



Getting the Best “Value”

SRPI Underwriting Bulletin | 2010-01
Elaine Collier, Chief Underwriting Officer

Introduction

The concept of accurate valuation for insurance purposes has always been a challenge, for both the insured customer and the insurance company writing the risk.

Recent losses indicate that valuation can easily become an issue during the loss adjustment process. It is clear that we all need to pay closer attention to the way property values are handled within the Signature Risk programs, in order that everyone benefits from proper insurance to value prior to the occurrence of any claims.

This will mean some clarifications to current Signature Risk underwriting practices and procedures need to be made - for both new and renewal business. These are addressed at the end of this bulletin. While the focus of this bulletin is on our golf club program, the same clarifications apply to all our other Signature Risk programs going forward. To begin with, let's go "back to basics" and examine how insurance to value works.

A Brief Look at the Concept of Insurance to Value

How Golf Club Property Values are Determined for Premium and Losses

- Actual Cash Value - The cost to replace an item (purchase price plus inflation) minus depreciation.
- Replacement Cost - The cost to replace an item with no deduction for depreciation.
- Agreed Value - The amount of insurance is agreed between the insurer and the insured.

Signature Risk policies will generally provide Replacement Cost coverage according to the terms of the policy. There is also provision for Actual Cash Value should the circumstances warrant it. See Underwriting Guidelines which follow for further information.

Ensuring Insurance to Value is Maintained by the Golf Club

- Coinsurance - method to ensure the insured will carry adequate insurance protection (shown as a percentage). If the insured does not, then it will "coinsure" part of any loss
- Stated Amount Coinsurance - the regular coinsurance percentage is replaced by a fixed dollar amount of insurance

Signature Risk policies will generally provide Stated Amount Coinsurance according to the terms of the policy. There are certain provisions which must be followed in order for Stated Amount to apply. See Underwriting Guidelines which follow for further information.

How Golf Club Values and/or Limits Can Appear in the Policy Declarations

- Scheduled - each Building and its related Business Contents (stock and equipment) are each covered for a specific amount of insurance. The same technique applies to each location the insured owns and operates

This is Signature Risk's preferred method and provides the most clarity with respect to values.

- Property of Every Description (POED) - a term used to describe Building and Business Contents coverage on a combined basis at one location.

While Signature Risk may consider providing POED coverage, it can only be contemplated when specific terms and conditions are met, to ensure that the values supplied are adequate and signed off by the insured. At the current time, our insurers will not consider "blanket" POED values over more than location. See Underwriting Guidelines which follow for further information.

Underwriting Guidelines

Signature Risk wishes to continue providing Championship coverage to its brokerage community for all current and future golf club clients. In order to do so successfully, we need to reinforce some core underwriting practices to ensure that insurance to value is appropriately and satisfactorily handled going forward. The following guidelines are effective immediately.

General Guidelines - New Business

1. As a general rule, an up-to-date Statement of Values (SOV) must be signed by the insured and provided to underwriters. The signatory's official position should be included as well as the date.
2. The signed SOV should be provided with the coverage application. Receipt of this information is a subjectivity to binding coverage on a Replacement Cost basis. The signed SOV will form part of the policy.
3. The SOV should represent a detailed breakdown of the current values of the golf club's Building(s) and Building Contents (stock and equipment). Providing total values only is not acceptable.
4. If the above guidelines are adhered to, then POED coverage may be considered.
5. If Stated Amount coinsurance is required, then the amount should represent 100% value of the property to be insured. Please note how excerpts from **Section 15 - Rules for Loss Adjustment** of the current Signature Golf policy explain the Stated Amount provisions:

Stated Amount and Coinsurance Rule

Your golf club property is covered on a Stated Amount basis if indicated in the Coverage Summary. The locations, the stated amount and the stated amount expiration date will also be shown. This means we agree that the Amount of Insurance shown in the Coverage Summary satisfies the Coinsurance Rule if you have filed a current statement of values with us. If the proper amount of insurance is maintained, no coinsurance penalty applies.

Stated Amount expiration date. This Stated Amount expires on the date shown in the Coverage Summary. At that time, we'll automatically reinstate the Coinsurance Rule....

If a Stated Amount basis is not indicated in the Coverage Summary, the Coinsurance Rule will apply and a coinsurance percentage for the covered property will be shown. You agree to insure your property for at least this minimum amount. In return, we agree to reduce the premium that would otherwise apply to your property.

General Guidelines - Renewal Business

1. We will ask for updated values as part of the request for renewal instructions prior to the policy expiration date.
2. All other guidelines itemized under New Business then apply to the renewal as well.

Specific Guidelines - Greens Keeping, Golf Carts, Maintenance and Other Equipment

1. Underwriting details required are as follows - individual items of equipment must be listed, including description of make, model year, purchase price and replacement cost value. If lessors are involved, they must also be listed for each item.
2. A detailed schedule of equipment values will form part of the signed SOV and policy.
3. If a golf club has numerous changes to its equipment during a given policy term, then referral may be made to deal with the changes more efficiently.
4. Tools generally have smaller individual values. These may be covered on a loss limit basis, subject to receipt of a written inventory.

Golf clubs, like any other corporate entity, keep records of equipment inventories which are used for financial statements and tax purposes. Applying for insurance should be no different. The underwriting information is there and extra care must be taken to obtain it.

Conclusion

None of the underwriting guidelines outlined above are particularly new or unheard of before. Since all guidelines need to be refreshed from time to time, this bulletin has been prepared to reinforce the importance Signature Risk and its insurers place on accurate insurance to value. It also provides clear direction on the underwriting information required for us to continue to provide comprehensive Replacement Cost and Stated Amount coverage.

For More Information

For more information about this bulletin or for any questions regarding the Signature Risk commercial insurance programs please contact:

Elaine Collier
Chief Underwriting Officer
Signature Risk Partners Inc.
21 Price Street
Toronto, ON M4W 1Z1

Tel.: (416) 413-1167
email: ecollier@signaturerisk.com
web: signaturerisk.com

**ONLY A LICENSED INSURANCE BROKER CAN HELP YOU PROPERLY EVALUATE AND
MANAGE YOUR INSURANCE NEEDS.**

Disclosure

This report is for informational purposes only and has been prepared without taking account of the specific objectives, financial situation or needs of any insureds. Signature Risk is not a licensed insurance broker in any province of Canada. Only a licensed insurance broker can properly assist you in making any decision about your specific insurance needs.