



**Managing the risk**



# INSURANCE MANUAL





## **Insurance as part of the risk management program**

An important component of a risk management program is insurance protection. Risk management emanated from the insurance industry and some still consider insurance to be the key to their risk management program. It must be underlined however, that whilst insurance plays a vital role as a financial safety net it does nothing to reduce the likelihood of undesirable events occurring.

The preference is for measures implemented via an effective risk management program to reduce the likelihood and/or consequence of those undesirable events. Insurance however continues to play a key role in providing financial security “when things go wrong”.

## **Background of insurance**

To enable an understanding of the current situation in regard to obtaining insurance protection for sport and recreation organisations we will look at what insurance is and how it works. In particular it is important to have knowledge of the factors insurers take into account when considering whether or not to provide cover and, if cover is to be provided, setting premium rates.

The main function of insurance is risk bearing. Basically, insurance is all about the sharing of risk. A number of insured people pay a sum of money (the insurance premium) to buy an insurance policy to provide them with protection as defined by the policy. This protection is generally associated with loss of assets, loss of earning capacity or loss from liabilities incurred. These premiums combine to form a premium pool, from which any losses as defined by the policy and incurred by the insured are paid.



The pool, administered by insurers, bears the risk and at the same time is the means by which the insured people can share the risk to which they are exposed. The pool funds need to be sufficient to provide for:

- The payment of compensation for the losses incurred
- Administrative expenses of the insurers
- A profit for the insurers. (Shareholders own insurance companies and those shareholders demand a return on their investment.)

Insurance for sport and recreation organisations is not generally seen as an attractive source of business for insurers. By the nature of the activities conducted there is the risk of injury, and where there is injury the potential for litigation is increased. Again due to the inherent risk of injury, the incidence of claims made under personal accident insurance is high, resulting in high amounts of claim benefits paid and also high administration expense ratios for insurers. As a result there are only a limited number of insurance companies that are prepared to underwrite insurance to cover sport and recreation risks.

The setting of premium rates by insurers always takes into account the three factors mentioned above. How much premium pool is necessary to allow claims to be paid, to meet administration expenses and to provide for a profit margin for shareholder returns? As the biggest proportion of the premium pool is used for claims payment the incurred cost of claims is most critical. Premiums are always controlled by claims; control your claims and you control your premiums. Sports insurance has traditionally brought about unsatisfactory underwriting results (claims and expenses as compared to premiums received) for insurers.

The placement of insurance for sport and recreation organisations has never been more challenging than is currently being experienced. Proactive risk management actions need to be adopted not only to allow for a safer sporting environment for all participants, but also to ensure that the safety net of



insurance continues to be affordable as part of the overall risk management program.

(Note: Private sector insurers suffered an underwriting loss of \$2.1 billion on business written inside Australia during the period 1<sup>st</sup> January to 31<sup>st</sup> December 1999. Source: Australian Prudential Regulation Authority – Selected Statistics on the General Insurance Industry Year Ending December 1999.)

### **Arranging insurance cover**

Critical to the arrangement of any insurance program is for the cover implemented to specifically address the risk exposures of the policyholder. Exposures vary from industry to industry; it is important that the insurance cover arranged for participants in the sport and recreation industry provides protection for risks that may be unique to that industry. Whilst an insurance policy wording may be appropriate for one industry it may be totally inappropriate for another. Tailoring the cover to fit the requirements of the policyholder is vital, and this requires professional knowledge and experience.

Insurance can be purchased directly from an insurance company (or an agent of an insurance company) or the policyholder can appoint an insurance broker, whose role is to act on behalf of the client to source appropriate and cost effective insurance cover from the insurance market. In return, the broker generally receives a commission from the insurer who supplies the cover (no cost to the client) and will also likely charge a fee to the client. The advantage of appointing a broker is the value they add to the relationship in terms of knowledge, service and impartiality.



## **Appointing an insurance broker**

For insurance classes outside the domestic areas such as car and household a broker is usually appointed. The first decision (and a critical one) to be made when appointing a broker is which broking company to appoint. As alluded to above, this decision should be based on what value that broker adds to the relationship. Firstly, the broker must have the necessary knowledge and experience in regard to insurance for sport and recreation bodies to enable the appropriate protection to be tailored and sourced from the market. Remember that this is a specialist industry, a broker who may be expert in industrial risks, for example, may be totally inappropriate for organising insurance for sport and recreation bodies.

