

# PROPER INSURANCE PLANNING

Proper insurance planning paired with having the appropriate levels and types of insurance in-place is a backbone of a quality risk management program. In years past, many sports and recreation providers were forced to run programs or events without the proper insurance protection, thus greatening their exposure to the financial burden of costly medical bills or civil litigation. Fortunately, today's insurance market provides various levels and types of insurance so that sports and recreation providers may limit their exposure.

## INTRODUCTION TO INSURANCE

Insurance is a financial topic of paramount importance for every organization. Insurance is designed to protect the financial well-being of the organization and their members in the case of unexpected loss. Some forms of insurance are required by the facility or grounds to be used, while others are optional. Agreeing to the terms of an insurance policy creates a contract between your organization and the insurance company. In exchange for payments from your organization (called premiums), the insurance company agrees to pay your organization or members a sum of money upon the occurrence of a specific event or to defend in the event of a lawsuit. That event may be as mundane as a sprained finger or as serious as a lawsuit of negligence contributing to a wrongful death.

After contacting an insurance company about entering into a policy, your organization will receive a quotation, which indicates the total cost you will pay over the term of the insurance policy in exchange for coverage. When your organization has agreed to pay this amount and the insurance company has agreed to insure, you will receive a copy of the policy detailing the terms and conditions of your policy.

If an insured incident occurs, you will make a claim for payment or defense from the insurance company. You will receive the benefits of the policy less the deductible amount if your policy contains a deductible. Higher deductibles are associated with lower premiums and vice versa. Therefore, in situations where claims that are likely to be made, it may be in your best interest to pay a higher premium in exchange for a lower deductible.

Given the importance of insurance, it is essential to make sure that your coverage is sufficient. However, overpaying for insurance or purchasing insurance that is not necessary can be a significant drain on your organization's finances. Investigate all potential insurance policies carefully in terms of your own needs at the time of purchase and throughout the term of the policy.

## PURCHASING INSURANCE

Insurance was traditionally sold by agents who worked for insurers and had a vested interest in selling you their specific policies. Now, there are more consumer-friendly options for acquiring insurance coverage.

*Independent Agents* Independent Agents can sell policies from several different companies. They obtain the insurance from Brokers, Underwriting Facilities or direct from Insurance Companies.

*Insurance Brokers* Insurance Brokers work similar to an Independent Agent, however they not only represent insureds, but also place coverage for Independent Agents with Underwriting Facilities or Insurance Companies.

*Underwriting Facilities* Underwriting Facilities usually specialize in one niche of insurance. Both Independent Agents and Insurance Brokers place business with these facilities. Underwriting Facilities are similar to Insurance Companies as they underwrite (determine coverage and cost) and conduct policy issuance on the behalf of the Insurance Company.

*Insurance Companies* Insurance Companies are the insurer and the insurance policy is the contact between your organization and the Insurance Company. For sports and recreation insurance, many Insurance Companies heavily rely on specialized Underwriting Facilities to facilitate the coverage.

It is important to research any company that your organization is considering to identify as quality insurance providers. When choosing an insurance company, it is important to find one with a good independent rating from AM Best Company, Standard & Poor's or another leading independent rating service. This will tell you whether the insurance company is likely to be able to pay off claims even in the event of a disaster that leads to an abundance of payouts. Recommendations from individuals and consumer information publications in print and on the web may be able to provide additional information related to the quality of service. These considerations may include the projected likelihood of a claim being paid, speed of payout, customer service and other services available from the company.

## **LIABILITY INSURANCE**

Commercial General Liability Insurance provides your organization with protection from a lawsuit or a property damage claim. Most facilities or practice grounds will require liability coverage with at least a \$1,000,000 limit per occurrence and require that they too be named on your organization's policy as an additional insured.

Proper liability insurance should provide your sports or recreation organization with protection for your organization and coaches or staff members against claims of bodily injury liability, property damage liability and the litigation costs to defend against such claims.

Coverage Should Include Suits Arising Out Of:

- Injury or death of participants
- Injury or death of spectators
- Injury or death of volunteers
- Property damage liability
- Host liquor liability (non-profit)
- Incidental medical malpractice
- All activities necessary to conduct activities
- Ownership use or maintenance of fields or practice areas
- General negligence claims
- Cost of investigation and defense of claims, even if groundless

Not all liability policies are the same and some may not offer the proper protection for your sports or recreation organization. Standard liability policies exclude claims brought forth due to athletic participation. For example, if an athletic participant is injured during your organization's event or activity and the injured participant implies he or she was injured due to the organization's or staff person's negligence; there would be no coverage for this type of claim without participant liability coverage. Other liability policies are issued on a "claims made" basis, which only allows you to make claim against the insurer while the policy is in-force. A "claims made" policy form may not offer adequate coverage as lawsuits are often brought forth months or years after an incident. With an "occurrence" based policy, even though the policy may have expired, provided the policy was in force at the time that the bodily injury or property damage occurred, a claim can still be made against it. Make sure your liability policy includes athletic participant coverage and is written on an "occurrence form" rather than "claims made" policy form.

