

What Insurance Coverage Do I Need For My Club?

Purchasing insurance coverage for a health club, as many of you know, is not the easiest or most pleasant task an owner faces today. Deciding what type of insurance protection you need is only part of the exercise. Finding a reputable broker who can place your protection with a solid insurance company at a reasonable premium is also difficult, especially in today's insurance environment. Local agents, who do not specialize in the health club market, may have difficulty securing insurance coverage on your behalf. Many times the only access the local agent has to a competitive and comprehensive insurance package is by purchasing the coverage through an industry insurance specialist which often results in increased costs.

The process of "shopping" for insurance has become increasingly more time consuming. Insurance underwriters require more information than they did a few years ago and it is nearly impossible to obtain a quote without providing the prospective insurance company verification of your claims history. Most insurance companies require a minimum of three years "hard-copy" loss runs from the prior insurance carrier even if you have never had a claim. If you have been in business less than three years, you may be requested to provide additional information such as your club's recent financial statement and/or a copy of your safety procedures. In addition to completing an application (usually one for each company you are shopping with), the underwriters are also likely to request a copy of your waiver form, membership agreement, club brochure and schedule of classes. Please keep in mind that all of this information gathering and application process should ultimately be worth it. The bottom line is; providing detailed information about your business along with good claims experience is likely to produce a good insurance product at a competitive price. Helpful hint: Insurance company underwriters LOVE detail.

I have outlined some of the basic insurance limits you will be discussing with your broker below.

- 1) Check your lease for insurance requirements. The industry standard for commercial general liability limits are \$1,000,000 per occurrence with a \$2,000,000 policy aggregate (the total limit of all liability claims). Some landlords may require higher limits which can add substantial premium cost to your insurance portfolio. Also, if you feel that the industry standard will leave you awake at nights wondering if it is enough coverage, ask your broker to quote an umbrella or "excess" policy to add an additional million or whatever limit you want. Personally, a \$1,000,000 additional umbrella is more than enough coverage.
- 2) When considering Property Insurance, you will be discussing these basic areas coverage.
 - a) Contents: The replacement value of all your equipment, inventory, computers, phone systems, and furniture. Do not make the mistake of choosing a low limit to save on premium costs. Property insurance is relatively cheap. A typical club will pay approximately \$300 a year for every \$100,000 of protection. There is nothing worse than finding out you are underinsured AFTER the fire.
 - b) Tenant Improvements: Whether or not you or your landlord paid for your "build-out" costs, your lease will probably require that you are responsible for any "interior improvements" in the event of a fire or any other property loss. Therefore, you will need to estimate this cost and add this additional coverage to your application.
 - c) Loss of Business Income: This is an amount of protection that will replace your income in the event your club would have to close due to a covered property loss (fire, tornado, roof collapse, etc). We recommend that you try to protect at least 4 months of revenue. However, only you can determine how much coverage, if any, you want to purchase to replace your income if you are shut down as a result of a major catastrophe.
 - d) Building Coverage: Just like your contents protection, you need to determine the replacement value to rebuild from the ground up. This figure can vary depending on the type of construction and the area of the country you are located. It is often helpful to consult a local contractor or your insurance broker to determine the proper limit. Keep in mind though, you are the one who is ultimately responsible for choosing the proper protection.

- 3) **Workers Compensation:** Most states REQUIRE that you purchase workers compensation insurance to protect your employees in the event that they are injured. Please keep in mind, that Independent Contractors may be considered as employees by the State Workers Compensation Insurance Board and therefore entitled to workers compensation benefits. You will need to check with your State's workers comp division for clarification on the independent contractor issue. Also, even if your state does not require you to carry workers compensation coverage due to a low number of employees, this does not relieve you of your responsibility to your employees if they are injured on the job.
- 4) **Bonding:** Many states now require health clubs to be bonded if they collect any payments prior to service or if a member is required to sign a long-term contract. The rules vary by state and it will be up to you to contact your state's Department of Consumer Affairs to determine whether or not you need to comply. A bond is NOT an insurance policy. It is a financial guaranty instrument and is underwritten in much the same way as a bank loan.
- 5) **Employment Practices Liability Insurance:** Most club owners elect not to carry this type of insurance but it is important for you to be aware that claims brought against you by an employee for sexual harassment, discrimination, or wrongful termination are not covered under a standard general liability policy.

To summarize, take a few hours to review your insurance portfolio. It is always a good idea to also update your waivers and your safety procedures. For many club owners, their health club is their entire life; both fiscally and emotionally. It is worth effort to try and protect that asset and hopefully save a little money on insurance costs.

If you would like free samples of updated risk management materials (ie; waiver, club policies & guidelines, tanning waiver, etc) please call us at 877-521-9930. Or visit our website at www.clubinsurance.com.

Ken Reinig is President of Association Insurance Group and Owner of the Women's Workout Company in Lakewood, Colorado.