Next you need to ascertain what other value the broker is going to provide as part of the service. Issues such as claims management, communication with and education of your members, risk identification and control services are vitally important. For example, what statistical data in regard to claims will be provided? Will appropriate statistical data on injuries and how they occurred be provided to allow for analysis with the intention of implementing intervention strategies? The role of an insurance broker should go far beyond merely purchasing / selling insurance policies.

Once you are satisfied that you have made the appropriate appointment decision then it is the brokers role to obtain the best cover and price possible for the client. There is nothing to be gained from having a number of brokers all referring the same risk to the very small number of insurers who underwrite sports insurance trying to find the cheapest price - in fact such a situation is more likely to work to the detriment of the customer. To illustrate; an insurer expects a concise appraisal of what covers are required. Any ambiguity in presentation not only



confuses the underwriting facts but also in some cases will result in the insurer offering more expensive terms because of the confusion that arises from the same risk being put forward with conflicting rating criteria.

The important point is be particular about whom you appoint as your broker, then make sure they are doing the job for which they are being paid by asking questions. A sample of appropriate questions to ask when selecting your broker is contained in the appendix.

### **Insurance Classes and Wordings**

It must be understood that insurance policy wordings and the protection provided by the policy will vary between insurance companies. Even though policies may go by the same name it does not mean the cover provided is the same.

Policy benefits, conditions and exclusions are critical to the decision process when comparing an insurance policy from one company with another. The purchase decision should not be made on price alone, a critical factor is the protection provided by the policy. Usually when there are significant price differences between products there are also differences in the quality of the products. Basing a purchase decision on price alone can be very false economy; it is essential that the protection meets your expectations in the event of a claim.

The only way to be certain of the insurance cover provided is to read the policy document and question your broker on any queries.

The policy wording and schedule of insurance are legally binding documents and outline what is covered and the benefits applicable. The policy wording must support all decisions made by an insurer in regard to what is or isn't covered. Similarly if the client has a query in regard to the cover provided the answer



would be found by reading the policy document and the certificate of insurance that accompanies it.

If the insured client has doubts about the cover they should ask their broker (or the insurance company directly) exactly where the matter in question is addressed in the policy wording.

It is extremely important that the policy benefits and exclusions are understood and considered carefully in making a decision on the purchase of a specific policy.

It is important to note that when an insurance company agrees to insure a certain risk it does so on the basis of the information provided by the insured. You have an obligation to disclose every matter that you know, or could be reasonably expected to know, which is relevant to the insurer's decision whether or not to insure, and if so, on what terms. This includes disclosing all claims or potential claims. Should there be changes to the risk being insured the client has a duty to disclose these changes to the insurance company. The company then has the right to review their decision in regard to acceptance of the risk and the premium charged. This duty of disclosure does apply not only to when the policy is first taken out, but also in the case of renewal, extension, variation or reinstatement of the insurance contract.

This is particularly relevant to the situation where an organisation is holding a special event that presents exposures outside those applicable to the standard activities of the organisation. Not only does the organisation need to consider whether or not additional types of insurance cover are required to address the risks this special event provides, but also they need to ensure that existing covers in place will respond to the special event e.g. will the liability insurance, respond to the different activities? Reference to the insurance company is



necessary in these situations, and it is wise to receive confirmation of the insurers response in writing.

### **Uninsured Risks**

Risk retention may occur in a number of ways, for example:

- By under-insurance – if your sums insured are inadequate, and co-insurance provisions are applied, you are treated as a part-insurer for all losses. A simple example of co-insurance applying would be if a \$500,000 property were insured for only \$250,000, the insured would be deemed to be wearing 50% of the risk. If the property was totally destroyed the insured would receive \$250,000, as would be expected, but if the building was partially damaged with repair costs of say \$100,000, the insured would be entitled to only 50% of the \$100,000 i.e. \$50,000.
- By inadequate loss limits – if your public liability limit for example is insufficient, you are your own insurer for the excess, plus a proportionate share of any legal costs. Say your public liability insurance limit is \$5,000,000, but in the event of litigation \$7,000,000 is awarded, the balance of \$2,000,000 would be the responsibility of the insured, together with the appropriate proportion of the legal costs.
- By a self-assumed excess or deductible under a policy – such as having a \$500 excess on a motor vehicle policy.
- By non-insurance - if you elect not to insure a risk you must wear all losses yourself.

