

# INSURE YOUR REVENUE

## FIRST OF A SERIES

Whether it is an old country club steeped in a historic tradition or a new golf course venture, inevitably the board of directors or owners must grapple with the complex problem of purchasing the correct insurance to protect against loss of, or damage to, real and personal property and to properly indemnify the club against injury claims filed by others.

"Of course we will always need adequate fire and liability insurance," golf and country club officials conclude. But not until they entrust the responsibility of adequate protection to a sophisticated insurance agent or committee, does the average club management group realize how many facets

The first article in this series explores the various types of insurance contracts that protect a club's valuable records and property

by JOHN F. GLEASON JR.

other than fire and liability coverage are needed for proper indemnification of the club.

This article and subsequent articles will present an in-depth study of various financial exposures at risk, about which a club operation should be concerned, and a study of selected insurance contracts which, if properly writ-

ten, will enable a club to transfer the possibility of financial loss to an insurance carrier.

Hopefully, this insurance series will help club operators evaluate existing insurable risks and to determine the correct steps to indemnify the club against the ever-impending possibility of financial disaster—which could doom an otherwise wholesome operation.

This first article deals with policies which should be considered to protect valuable records and properties basically with the clubhouse of a high-quality club. The types of insurance contracts include *accounts receivable insurance, valuable papers and records insurance, fine arts insur-*

ance and special forms that insure other highly-valued objects or items.

In the world of insurance the foregoing contracts are known as *inland marine insurance* forms. They provide broader coverage on the insured property than the standard fire or burglary policies and, moreover, protect the property inside the club building as well as outside.

#### INLAND MARINE INSURANCE

First, we must understand what broader coverage inland marine insurance implies and how special floater forms may be adapted to strengthen the club's insurance portfolio.

Three centuries ago, in a coffee shop named Lloyds in London, England, insurance underwriters began to accept the financial risk of ships and cargos against loss from the dangers of the sea during a specific voyage. These underwriters became known as ocean marine underwriters and later evolved into what is known today as the famous Lloyd's of London.

Originally, insurance protection was provided for port to port disasters. Later by negotiations or demand, Lloyd's of London extended the insuring agreements to include land exposures, such as damage to the cargo during unloading on the docks and loss of shipments before the cargo reached its final destination.

This secondary extension of the coverage on land was appropriately named inland marine insurance.

Thereafter, inland marine underwriting committees were formed that began to insure other types of property during the course of transportation alone, without the ocean exposure being involved.

However, one hard-and-fast rule seemed to prevail. The property eligible for inland marine treatment under tailored floater forms had to be movable or instrumentalities to transportation or communications—and not fixed real property—which could be involved in movement.

Today, there are scores of inland

marine floater forms which not only cover individual items such as jewelry, furs and other personal effects, but there are commercial property forms, which provide coverage on movable property owned or leased by mercantile and industrial concerns as well.

Many of the inland marine floater forms developed for commercial risks are ideal insurance contracts to cover exposures to financial loss involving property of a country club.

Before exploring these forms, one very important concept of inland marine coverage must be explained. Basically, there are two types of coverage which may be purchased to protect property insured by inland marine underwriters: 1) *named peril* contracts and 2) *all risk* contracts.

A named peril contract insures the property only against certain perils which are defined in the form attached to the policy, such as fire, earthquake, flood, burglary or over-turn of a vehicle upon which the property is being conveyed. No other cause of loss or damage would be covered under these limited forms.

An all risk contract insures the property against any cause of loss or damage to that property, unless the cause is otherwise excluded by the contract or form attached. Naturally, the all risk forms are broader in scope of coverage. In most cases, every country club should strive to insure its movable valuable property under an all risk form, thus indemnifying itself against nearly every possible insurable peril which might befall the property.

Consider, for example, this horrible circumstance and dilemma: It is the last day in July, tomorrow the office staff will begin the final postings of members' charges at the country club. It has been a very active month at the club. There was a large Fourth of July dinner and fireworks display, the men had their annual invitational tournament, the women held their usually popular club championship week

and four large business dinner meetings were held in the clubhouse.

When the office staff arrived, they discovered that a water pipe had broken during the night and the records of every members' account, plus recently signed green fees, food and drink checks, were completely damaged by the night-long down-pour from the pipe. There was no way to decipher which member signed which checks, what the total dollar amount should be, or which soggy account to post the checks upon.

Granted, most country club members are honest and promptly pay their monthly statements. But certainly each member is entitled to know the exact amount of his monthly indebtedness with supporting evidence for his company expense account or for income-tax purposes. How would the club compute each member's statement with the necessary documents completely submerged under water, completely unidentifiable? What good is the club's fire insurance policy in the circumstances just described? The answer is *none*.

#### ACCOUNTS RECEIVABLE INSURANCE

Had a qualified insurance man carefully guided the club's insurance program, this dilemma would have been minimized, because that program would have included accounts receivable insurance.

