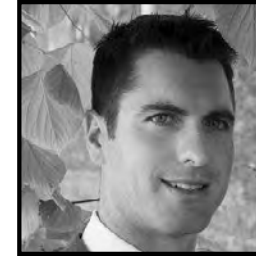


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# KNOW YOUR LIMITS

## Insuring to Value

Like many Canadian golf courses, your facility has likely changed over the last 5 years. While your club is changing for the better, your insurance limits may not reflect the improvements that you have made.

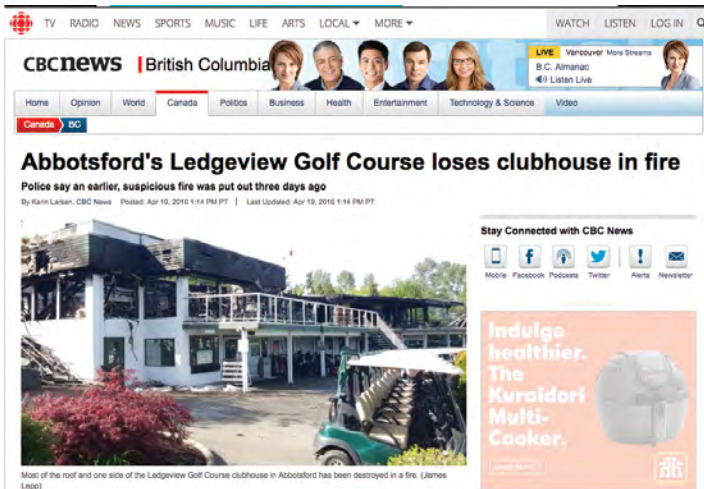
### ACCURATE VALUATION

Have you recently added to your clubhouse, renovated the locker rooms, built a new maintenance building or purchased turf equipment?

In any of these cases, or even if you have maintained the same space for a number of years, it is always a good idea to have the club

property reviewed so that your insurance is based on an accurate valuation. All businesses need to keep their costs down by ensuring that proper insurance values are in place while mitigating against any claims potential and golf clubs are no exception.





“These devastating losses have once again highlighted the need for current and accurate insurance valuations.”

Following a large number of fires in 2016 including, Ledgeview Golf Course in Abbotsford, BC, Mont Tourbillon in Quebec City, Tamarack Golf in Labrador City and Fort McMurray Golf Club, the industry was again hit hard this past February when Toronto’s Badminton & Racquet Club was essentially destroyed by fire. These devastating losses have once again highlighted the need for current and accurate insurance valuations.

Over the last decade the cost of commercial construction, particularly in urban centers has risen dramatically. However, according to industry figures insurance values have not been adjusted to reflect the increase in construction, labour and material costs. Let’s begin by reviewing the basic valuation methods used by insurance companies.

#### REPLACEMENT COST VS. ACTUAL CASH VALUE

The type of coverage that you have will determine the method used by your insurer when adjusting a loss.

This is the area that probably causes the most confusion amongst golf course owners and operators so it is critical that you work with your insurance broker to fully understand the implications of each type of coverage when reviewing your insurance renewal.

Most commercial property insurance companies in Canada use one of two different methods for determining the value of your insured property:

Replacement Cost refers to the amount of money it will take to completely replace all damaged or destroyed property with new buildings, equipment and furnishings.

Actual Cash Value (ACV) is the replacement cost of the damaged or destroyed property, less all accumulated depreciation for age and wear and tear of the property.

The only difference between Replacement Cost and ACV is a deduction for depreciation. However, the difference is significant at the time of a loss.

Let’s use a roof as an example. Assume the average roof is predicted to last 30 years and it will be assumed to have zero value at the end of that time span. If the roof is somehow destroyed 15 years after installation, the ACV will be half of the original cost of the roof.

Expensive electronics also demonstrate the exposure with ACV coverage. For example, a laptop purchased for \$2,000 three years ago would be worth far less than that today. An insurer might write you a cheque for \$700 or so to cover the ACV of the laptop but finding a comparable replacement at that price might be impossible.

#### DETERMINING HOW MUCH YOUR PROPERTY IS WORTH

When establishing the value of your golf club’s property, many owners and operators simply rely on an estimated market value. Even worse, some use the limits from their last renewal, which may not have been adjusted for many years. At one golf club in Ontario, nearly 9,000 square feet of the Clubhouse was missing because they had always used the previous year’s numbers when calculating their insurance limits. It was not until a professional appraisal was done that the missing area was discovered.

A more common method used by insurance brokers for determining building values is to simply multiply a general amount by the square footage of each building. For example, they might assume a general cost of \$350 per square foot and multiply it by the size of the building to arrive at the insurance limit. The issue with this method is that the assumed cost per square foot will vary across different construction types - one size does not fit all.

Given the age of buildings, non-standard designs for Clubhouses and Maintenance Buildings, types of specialized equipment, irrigation systems as well as licensed dining establishments, golf courses are extremely complex. Setting proper insurance limits for the business is a challenge.

This is why you might consider insuring your facility for the Replacement Cost, because commercial construction costs have been rising steadily across most of the country.

Many Insurance Brokers and Claims Adjusters agree that insuring for Replacement Cost is better than insuring for Actual Cash Value, even though it could be a bit more expensive. The initial savings you might realize from a lower premium - even over a 10-year period - could be a drop in the bucket in the event of a major loss and a costly rebuild to get back to the original state. You need to decide if your club can afford to take that risk.