The concern is not so much that you may retain certain risks, but that you may do so without fully recognizing the fact and making a deliberate decision to do so. Constant review of risk exposures should be conducted, with insurable risks identified and a decision made as to whether or not a particular risk is to be



insured. If so, an accurate assessment should be made in regard to sums insured.

### **Insurance Classes Applicable and the Cover They Provide**

We will now look at the various insurance types that should be considered by sport and recreation organisations. It must be emphasised that it is not practical to include a full list of all insurance types available. An organisation may have unique risk exposures that can be catered for by a specialist class of insurance. The insurances listed here are the more standard types of cover that the average sport and recreation body will have in their portfolio. A more detailed insurance checklist is found in the appendix.

As explained previously, the insurance policy document provides full detail of the cover provided, and this will vary from company to company. The cover descriptions provided should be considered a broad summary, with full terms, conditions and exclusions being contained in the policy wording.

#### **1. Legal Liability Covers**

As a result of trends in litigation liability insurance protection often heads the list of an organisation's insurance priorities. It is important to note that if legal action is instigated various parties may be included in the action e.g. the organisation as a legal entity plus individuals within the organisation such as office bearers, committee people, coaches, officials, trainers, even voluntary workers. Therefore when purchasing insurance cover it is most important to identify that the insured under the policy includes all those entities and individuals that may be exposed to litigation.

It is appropriate here that we clarify the situation in regard to incorporation, litigation and insurance. Incorporation is addressed in more detail in the section



on Sport, Recreation and the Law, but in simple terms an organisation that is incorporated is a legal entity, quite distinct from its members and the people who conduct its affairs. However, the fact that an organisation is incorporated does not mean that its officers, coaches, officials etc. cannot be personally held liable if they breach their duties or act outside their responsibilities. If, for example, a player was injured and it was alleged the coach had given inappropriate instruction and this had contributed to the injury, it is possible that action would be taken against the coach as an individual, and likely also against the organisation. It is for exactly this reason that the definition of the insured in the policy needs to include these people for their individual liability, as well as the club as a legal entity.

The various classes of liability insurance protection include the following:

### Public Liability

Public liability insurance covers liability that results from loss of or damage to property, loss of use of property and death or injury due to negligence, but excluding breach of professional duty.

Claims for negligence may be made against the sporting body or they may be made against individuals within the sport who allegedly caused or contributed to the negligence. Administrators, sports trainers, coaches, referees, players etc. can incur personal liability. As explained, incorporation does not mean that members cannot incur personal liability through their activities in a sporting club.

It is important the liability protection purchased covers risks specific to sport. A prime example is participation risk. Some public liability policies contain a clause that excludes any protection for liability that is incurred as a result of participation in sport. This is totally inappropriate as it is the participation factor that



contributes the most significant amount of risk. A policy with such an exclusion should not be purchased by a sport or recreation organisation.

Other conditions that should generally be included in a policy for it to be appropriate for sport and recreation bodies include:

- First Aid Treatment Risk – relates to liability arising from the rendering of first aid treatment by a sports trainer, official etc.
- Member To Member Cross Liabilities – covering each person / club / association separately in respect of claims made against them by another member (assault, battery and violent acts will be excluded)
- Umpires / Referees Liability – covers those officials should they be held liable for injury or damage to property as a result of a breach of their duty of care whilst officiating. Professional indemnity also is required, which is addressed later.
- Tenants Liability – the use of hired or leased premises places an obligation on the user to protect the premises and the people using them.
- Goods Sold / Products Liability – provides for liability arising from the sale of food and drink, sportswear, equipment, trophies etc.
- Property In Physical And Legal Control – in some cases goods or property entrusted to an organisation whilst organising an event can become their responsibility for care.
- Property Owners Liability – the general public's use of your property creates a liability exposure
- Car Parks – where your ownership, lease or use of property for events includes car-parking facilities, liability for damage or injury can be incurred.

In sport and recreation it is common for events to be held on property not owned by the organisation conducting the activities e.g. events held on council facilities or on private property. This presents the situation where the owner of the



property is exposed to the potential of litigation due to negligence as well as those conducting and competing in the activity. If for example, a competitor or spectator was injured as a result of a hole in the ground, who is liable – the owner of the property for providing a facility that was unsafe, or the organisation for allowing the event to be conducted on property that was unsafe?

The likely situation is that both the property owner and the organisation would be included in any legal action, with the court left to apportion liability. This potential for property owners to be held liable for negligence has resulted in reluctance by some owners to make their property available.

