



## UNDER INSURANCE OF BUILDINGS AND CONTENTS

Graham Bennett, FRICS, Valuation Director of Bennett Kaye Commercial, Chartered Surveyors, Specialist Sport & Leisure Club Valuer, writes of this growing problem.

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### Club Fires

Perhaps it is human nature to believe that disasters only happen to other people, but it is a sobering thought that on average over the last few years commercial fire losses in the UK have averaged nearly £1,000 million each year. Losses of this magnitude affect a lot of 'other people', and clubs carry more than their fair share of risk.

### Fire Insurance

Of course, all clubs carry fire insurance cover, and most review policies and change brokers from time to time, often seeking cheaper premiums. Unfortunately the most important aspect of cover is frequently overlooked. It is imperative that clubs review their sums insured regularly to take into account increases in replacement costs, building alterations, new equipment and general inflation. It is, however, common to find that inadequate figures with no reliable basis are passed from one policy to another. The result is that cover is simply inadequate to rebuild and re-equip the property. Bennett Kaye's surveyors routinely ask the club secretary where the existing sums come from and very few ever know. Figures are usually passed from a previous secretary, who did not know either, or are often the result of guesses. At the time of a claim an insurance loss adjuster will ask the same question and if he gets the same answer be sure that problems will lie ahead!

### Insurance Policy – An Asset

If a loss occurs the insurance policy could well be the club's only asset. For the policy to do its job properly the values placed on the club and its contents must represent the full cost of re-building and re-equipping the entire club, including green keepers and ancillary areas.

### Average Clause

Almost certainly the biggest obstacle to a successful claim is under valuation of the assets. The problem manifests itself when the Insurance Company conducts its own routine survey and discovers that the true, (perhaps theoretical), cost of re-building and re-equipping the club is higher than the sum insured. In this very common scenario the Insurance Company loss adjuster will introduce the 'Condition of Average' Clause as a perfectly legitimate means of adjusting the claim settlement. All insurance policies contain this clause. The effect is to reduce the claim in direct proportion to the under insurance which will cost the club money.

## How the 'Average Clause' Works.

Very broadly, if you insure the clubs buildings for £750,000 and the loss adjuster proves the true value was £1,000,000 then you are only 75% insured and, more importantly you will receive only 75% of any claim, even if your claim is less than your sum insured. In simple terms if the damage is £200,000 you will recover only £150,000. The shortfall would have to be met from club funds. Bills for £50,000 tends to cause unrest amongst management and members alike!

## Contents

The same principle applies to contents and green keepers machinery and it is often these areas that are the most badly insured.

## Under Estimation

Clubs nearly always under estimate the worth of their assets. Many are now furnished and equipped to a high standard. Deep pile carpets, cashless bars, projection televisions, extensive catering equipment and expensive green keeping machinery are common. Do not overlook the furniture, it may be old and written off but that threadbare chair worth a fiver might cost over £100 to replace. Snooker tables might be fifty years old but could cost £10,000 (or more) to replace. Always remember it's the cost of replacement with new that matters. Did you know that in nearly every case you are obliged to insure gaming machines, brewery equipment and nearly all rented items? At around £3,500 a time gaming machines can have a large effect on your figures. Forget second-hand values. Your rusty old tractor may only be worth a few hundred pounds but if a new one is £15,000 then you must insure for that figure.

You may not be too concerned about the tractor but its under insurance will affect the entire contents claim because the loss adjuster would include the full £15,000 in his calculation – not a second-hand figure.

## Responsibility

There is sometimes confusion over who is responsible for establishing the insurance values. Do not be misled, approved brokers will provide you with a first-class policy but will not pretend to be valuers. The responsibility for figures remains with the club. The best brokers will recommend a professional valuation is commissioned at four to five year valuations. If you ignore this advice and your figures are inadequate it is the club and not the broker that will suffer financial loss.

## The Bennett Kaye Golf Club Valuation Scheme

Bennett Kaye's surveyors have fifteen years experience of club valuations. It is a frightening fact that prior to valuation over 95% of clubs were insured for incorrect values and few would have fully recovered from a serious loss.

The sure way to avoid problems of under insurance is to commission a professional valuation of your clubs buildings, contents and greenkeepers equipment. Major insurance brokers approve Bennett Kaye. In addition to providing valuations of buildings and equipment Bennett Kaye will retain a complete inventory of all furnishings and make a photographic record, all of which will

be invaluable when proving an insurance claim. The service is available at any location within the United Kingdom

## **Fees**

Bennett Kaye's unique experience in this specialist field enables them to provide the service at a surprisingly low fee, which is agreed before commencement and based upon the existing sums insured.

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