Setting insurance limits at a golf course is not an easy task and many owners dread the annual call from their broker at renewal time. The reality is that there are lots of moving pieces and in order to properly manage the renewal process and set proper limits everything must be scheduled.

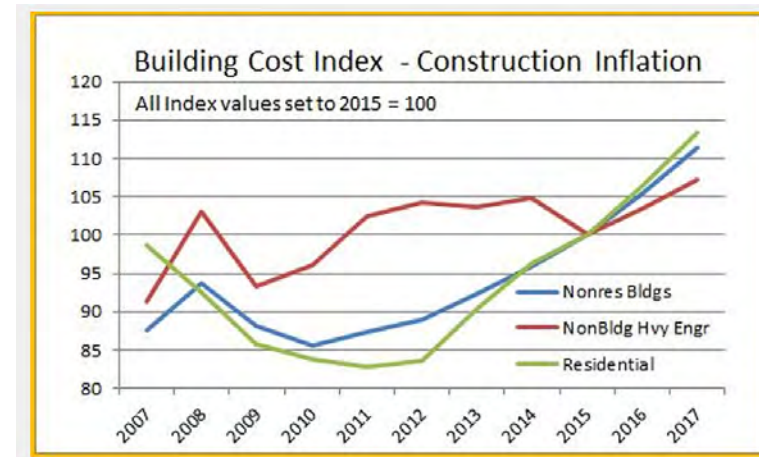
The upside to this process is that once it has been properly completed, all future insurance renewals will be a straightforward process. More importantly, managing any future insured loss will dramatically improve the settlement process.

If your club has not had a professional appraisal done within the last five years we strongly recommend that you have one done as soon as possible. The cost will pay for itself in peace of mind for you and your members.


#### INFLATION AND THE RISING COST OF CONSTRUCTION

Inflation is all around us. The cost of groceries, gasoline and electricity are rising rapidly and construction costs have not been immune to these pressures.

Since mid 2010 the cost of commercial construction (shown as non-residential buildings on the chart below) has risen at over twice the rate of consumer inflation which partially explains the current research that suggests that as many as 70% of commercial buildings are underinsured by as much as 40%.




Source: <https://edzarenski.com/2016/01/31/construction-inflation-cost-index>

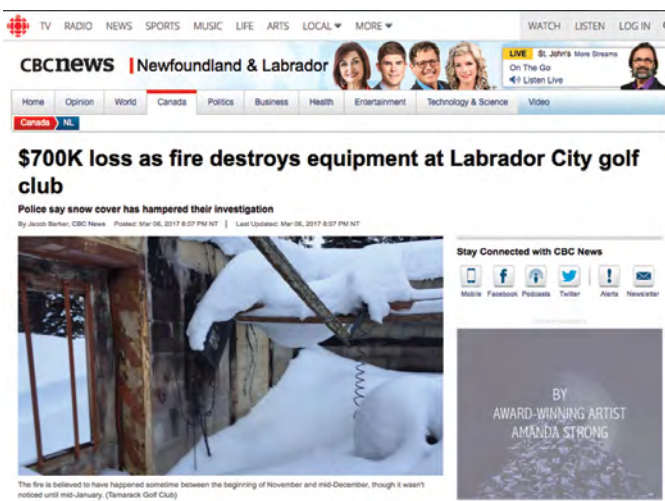
  
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“Replacement Cost refers to the amount of money it will take to completely replace all damaged or destroyed property with new build-ings, equipment and furnishings.”

But what should be more concerning is that fact that costs are rising at a much faster rate. Since the lows of 2009, construction costs have been increasing rapidly and this upward trend suggests that we may see a return of double-digit increases in costs for commercial construction.



Source: <https://edzarenski.com/2015/11/17/construction-inflation/>

**MANAGE YOUR RISK**

Setting the right property limits for insurance at a golf club is a complex process that must be carefully considered on an annual basis. Your insurance broker will help you work through each stage and we highly recommend that every club seek an independent appraisal at least every five years in order to be sure that your limits are an accurate reflection of the real value of your club. Many clubs have formal appraisals done every three years.

Once the building limits have been set you must work with your staff to update equipment lists and do a complete inventory of clubhouse contents including cups, trophies, fine art and special finishes so that you can include the proper figures in your calculations.

Some golf clubs may be shocked to know the total value of their building contents. Without the benefit of an outside expert, it can be nearly impossible to properly place values on your club’s belongings.

It goes without saying that higher limits and better coverage will equal a higher insurance premium. However, the savings associated from under insuring your club will be quickly erased in the event of a claim. Insure to your club’s value. Deciding how much risk your club wishes to assume is not something that can be taken lightly.

**Disclosure Statement**

This report is for informational purposes only and has been prepared without taking account of your specific objectives, financial situation or needs. Signature Risk is not a licensed insurance broker in any province of Canada. Therefore, before acting on this information you must speak with your insurance broker and consider its appropriateness having regard to your objectives, financial situation and needs. Only a licensed insurance broker can properly assist you in making any decision about the specific insurance needs at your golf club.



# DO YOU HAVE THE RIGHT AMOUNT OF INSURANCE?

Having the proper insurance for your business can mean the difference of rebounding quickly from difficult conditions, or not.

Canada’s foremost Insurance Appraisal and Risk Assessment Company SCM Risk Management Services recently stated “70% of commercial buildings are underinsured by as much as 40%”.

Call your insurance broker and find out how Signature, the only customized insurance program for golf clubs, will protect you when you need it most.

For more information visit [signaturerisk.com](http://signaturerisk.com), call or email:

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