Where property owners allow organisations to conduct activities on their property they should insist on that organisation having appropriate liability insurance. This does not mean that the property owners themselves do not need their own liability protection, but by insisting on the users of the property having liability insurance they are reducing the likelihood of decisions relating to apportionment of liability being influenced by one party having a greater ability to pay damages than another.

Councils will normally require proof from organisations using their property that they have appropriate liability insurance to a minimum sum insured. (Minimum sums insured are usually at least \$10,000,000, often greater).

Property owners should have liability insurance, and if their property is being used to conduct sport and / or recreational activities they should also ensure that the cover provided by their policy extends to include any liability the property owner may incur as a result of those activities.

It is not unusual for a sport or recreation organisation to be asked by the council concerned (or any other property owner) to have their name included on the organisation's policy as an interested party, or even in some cases as a joint



insured. This can cause a problem as it will not necessarily be acceptable to the organisation's insurance company. Therefore such requests should always be referred to the insurer.

### Professional Indemnity

Professional indemnity insurance indemnifies the insured against claims for compensation for breach of professional duty by reason of any negligence by way of act, error, omission or advice.

Breach of professional duty is excluded under Public Liability insurance.

For sporting bodies this type of cover is particularly relevant to coaches and referees, but also applies to medical staff and other "professionals" involved in sport. Incorrect advice given by a sports controlling body to its affiliates for example, could be interpreted as a breach of professional duty. As with public liability insurance, it is important the cover provided applies not only to the organisation, but also to individuals within that organisation.

A policy will usually have a limit of indemnity for any one occurrence and an aggregate limit of indemnity for the policy period.

Exclusions apply to the policy, which vary from one policy to another, so it is important that these exclusions are understood. It is possible to include extensions (which in some ways could be seen as removal of some of the exclusions) to the policy for the payment of additional premium.

Common extensions are:

- Libel and slander
- Fidelity guarantee



- Fraud and dishonesty (amends the dishonesty exclusion so that dishonest acts unbeknown to the insured can be covered)
- Loss of documents
- Trade Practices legislation
- Automatic reinstatement of aggregate limit of liability
- Consultants, sub-contractors and agents

Professional indemnity insurance is generally a claims made wording, which means that the alleged breach, which has resulted in the claim, must have occurred after the “retroactive” date stated in the policy schedule, and the pending claim must be notified to the insurer within the policy period. It is therefore extremely important that written advice is given to the insurer as soon as it becomes evident that there is the potential for a claim to occur.

#### Directors And Officers Liability

A Directors and Officers insurance policy has two insuring clauses. The first states that the insurer will pay on behalf of the Directors and Officers any “loss” for which they may not be legally indemnified by their incorporated body due to any “wrongful act” committed by them in their capacity of director or officer.

The second insuring clause states that the insurer will pay on behalf of the Incorporated Body any “loss” for which they are legally permitted to pay arising out of any “wrongful act” committed by any director or officer in their capacity of director or officer.

“Loss” usually includes damages, judgments, settlements, interest, costs and defence costs. Loss excludes a claim arising from fines and penalties imposed by law, punitive damages and the like.



“Wrongful Act” is any actual or alleged breach of duty, breach of trust, neglect, error, misstatement, misleading statement, omission, breach of warranty or authority while acting in the capacity as Directors or Officers.

It must be noted that these insuring clauses relate to the actions of the directors and/or officers personally, not the actions of the legal entity of the organisation for whom they act as directors and officers. Although some policies do now have extensions available which may provide some corporate protection, the typical Directors and Officers liability insurance policy protects the individual, not the entity.

As already stressed, cover provided varies from policy to policy. The following covers may be included either as a standard part of the policy or they may be available as an optional inclusion:

- Libel & Slander
- Insured V's Insured
- Occupational Health & Safety
- Attending Investigations/Enquiries
- Spousal Liability
- Run-off Cover for Subsidiaries
- Joint Venture Cover
- Prospectus Liability
- Employment Practices Liability
- Fraud & Dishonesty of Employees
- Breach of Contract
- Trade Practices Legislation
- Intellectual Property
- Consultants, Subcontractors, Agents
- Advancement of Defence Costs
- Extended Reporting Period
- Continuity of Cover
- Estates & Legal Representatives
- New Subsidiaries
- Preservation of Indemnity
- Outside Directorships
- Reinstatement of Aggregate Limit
- Pollution Defence Costs
- Loss of Documents
- Committees
- Entity Cover
- Outgoing Directors
- Severability & Non Imputation



All the above extensions may not be relevant to your sport and recreation organisation, but all your exposures should be considered and the appropriate cover put in place.

