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Coverage Crisis in the Making

As you are probably aware, the climate is a main topic of conversation today globally, whether it be rising or falling temperatures, adverse wind tolerances forming tornados or coastal blowouts creating storm surges. All this can be summed up as a catastrophe which is the main cause of increased insurance costs.

Securing affordable property insurance, however, has become a challenge whether it be as basic as homeowners coverage to more complex offerings in the commercial marketplace.

Options continue to shrink across our country as the effects of climate change ravage insurers' profits, thereby constricting their risk appetite. I could go on and on as to the initial lack of supply in markets such as California, Texas and Florida, but today it has spread to most areas of the country.

CLUBS AND INSURANCE SUPPLY

What is the current posture of the insurance community to the club industry? Extremely cautious. The new normal means paying closer attention to insurance than you have in the past.

Carriers that provide covers today to the industry are concerned about the rising cost of rebuilding, increased exposure to catastrophes like wildfires and the escalating expense of the insurance it buys for itself in the form of reinsurance to offload large sums of financial risk. Where is this headed?

Nationally, premiums rose 12.4 percent in the first quarter, according to S & P Global Market Intelligence, the highest increase in nearly two decades. Although the first quarter topped all previous quarters since 2020 at a whopping 22 percent, the results of catastrophic events linger in the marketplace.

Carriers continue to depart from the club market due to the inability to achieve positive profits in this class of business. A decade ago, there were close to a dozen suppliers of commercial insurance to the club business, and today there are less than six major providers. Lack of reinsurance paired with poor underwriting results forced many insurers and reinsurers out of the business in this class.

This resulted in substantial voids in coverages, and not replaced by new entrants. Suppliers in many of these areas of coverage are quite limited in offerings and limits.

Traditional coverages are harder to secure. Finding coverages that are comprehensive at reasonable prices is becoming increasingly complex.

Many of you as insurance buyers can relate to explanations of coverage variances not only in the area of property but also in

liability. Some examples of expensive limited offerings such as D & O and employment practices and cyber liability. Many states are creating last resort supply lines to provide cover to those who cannot qualify in the standard market due to location or risk profile.

Since most clubs are secured by lenders, the coverage required as well as the financial rating of the carrier are a must for the club to maintain. This in most cases adds to the costs to meet the risk profile of the club.

Many carriers are paying closer attention to insurance to value due to replacement cost issues and inflation. As a result of a tightening of the abilities of standard markets to provide supply, there may be nontraditional options that the brokerage market needs to approach and recommend such as surplus lines of non-admitted insurers who are lightly regulated and not backed by the state guarantee funds.

These insurers can cancel at will on short notice if their exposures suffer adverse results. Many places are experiencing this currently – California, the West and the Gulf states with homeowners coverage.

COST-SAVING STRATEGIES

In a world where we continually eliminate the middleman in the complex task of evaluating and recommending insurance coverage, it is invaluable to contract with a capable independent agent or broker. Not only in securing the best options available in the ongoing market but also in presenting the most viable options and prudent choices. They can further provide strategies such as higher deductible options as well as parametric wind covers.

It is vital to create a risk profile at your club to mitigate your exposure to large claims such as wind. Damage to the premises, including trees or water damage, is normally a result of freezing or faulty fire suppression systems. These usually are the largest property claims that occur.

Although climate change will be ongoing, it is vital to be matched up with insurance club specialists who are committed to the market and understand your exposure. **BR**