

# ClubPac News

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## By-Laws & Septic Systems

Most modern commercial insurance policies include a provision for “Replacement Cost” recovery in the event of a loss. While not strictly “indemnity”, replacement cost allows the Insured to rebuild and continue the business.

One of the primary conditions of this option is that rebuilding must be done “AS IT WAS”. This creates a problem in older buildings that do not meet current building codes. It is common practice that when building codes are changed and updated, older buildings that do not conform are “Grandfathered”. There is either a transitional time allowed or the code update is not applied until the next time that the building is repaired or renovated.

Obviously if your clubhouse is destroyed or severely damaged by a fire, there is an immediate conflict between your insurance contract, requiring replacement “as was”, and the local building codes requiring updates.

In response to this problem, insurance companies offer “By-Laws Coverage”. This option allows the Insured to purchase extra protection to cover the cost of the required upgrades. Better policies often automatically include a By-Laws extension. Unfortunately even these policies generally have a maximum limit built into the extension ( i.e. 10% of the building value) and Insureds often do not make adequate allowance for By-Laws increases when deciding on how much insurance to purchase.

The By-Laws issue exists in every case of a non-conforming building, but experience indicates that it is more frequently a problem at golf clubs than in many other businesses. The reason for this is quite simple. Golf courses are regularly built in rural locations long before the residential developers reach the area. As subdivisions and municipalities build up around the golf course, new by-laws implementing major upgrades to the local building codes are passed. Golf clubhouses quickly become “non-conforming” buildings.

Common upgrades include modern electrical wiring, modern plumbing fixtures; smoke detectors, upgraded deep fat fryer hoods, chemical fire suppression systems and sometimes fire sprinkler systems. These upgrades seldom exceed 10% of the building value and as long as the amount of insurance purchased is adequate overall, they can usually be absorbed by the policy.

But golf clubs often have at least one and sometimes two “hidden” by-laws offenders that can represent much more than 10% of the building value. The **SEPTIC SYSTEM** and the **IRRIGATION SYSTEM**.

Many clubs do not insure their underground irrigation systems and those that do, tend to properly value them, however Septic Systems and Drainage Beds tend to get overlooked. This is particularly important at courses with smaller more modest clubhouses.

In the event of a major fire loss, clubs are often advised that over and above the anticipated wiring plumbing and alarms, they must also upgrade their septic system to current standards as part of their repair / replacement process. It is also quite common to receive quotes of \$100,000.; \$150,000. or \$200,000. to completely replace the system. On a clubhouse valued (and insured) at \$250,000. to \$500,000. this can result in a major shortfall in coverage and/or a significant co-insurance penalty.

Could your club be in this position after a major loss ? Talk to your broker about extra By-Laws expense protection.

CLUBPAC NEWS is provided at no charge to participants of the CLUBPAC program. It is intended to assist clubs in implementing good loss control practices and to keep them informed of trends and issues in the area of golf industry insurance. Clubs should refer to local "experts and authorities" for specific information about any "technical" or "legislative" issues mentioned.