Exclusions will apply to the Directors and Officers policy. Usual exclusions include:

- Bodily injury and property damage (this protection is generally provided by a public liability or professional indemnity policy)
- Dishonesty and fraud of directors and officers
- Actions arising from the rendering or failing to render professional services and/or advice (this protection is generally provided by a Professional Indemnity policy)
- Claims which are made or threatened prior to the commencement date of the policy, or circumstances which any director or officer was aware to be likely to give rise to a claim, prior to commencement of the policy

As with Professional Indemnity insurance, Directors and Officers insurance is a “claims made” policy.

### Association Liability

Association Liability insurance is a policy offered by some insurers which can be considered to be a policy for incorporated associations which combines the protection of Professional Indemnity and Directors and Officers insurance under the one policy document.

### Claim Examples

To assist in understanding the protection provided by these various liability insurance policies we will look at an event to which each policy would respond.



- A football game commences without the goalpost padding in place. A player runs into the goalpost and is seriously injured. A negligence claim would likely result as a duty of care exists to provide safe facilities to play the game. By not applying padding this duty of care has been breached, and someone has been injured as a result of this breach. A public liability policy would respond to this incident.
- A coach decides that his inexperienced players should undertake some tackling practice. He makes no enquiries as to what tackling expertise they have, nor gives any instruction as to how tackling should be done. He also matches the 100 kg “bruiser” with the 70 kg “speedster”. The speedster suffers spinal injuries. Again taking into account the duty of care as outlined above, a negligence claim would likely result. As this is a clear example of error or omission of professional duty as a coach, a Professional Indemnity policy would respond to this incident.
- A sporting organisation’s Board of Management, desperately keen to grow their sport, decide they need improved facilities and embark on a \$100,000 facility refurbishment. Inappropriate planning and research was done prior to the refurbishment, and when the creditors cannot be paid they decide to hold the Directors and Officers personally liable. As this was neglect, error and omission by the board members whilst acting in their board capacity, a Directors and Officers Liability policy would respond to this incident.

As an Association Liability policy is a combination of Professional Indemnity and Directors and Officers insurance, the policy would respond to both of incidents two and three.

An understandable question may be, “what covers does my organisation need?” In the case of public liability insurance it is likely the sport will be required to have this type of cover for the purposes of incorporation or to use Council property. But apart from those reasons, it is generally accepted the risk exposure that



applies to all participants if no public liability cover is in place is far too onerous to consider. In present times this insurance is crucial to protect the financial stability of the organisation and it's members.

Professional indemnity and directors and officers insurance are not taken by the same proportion of organisations as is public liability, but with the frightening trends in litigation more and more sport and recreation clubs are including these covers in their insurance portfolio.

A valid question is, "Can administrators, coaches, referees and the like, many of whom are volunteers, be expected to put their personal assets on the line with no protection?" Most will feel not.

## 2. Insurances Associated With Income Protection

Participants in sport and recreation, by the nature of the activities in which they are involved, have the potential for injury. Insurance is available that provides agreed benefits in the event of injury where permanent disability is incurred, earning capacity is lost or medical and associated expenses are incurred.

At times those unfamiliar with insurance have difficulty in identifying how public liability insurance interacts with personal injury covers. Public liability insurance responds only in the case where injury or property damage occurs as a result of negligence. A breach of a duty of care is involved, and any compensation is brought about by mutual agreement between the insurer and the injured party or as determined by a judgment in court. In the case of personal injury insurances, the policies respond with benefits as agreed between the insurance company and the insured at the time of taking out the cover and confirmed in the policy wording. Subject to policy conditions, the agreed benefits are payable if injury and resultant loss occurs; negligence or breach of duty of care is not an issue.



## Workers Compensation

Workers compensation insurance is a legal requirement for all employers and protects employees who are injured in the workplace. Each Australian state has its own workers compensation legislation that specifies precisely the cover provided and addresses issues such as who is deemed to be an employee and therefore must be covered under the workers compensation policy.

