

# ClubPac News

**April 2008**

## **INSURANCE TO VALUE**

It seems like an old and over discussed issue, but failure to “Insure to Value” continues to be a major issue in the settlement of claims for golf & country clubs.

By now, every Insured should be aware that insurance contracts require “Insurance to Value” and that failure to do so will result in co-insurance penalties in the event of a loss, so why does the problem continue to exist ?

It is an unfortunate fact, that almost every major ClubPac claim settled in 2005, 2006 & 2007 resulted in either a coinsurance penalty or the loss exceeded the limits of coverage. This trend was not unique to ClubPac either. ClubPac’s major competitors report exactly the same results.

With all the efforts by brokers and insured’s to review values and update coverages, why is this still happening ? There are a number of reasons:

- A basic cause of the problem is somewhat unique to golf clubs. Because golf clubs have the equipment, knowledge and skilled labour available, many of the clubs’ buildings and structures were originally built “in-house”. Sometimes buildings were acquired as part of the land purchase, and often structures or materials were purchased at highly advantageous times and prices.

This practice results in undervalued acquisition costs, which unfortunately cannot be repeated at the time of a fire or other significant damage.

- Another basic fact is that golf clubs were, and are, often built in remote rural areas which are subsequently built up and become urban. This inevitably brings with it by-law and cost increases. Original ( lower cost) materials and construction practices cannot be used after a loss.
- More recently, economic growth in Canada combined with an aging (and retiring) workforce has resulted in dramatic increases in the cost of skilled labour. This trend of course is heightened in some provinces ( BC & Alberta particularly) than in others.

These issues tend to result in a serious underestimation or a failure to realize the true replacement cost of a golf club’s assets in the first place.

- On top of an initial undervaluation, we are most recently being faced with a situation where the Commercial Building Construction Cost Index ( CBCCI) has been increasing dramatically faster than the routinely quoted Consumer Price Index (CPI).

For the past five years Canada has enjoyed fairly low inflation. Annual increases in the CPI have been in the 0.5% to 2.5% range. These numbers are highly publicized in the

press and club owners and managers have tended to use them when adjusting their insurance limits.

Unfortunately the CBCCI has been increasing at annual rates of 8%, 10% and even higher in some areas. Between Feb 2003 and Feb 2008 the CBCCI in Canada increased an average of 31.8%, however some regions have increased by over 52%. During the same five (5) year period, the CPI increased by only 9.14% even including the cost of oil.

And this disparity is going to get worse. While StatsCan is targeting a 1% to 2% increase in the CPI for 2008, it is forecasting a 12 month increase in the CBCCI of 8% to 18% depending upon the province.

To illustrate the severity of this problem:

- Consider the municipality in eastern Ontario who approved the construction of a new library and community center at a cost of \$14.4 million in Sept 2007. As of March 2008, before ground was even broken, the contractor increased the project estimate by over \$1.5 million.
- If the province of Alberta experiences an 18% increase in the CBCCI as forecast by StatsCan, then a golf club insured to FULL VALUE in January 2008 with a standard 90% co-insurance clause, will be under-insured by the end of July 2008.
- A golf club in eastern Ontario with a five (5) year old clubhouse recently suffered a total fire loss. The replacement cost of the building and its contents exceeded \$2 million. As a result of the club's failure to keep its limits of insurance adequately updated, the insurance claim was subject to a 21% coinsurance penalty. The club lost over \$400,000. ( The construction figures and estimates were provided by the Insured's own contractor, not the insurance company's.)
- A large, prestigious golf club in Toronto had a professional appraisal done in October 2002 and again in November 2007. The estimated reconstruction cost of the main clubhouse increased from \$216. per square foot in 2002 to \$313. per square foot in 2007. A 45% increase in five years.

Check your records. If you don't keep old insurance policies ask you broker to check his/her files. The total amount of PROPERTY OF EVERY DESCRIPTION insurance on your 2007/2008 policy should be at least 40% to 50% higher than your 2003 limits, assuming that your 2003 limits were adequate, and you should be increasing your coverage by another 10% to 15% on this year's renewal.

There are ways to reduce your insurance costs; higher deductibles, waivers and indemnity agreements; improved loss control; etc., but buying inadequate insurance limits is not a good idea.