Accounts receivable insurance indemnifies the country club against loss resulting from its inability to collect monies when its records have been destroyed, damaged or lost.

As you can see, the coverage is all risk, rather than named peril, or broader rather than limited in scope by just certain perils defined in the form. There are reasonable exclusions, however, to an all risk contract. Insurance companies won't indemnify against war, nuclear activities and losses from any fraudulent, dishonest or criminal act by the insured or his employees, which would be covered under the club's fidelity insurance.

Moreover, bookkeeping errors,

*continued on page 76*

billing omissions and loss from electrical or magnetic injury, disturbance or erasure of electronic recordings are naturally excluded, along with any fancy manipulation or records to conceal misappropriation.

This insurance is not credit insurance. The policy does not guarantee collection, unless the records cannot be used to render an account to a member.

How much accounts receivable insurance should a club carry? The answer is easy. Although activities at most clubs fluctuate during seasons, this policy may be written to cover both peak exposures and low months.

With the assistance of a qualified insurance agent, the club should complete an accounts receivable application which includes information related to where the records are kept when not in use by the office staff—underwriters grant a premium discount when records are kept in burglar and/or fire-proof safes—and information relative to the amount of receivables during the last 12 months.

The policy may then be written for a limit of liability of 110 per cent of the highest amount of accounts receivable during any one of the latest available 12 months. Each month the club reports to the insurance company the exact amount of its outstanding receivables. Thereafter, the company will adjust the deposit premium paid for the policy to the actual earned premium, based on the average of the monthly reports.

The club will pay no more than its actual exposure, but will have adequate protection should a new peak month of not more than 110 per cent of the past peak arise. It is imperative that the monthly reports are sent to the company upon the close of each month's billing period to comply with the policy conditions.

#### VALUABLE PAPERS & RECORDS INSURANCE

Another insurance policy from the inland marine family that may be important to many country clubs is valuable papers and records insurance. Because many clubs own valuable documents such as ab-

stracts, books, card files, drawings, deeds, manuscripts, mortgages, plans and other records which, if destroyed, lost or damaged, would work untold hardship on the operations of the club, this all risk insurance contract would be an important addition to the insurance portfolio.

If any of these records were destroyed, lost or damaged, the insurance would pay the cost of replacing or reproducing them. Various qualified persons will be needed to establish which records should be insured and to establish the expense to restore the destroyed or lost documents.

When the restoration value is determined, the club must next ascertain whether the actual documents can be replaced or reproduced. If some cannot be restored, they should be listed individually in the policy with the set value stated on each. If the other records can be restored, a blanket amount of coverage equal to the total value of all insured records may also be included in the coverage.

The policy will not be obligated to pay a loss unless the documents are replaced or unless an exact amount for each item which cannot be restored is listed in the policy.

#### FINE ARTS INSURANCE

Within every clubhouse, are many other personal properties of special value (usually more than the normal value of clubhouse furnishings) which should be insured for broader perils than say fire or burglary coverage. These properties include valuable objects of art, such as paintings, etchings, pictures, tapestries, art glass windows, valuable rugs, statuary, marbles, bronzes, antique furniture, rare or historic books, trophies, collections, bric-a-brac and a host of similar objects that are rare or have historic or artistic value.

These items may be insured under fine arts insurance. Again, the policy form should provide all risk protection.

An important point to remember is that when insurable items are determined, their value should be carefully established by a qualified professional who knows the replacement value of each item. A

policy which lists various items but fails to place current, realistic valuations on each item is worthless. An significant point about standard fine arts insurance policy is that it excludes coverage against loss or damage caused by breakage of fragile items unless breakage coverage is specified and the exclusion is deleted.

Deletion of the breakage exclusion on fragile articles may be done by a small additional premium charge. This step is recommended whenever a fine arts policy is written up.

Not only may objects of art be insured under inland marine insurance, but other items within the clubhouse or other buildings may be insured under camera, musical instrument, sporting equipment, silverware or stamp and coin collection forms.

The list of items may include leased office equipment on which the lessee is required to carry all risk insurance by the terms of the lease agreement. All lease agreements should be reviewed.

One of the most important exposures frequently overlooked by many country clubs is coverage on art exhibitions on display in the clubhouse. Frequently, the club permits artists to show their works at the clubhouse. They certainly enhance the beauty of the building, but the club sometimes fails to remember that it may be held responsible for artwork entrusted to its care.

This responsibility may be transferred to an insurance company by purchasing an *exhibition floater* policy which covers the property of others while in the custody of the country club.

In the next article, we will examine various outdoor property loss exposures, explore various inland marine policy forms which are adaptable to coverage on these properties and also study certain policy provisions and conditions which should be modified to broaden the over-all country club insurance program. □

JOHN GLEASON Jr. is an insurance consultant dealing exclusively with coverage requirements of clubs, and has written numerous other articles on insurance for GOLFDOM.