## Personal Accident Insurance

In the case of sport and recreation organisations personal accident insurance is usually arranged on a group basis. This can be done at any level from covering all members of an individual team / club all the way up to covering all members who are registered with all organisations affiliated with a particular national controlling body. Returning to the principle of insurance being the sharing of risk by creating an insurance pool, generally speaking an insurer will respond more favourably to insuring a larger number of participants as this gives a greater spread of risk.

When a group personal accident insurance is arranged, the policy will usually define the insured as including registered members of the organisation. In some competitions it is possible for non-members to compete alongside registered members. It needs to be understood that unless special arrangements are made to include specified non-members under the policy, they will not be protected by personal accident insurance whilst competing.

Again, cover will vary between companies, but the protection outlined below is typical of that available in the insurance marketplace. Personal accident insurance protects members whilst participating in their sport and recreation activities (both practice and matches), whilst travelling to and from those activities, whilst attending official functions of the organisation and whilst staying



away from home during a tour for the purpose of participating in sport and recreation events.

The benefits provided under group personal accident policy can include:

- Death – provides a benefit as agreed in the event of a participant's death as a result of participation. Most policies will contain exclusions relating to the cardiovascular system so care needs to be taken in this regard.
- Permanent Total Disability – provides a benefit as agreed where a participant is injured and as a result of that injury the person is permanently and totally disabled.
- Permanent Partial Disability – provides a benefit, usually a proportion of the benefit for permanent total disability, should a participant become permanently partially disabled as a result of an injury.
- Non-Medicare Medical Expenses – provides a percentage reimbursement as agreed, usually with a limit per injury per person, for non-Medicare expenses incurred as a result of injury whilst participating. This includes services such as private hospital (bed, theatre fees etc.), physiotherapy, dental, chiropractic, podiatry and pharmacy. Ambulance expenses are likely to also be included in this section. An excess is likely to apply. Should the injured person be covered by private health insurance, the personal accident policy will likely pay the balance above the private health insurance refund, subject to the percentage reimbursement agreed, the limit per injury and the excess applicable. It must be noted that as per Section 126 of the Health Insurance Act 1973, insurance benefits cannot be provided on medical expenses on which Medicare pays a benefit.
- Loss of Income – provides an agreed benefit for temporary disablement (or percentage as stated in the policy of actual salary) should an insured person be injured whilst participating and be unable to attend their normal income producing occupation (usually restricted to exclude sports participation income). An excess and a maximum benefit period will



apply. The methodology of calculating and payment of benefit can vary between policies so care needs to be taken in this regard.

- Home Help / Students Assistance Benefit – these benefits may be included for reimbursement of the actual costs incurred for household duties or studies to continue as a result of injury incurred whilst participating in the sport or recreational activity. The benefit will be an agreed percentage of the actual costs incurred up to an agreed maximum. An excess will likely apply.
- Parents Inconvenience Allowance – A daily allowance or reimbursement of expenses incurred by parents of children hospitalized due to injury may be included as a benefit under the policy. A maximum benefit and an excess will likely apply.

As the cover provided under a sports injury policy is flexible, not all of the above benefits will necessarily be included in a policy. Also, covers provided will vary from company to company, so it is vitally important that you are aware of and fully understand the details of the insurance you purchase. For example, under the Permanent Disability section, some policies will cover all Permanent Disability, both **Total** and **Partial**, whereas some policies will only cover Permanent **Total** Disability. You will understand that as the vast majority of permanent sports injuries are partial disability only; this is a very significant difference in the policies. Similarly the method of calculating and paying benefits under the loss of income section can vary between policies. As previously stated, it is wise to seek the services of an experienced professional in this area.

It is vitally important that all participants are aware of exactly what insurance cover the organisation has put in place for them. They should also be made aware that it is the individual's responsibility to arrange any additional cover they may wish to have. Including this as a clause on the participants registration form should be considered.



It has been mentioned previously that the insurance industry generally is less than enthusiastic in providing insurance for sport and recreation organisations. A contributing factor in this is that there is a high incident rate of claims for medical expenses and loss of income benefits. This frequency of claims not only results in increased claims paid, but also increases the insurers administration costs. This situation has resulted in insurers being reluctant to provide personal accident insurance that includes medical and loss of income benefits for what are often relatively minor claims.

The reluctance of the insurance industry to underwrite sport and recreation risks is a clear indicator that proactive risk management measures need to be undertaken to allow continued access to sustainable insurance coverage. An important factor in this is detailed analysis of incurred claims. For example, with personal accident insurance, exactly what are the injuries being incurred, what is causing them, on what surface was the activity being played at the time of injury, what was the weather conditions, at what stage of the game did the injury occur etc.?

