. When all policies are identical with respect to the perils insured against and to the specific amount of coverage on each building and contents and to the same deductible clause, if applying, then all these policies are said to be concurrent.

If various policies differ from the basic portfolio of fire policies in any way, the policies are said to be non-concurrent.

Non-concurrent fire policies lead to serious problems. Every country club should attempt to have a competent insurance man annually review every fire insurance policy to determine that all policies are written in the same manner. This is particularly important when many members share in the placing of the fire insurance.

### BUILDING CODES

In my capacity as an insurance advisor to country clubs, I have found one problem to be paramount. Many club operators completely misunderstand the workings of the standard fire insurance policy when a loss occurs in which the clubhouse does not structurally conform to the state or local current building code.

Despite the fact it may be private, any clubhouse designed for occupancy by more than 100 persons is classified by most building code authorities as a public assembly building. This subject should concern every club operator, but especially those whose clubhouses are of frame construction and those whose clubhouses contain wooden structural members, such as floor joists, beams, columns, partitions or shingled wood roofs.

In recent years, most jurisdictions have passed laws regulating the type of materials that are permitted in the construction of a public assembly building. The laws, moreover, provide that if a

building, which contains non-conforming materials erected prior to the passage of the laws, is damaged or destroyed beyond a certain portion, it may not be rebuilt. Instead, it must be completely torn down and rebuilt with materials that conform with the current code. In general, this means fire-resistant or non-combustible materials, rather than wooden or frame combustible materials.

In most jurisdictions, when a non-conforming building is damaged 50 per cent or more or a sub-standard roof is damaged 25 per cent or more, the state fire marshal or the local building inspector will order the entire structure razed or the entire roof surface removed. If it is to be rebuilt or repaired, he will then direct that the materials to be used conform to code before a permit is granted.

As one can surmise, this expense will be greater than the actual loss suffered in a fire or windstorm.

The standard fire insurance policy, in its insuring agreement, makes clear just what portion of this expense may be recovered under its contract by the provision that recovery shall be "without allowance for any increased cost of repair or construction by reason or any ordinance or law regulating construction or repair." In effect, this provision clearly states that the insurance will respond only for the damaged portion, which was the direct result of the loss.

I once reviewed a loss file on a frame clubhouse, which was insured for 100 per cent of its replacement cost value. Moreover, it was completely protected by an automatic sprinkler system. Nonetheless, the membership was told that the undamaged section would have to be demolished and the entire clubhouse rebuilt with code-conforming materials.

The insurance companies quickly settled the loss, but the club was faced with three additional uninsured expenses: 1) the actual value of the undamaged section; 2) the cost to demolish this portion, and 3) the increased expense for materials conforming to the code.

Every club must hire an architect or qualified building inspector to review all the structural features

of the clubhouse to determine if it is vulnerable to these possible unexpected additional loss complications. Do not be lulled into thinking that an exterior brick construction or an automatic sprinkler system provides immunity from the effects of a building-code ordinance. This may not be the case.

### SPECIAL ENDORSEMENTS

If it is determined that your clubhouse doesn't conform to current public-assembly building codes, it is recommended that the insurance committee extend the fire policies by special endorsements to cover the additional expenses which might arise.

There are three standard endorsements, which may be attached to the policies, each covering a different aspect of this problem. The first is called *contingent liability from operation of building laws*. This endorsement pays for the actual value of the undamaged portion of the clubhouse that must be razed.

The second is the *demolition cost endorsement*. It covers the expense for a wrecker to demolish the undamaged portion.

The third form is called the *increased cost of construction endorsement*. Only when a clubhouse is insured for replacement may this endorsement be attached. It covers the increased cost of repairs or construction over and above the replacement cost of existing materials for materials conforming with the current building codes.

One final word of caution. If your clubhouse requires these coverages, it is recommended that you secure the assistance of a competent fire underwriter to set up the actual forms and amount of coverages required. Here again a qualified appraisal firm may be of valuable assistance. Setting values for these endorsements requires the aid of well-qualified, professional personnel. □

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