

How do you determine the correct amount of property insurance?

Determining the proper amount of property insurance coverage can be tricky. Most club owners know how much they paid for their equipment when they opened the doors. They also know that they (or their landlord) spent a certain amount on the construction of the club or their tenant improvements (build out costs). Even though most club owners are pretty comfortable with the property insurance limits they have requested from their agent, it is always a good exercise to review the two most important components of the property insurance policy to help establish the correct amount of protection to buy.

REPLACEMENT COST:

Your property insurance policy is probably written with a Replacement Cost endorsement. Replacement Cost is the actual cost to replace your property with new construction and/or new equipment in the event of a covered property loss. When considering your replacement value, you need to determine any and all property that you have an "insurable interest" in. This would not only include your equipment, but also your tenant improvements, office furniture, computers, exterior glass, pro shop stock and inventory. Even if your landlord paid for your build out, chances are **you** are the one who is responsible for insuring the improvements and exterior glass. You will need to review your lease to determine what your insurance responsibilities are. You may be surprised at the amount of exposure you really have.

COINSURANCE:

Your property insurance policy also probably contains a provision for a 90% coinsurance clause. The coinsurance clause is the insurance company's way of ensuring that you provide them with the correct replacement cost estimates for the property you are insuring and it provides the club owner with a little "wiggle room" if they were off a little on their replacement cost estimate. Having replacement cost coverage is an excellent way of protecting your property but you have to be careful of the temptation to underinsure in order to save a few dollars on your insurance costs. If you insure your property for less than the stated percentage of replacement value, you will likely be penalized when you have a claim. For example; if your true replacement value of your property is \$500,000 and you have an insurance policy with a 90% coinsurance clause, the insurance company will require that you insure your property for a **minimum** of \$450,000 ($\$500,000 \times .90 = \$450,000$). Unfortunately, club owners usually don't find out about the ramifications of a coinsurance penalty until they have a claim. Let's say that you have \$500,000 in equipment, furnishings, fixtures, etc. but you elect to insure your "contents" for only \$225,000. Now let's say that you had a water pipe burst inside your facility over the weekend and when you open up on Monday morning, you find that you have sustained \$100,000 in damage to your aerobics floor, treadmills, and juice bar. Since you have \$225,000 in contents

coverage, you may make the assumption that you have plenty of coverage to pay for this loss. Unfortunately, the claims adjuster informs you after conducting a careful inventory of the total replacement value of all of your business property, that you actually have \$500,000 worth of property exposure. You may then make the comment; "So what. The claim is only \$100,000 and my policy says I am covered up to \$225,000. What's the big deal?" The claims adjuster then informs you that you have a 90% coinsurance clause which requires you to insure within 90% of your actual replacement value. In other words, you **should** have been insured for \$450,000 but you only insured your property for \$225,000. Since you elected to or, more likely, unknowingly insured for ½ of what you were "required" to insure for (to be in compliance with the coinsurance clause), the claim is also consequently settled for ½ of what you normally would have been entitled to receive had you had the proper amount of coverage. In other words, instead of receiving a check for \$100,000 you now receive a settlement for \$50,000 less your deductible. It is at that point that you call your agent and begin a lively conversation regarding the benefits and potential pitfalls of the Coinsurance Clause. The moral of the story; insure for your **full replacement value** and you will never have this problem. Even if your policy does not have a coinsurance clause, the smart thing to do is to purchase the correct amount of coverage. Nothing is worse than finding out you are underinsured when you have a claim. Also, keep in mind that property insurance is relatively inexpensive. A typical premium cost for a health club is only \$300 for every \$100,000 worth of coverage. We recommend that you contact your existing insurance agent now (don't wait for renewal time) and review your property insurance policy limits.