The principle of “if you cannot measure it you cannot manage it” is most applicable to injury prevention and management. Injuries must be thoroughly analysed so that injury intervention strategies can be implemented.

### Professional Sportsperson Insurance

This is a variety of personal accident insurance that provides protection for the player and / or organisation against financial loss as a result of a player losing income-earning capacity from his or her sport as a result of injury.



It is possible to insure against financial loss due to permanent injury preventing any further participation in the sport, or to insure against temporary disability preventing participation for a limited time only.

### Travel Insurance

This is also a variety of personal accident insurance, but it can include liability protection, luggage and personal effects cover, travel cancellation benefits, kidnap, ransom and extortion, rental vehicle collision and theft excess waiver benefits in addition to the standard personal accident protection. This policy is also usually taken on a group basis and often goes under the title of Corporate Travel Insurance.

This type of cover is particularly relevant to groups travelling overseas, where the cost of medical expenses are often considerably more than in Australia.

### 3. Protection of Assets

Sport and recreation organisations are extremely diverse in terms of size, financial turnover and assets. Therefore the types of insurance they will require to protect their property will vary considerably from one organisation to another.

Property can be damaged or destroyed by any number of means. Fire, storm and other water damage, vandalism, explosion, burglary and theft, breakdown, misappropriation, impact by vehicles, other types of damage, even earthquake; they all have the potential to provide financial difficulty.

What first needs to be established is what assets (property) the organisation has that should be considered for insurance. Property will typically consist of building, fixtures and fittings, machinery, furniture and other contents, sporting and other equipment, money and stock. Equipment will also vary considerably



and may be fixed or mobile; it may include motor vehicles, groundsman's equipment such as mowers etc., computers, cash registers, gaming machines etc. Stock may include basic canteen supplies, sporting equipment or beverages required to stock licensed premises. Ideally a complete list of insurable property should be available. Asset and depreciation schedules may assist in this regard.

Keeping current records of property is important. Photographs are useful, especially with honour board and historic items, and may be of assistance in the event of a claim.

Having established the property available to insure consideration must be given as to whether or not to insure it. What is the likelihood of loss or damage? Can any actions be taken to reduce the likelihood of loss or damage? What would be the consequence if your property was destroyed or damaged? Does your organisation have the finances to replace it? Would it need to be replaced? Addressing questions such as these will assist considerably in determining if initiating or maintaining insurance is an appropriate action.

As finances are limited in many sporting organisations self-funding is not an option, therefore insurance presents a viable and cost effective means of providing the protection required.

The importance of appropriate sums insured has been addressed previously and it should also be noted that as items need to be replaced if they are destroyed insurance should be arranged on the basis of "Replacement Value". This may require some investigation, and perhaps in some instances a professional value may be advisable.

Your appointed broker should have the knowledge and experience to advise you on the types of insurance that will meet your organisations specific requirements,



and should source the most appropriate cover from the insurance market at a competitive price.

Insurance packages are often appropriate for the property of sport and recreation organisations where it is possible to choose the various sections of cover required. A more detailed list of covers is included in the appendix, but usual classes of insurance appropriate for clubs are outlined below:

- Fire and Specified Perils – As the name suggests provides coverage against fire and various perils specified in the policy wording. These perils generally include earthquake, lightning, explosion, storm and other water damage, malicious damage, impact by vehicles or aircraft, riots, strikes and civil commotion. It should be noted that flood is generally excluded unless it has been specifically purchased, in which case the policy will be endorsed accordingly.
- Consequential Loss (Business Interruption) – If a business is unable to trade due to one of the insured events as per the cover above it is possible to insure against the losses incurred as a result of the inability to trade.
- Burglary – provides protection against loss as a result of forcible entry to premises. Covers stock and other contents, but excludes money. Damage to premises is also insured and this should be provided for in the sum insured.
- Money – Covers money on premises during business hours, money on premises outside business hours but not in a safe, money in a locked safe, in authorised private residences and whilst in transit to and from bank / premises / private residence. A separate sum insured is usually insured for each of the above situations. Knowledge of policy conditions is important, particularly in regard to money left unattended.