Hired and Non-Owned Automobile liability coverage is often offered as an additional option to purchasing liability coverage and should also be considered. This coverage provides additional liability coverage against third parties bringing suit out of a claim resulting from the use of automobiles. For organizations or events that will include the transporting of members or spectators, this coverage can be an essential tool of risk management.

## **PROPERTY INSURANCE**

Property Insurance provides your organization with protection to repair or replace your building, structures, completed additions, landscaping, equipment, permanently or temporarily installed fixtures, furnishings, signs, glass, outdoor property, computers, records, valuable documents and other personal property used in your business. Property Insurance may also provide income if your business is forced to suspend any operations as a result of a covered loss.

Property insurance will provide coverage for property that is stolen, damaged or destroyed by a covered peril. A property loss will be deemed "covered" depending upon the policy language, exclusions and endorsements. In property insurance there are two main causes of loss: Named Perils and Open Perils.

**Named Perils** are causes of loss specifically listed in an insurance policy. Such examples would be fire, explosion, windstorm, vandalism, etc. Named perils are also then available as basic named perils and broad named perils. Broad named perils coverage adds to the list of covered perils found under basic named perils and is a broader, but more costly coverage.

**Open Perils** are all causes of loss that are not specifically excluded in an insurance policy. Common examples of open perils are earth movement (includes earthquakes) and flooding. Open perils policies offer much more comprehensive coverage than named perils policies, which in turn are also more costly.

The valuation provision in a property insurance policy will indicate what valuation method is used to pay losses under the policy. Actual Cash Value is probably the most common method and is defined as the cost to replace the item at the time of loss considering depreciation. Agreed Value is another valuation method which waives all coinsurance and pays 100% of the agreed amount for a covered loss. The

agreed value is determined at the beginning of the policy term by the insurer and policyholder and is indicated on the schedule of benefits page of the policy. The third valuation method is replacement cost. Replacement cost will provide coverage for the amount determined to replace your property with a brand new replacement subject to coinsurance. Replacement cost does not consider depreciation when determining value of property losses.

Property insurance coverage can be customized by adding many different coverage forms and endorsements. A few common additional coverage's available to most property insurance policies are:

**Business Income:** Provides coverage for income lost while you are restoring your insured location from a covered loss.

**Tenant Improvement & Betterments:** Provides coverage that protects a tenant or lessee of real property against loss as a result of a covered peril required to be repaired by the tenant as stated in the lease contract.

**Tenant Glass:** Provides coverage for loss of or damage to glass. Many times a lease requirement will force the tenant to carry Tenant Glass coverage.

**Back-Up of Sewer or Drain Water Damage:** This coverage will protect against losses caused by water backing up through the sewers or drains or by water overflowing from a pump.

**Employee Dishonesty coverage:** Provides coverage in the event employees commit a dishonest or fraudulent act which results in financial loss to your business.

**Earthquake Coverage:** Provides coverage for losses resulting from earthquake.

Other lines of property insurance include Inland Marine, Boiler and Machinery and Crime. Each is briefly summarized below:

**Inland Marine** is a property line of coverage primarily covering damage or destruction of your business property while in transit. Inland Marine perils consist of bridge collapse, collision, derailment, earthquake, fire, flood, lightning, landslide and windstorm.

**Boiler and Machinery** is a property line of coverage which covers costs to repair or replace equipment, such as boilers or other heating and air conditioning systems from a covered loss.

**Crime insurance** is another property line which provides protection for business assets including causes of loss such as forgery or alteration, theft of money and securities, burglary or robbery and computer fraud.

Property insurance is a vital investment for the future of your business. Whether you rent or own the building or space your organization occupies, property insurance should be an important insurance need to consider when purchasing insurance.

## **ACCIDENT INSURANCE**

Accident Medical Insurance provides your organization's participants, staff members and volunteers reimbursement for medical bills incurred as the result of a covered injury. As one of the first defenses against possible litigation, accident medical insurance pays the medical bills of injured participant. An organization's members are also usually covered while traveling, directly and without interruption, to and from any organization's sponsored activity and his or her home or place of residence.

Most accident medical policies provide coverage so that in the event a covered person incurs eligible expenses as the result of a covered injury, the insurance company will pay the medical charges incurred for such expense. Payment will be made for eligible expenses not to exceed the Maximum Medical Expense Benefit (usually a limit of \$10,000 or greater), subject to the applicable deductible amount (if any).

This coverage includes an Accidental Death & Dismemberment benefit where if a covered injury results in death or dismemberment a lump sum amount is payable.

Accident Medical Insurance is offered on either a primary or an excess basis. Excess coverage pays the medical charges incurred on a secondary basis. Excess coverage is secondary to the covered person's personal health insurance, though it does pay for the injured person's out-of-pocket expenses (health insurance deductible, co-payment, etc.). Primary coverage pays the medical charges incurred regardless of other insurance and declares the insurance policy is first to pay any covered medical bills incurred by a covered person. As primary coverage will pay benefits regardless of other insurance, the cost is higher than excess coverage. Excess coverage will usually suffice as it still allows the injured party not to incur any out-of-pocket expenses.