

# ClubPac News

July 2005

## HIGHER DEDUCTIBLES

Should we consider increasing our policy deductible ? **ABSOLUTELY !**

Every golf club should consider its financial ability to withstand a loss and purchase the largest deductible that it can afford. Aside from the subjective issues like making your risk more attractive to potential insurers in a tough marketplace, there are a couple of very good economic reasons:

### Economic Efficiency & Premium Savings

Let's look at a typical mid-sized golf club in Canada. It currently pays about \$20,000. in annual insurance premium and has a \$2,500 deductible. The Board of Directors agree that they could afford a \$10,000. Should they self-insure that extra \$7,500. ?

#### Economic Efficiency

It is important to remember that insurance companies do not actually pay the claims; the policy holders do. YOUR premiums must pay all of the claims, plus the operating costs. There is no question that INSURANCE does a fine job of distributing risk and protecting golf clubs from major financial disasters. ( \$ 2.1 million fire north of Toronto, \$1.8 million fire in Ottawa Valley, \$650 K flood in B.C. or a \$540 K fire south of Montreal), but insurance is NOT an EFFICIENT way to handle small losses.

From every \$1.00 of premium collected, insurance companies use about \$0.40 to cover "costs". (Sales, Distribution, Advertising, Re-Insurance Commissions, Investment Fees, Federal & Provincial Premium Taxes, Loss Adjusting Fees, Legal Fees, Administration & Operating and Shareholder Profit.)

That means that for every \$1.00 that you pay in premium only \$0.60 is used to pay claims. Or, looking at it another way, the insurance companies must charge you \$1.66 for every dollar of claims that they pay out.

It is a statistical fact that over time, the average golf club in Canada will suffer one insured loss every three years.

If you take the higher deductible and self-insure the \$7,500. difference it will cost you about \$2,400. per year (\$7,500. minus interest earned, divided by three.), however if you purchase the lower deductible it will ultimately cost you \$ 4,175. per year. ( \$7,500 times 1.67 divided by three)

#### Premium Savings

Buying the higher deductible means assuming a "RISK" of paying the extra \$7,500. "IF" you have a claim, but in return you can get a significant premium savings "GUARANTEED" (whether you have a claim or not.)

Insurance companies fully understand the inefficiency of insuring small claims and they are prepared to offer reasonable premium savings to policyholders who accept larger deductibles. At our "typical" golf club with the \$20,000. premium the insurance company would offer a discount of 15% to 17% if the Board of Directors buys the \$10,000. deductible. That's a savings of \$3,000. To \$3,400. EVERY year.

Plus, if the higher deductible means that the club absorbs a small loss during the typical three year cycle, it's "Claims Free" record is maintained which could result in a further 5% to 10% [ \$750 to \$1,500. Savings in year four (4)].

No matter which way you calculate it, the decision to buy a \$2,500. deductible instead of a \$10,000. deductible will likely cost the golf club over \$4,000. per year. The Club would have to have one claim every two years just to break even, and if it does, the insurance company would likely want to impose a higher deductible anyway (probably without a premium savings).

#### Buying Decision

Let's look at this issue one more way. Don't think of the higher (\$10,000.) deductible as an extra cost. Think of the smaller (\$2,500.) deductible as an insurance "purchase" of \$7,500. of coverage.

If the club bought a new piece of greenskeeping equipment for \$7,500. and the insurance company quoted a premium of \$3,000. to \$4,000. per year to cover it, would you buy the insurance ?

Yes, we realize that you could have three or four claims in one year, but if that happens, "all bets are off" because your insurance company is going to be talking very different terms on renewal, if they offer a renewal at all.

Talk to your broker. A higher deductible may be one of the best insurance options available to you today.

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.