- Glass – covers accidental breakage of fixed internal and external glass. Extensions are available for sign writing, damage to stock, temporary repairs and illuminated signs.
- Machinery Breakdown – covers electrical or mechanical breakdown of specified plant and equipment. It is not a maintenance cover; breakdown has to occur.
- Spoilage of frozen food – an extension to the machinery breakdown cover to insure frozen food spoiled as a result of breakdown of refrigeration equipment.
- Electronic Equipment Breakdown – similar to machinery breakdown but applies to electronic equipment. Again it is not a maintenance cover and knowledge of what is covered is necessary.
- General Property – insurance that covers nominated items of property. There is flexibility with regard to the cover provided e.g. cover can be for fire and specified events only, can include damage due to collision or overturning of the conveying vehicle, or it can also include accidental damage.
- Fidelity Guarantee – covers fraudulent misappropriation of money or goods by employees or specified officers. It is important to note that most policies insist on the insured being prepared to instigate action to recover the loss.
- Motor Vehicle, Mobile Plant and Equipment – cover can be for fire only, fire and theft, or for full accidental damage. Cover normally includes third party liability protection.
- Watercraft – cover against accidental physical loss or damage to craft, motors and equipment. The insured needs to be aware of limitations in regard to theft and motors dropping overboard.
- Industrial Special Risk (ISR) – this type of policy is only available for larger risks and would not normally be applicable for smaller sport and recreation organisations. It is a combined policy covering loss or damage caused by



accidental physical causes. All accidental physical risks are covered unless excluded by the policy.

#### 4. Other Insurance Covers Appropriate To Sport and Recreation

As stated previously there are many more insurance types available in the marketplace, many of which are listed in the appendix. The following may be appropriate for consideration by sport and recreation organisations:

- Cancellation and Abandonment, Pluvius Insurance – these insurances guard against the costs and loss of revenue associated with cancelling, postponing or abandoning activities due to events as specified in the policy wording e.g. weather, non appearance of special guest, airline strike. The cover is specifically designed to fit the requirements of the situation. Special care should be taken to understand the terms and conditions of the cover.
- Special Contingency Insurance – this cover is arranged to protect against financial disadvantage due to special contingencies e.g. hole in one cover for golf, throwing a goal from the halfway line in basketball, etc.
- Tax Audit Insurance – this cover is designed to cover the costs incurred should the organisation be subject to an audit by the Tax Commissioner e.g. accountant's expenses for extra involvement as a result of the audit. This insurance does not cover any shortfall in taxes or any fines that may be imposed.
- Legal Expense Insurance – this insurance covers legal expenses incurred should the insured be unfortunate enough to have legal action taken against them and the expense is not met by other liability insurance policies. It does not cover any damages awarded or penalties incurred, only the expenses involved in defending the action.



## Ten Steps To Follow For A Sustainable Sports Insurance Program

1. Implement a risk management program and culture into your organisation, with the goal being to implement actions that reduce the likelihood and consequence of undesirable events. Insurance is the safety net that provides financial protection in the event of something going wrong.
2. Select and appoint an insurance broker, ensuring the broker selected has the appropriate knowledge, experience and qualification in the area of insurance and risk management specific to the requirements of sport and recreation organisations. Your appointment decision should be influenced by the value the broker will add to the business relationship over and above simply sourcing and selling insurance cover.
3. In association with your broker, determine those risks exposures within the organisation to which the safety net of insurance is to be applied. Ensure that your broker has provided for policy terms and conditions that meet your requirements.
4. Your broker should report back to you having accessed from the insurance market appropriate policy terms and conditions at the best price available. You need to be satisfied that your broker has done the job effectively – ask questions, such as details of the various quotes received.
5. Via discussions with your broker, ensure that there are no policy conditions or exclusions that present problems. Once satisfied in all aspects, instruct your broker to organise cover.
6. When policies are received, in association with your broker, review the wordings to ensure there is no unknown endorsements, exclusions or conditions.
7. For group insurance policies in particular, those covered under the policy should be aware of the benefits that are applicable. Many sporting organisations have their members sign a declaration that they are aware of the cover provided and accept that cover, at the time of membership.



8. Maintain the insurance portfolio by remaining vigilant in regard to changes in circumstances, such as addition or disposal of assets that may affect sums insured, special events that may fall outside the current policies or require additional cover, etc.
9. Be proactive in ensuring that all claims made are genuine and incurred losses are minimised. The amount of insurance premium to be paid will always be aligned to the amount of claims incurred.
10. Analyse all available data in regard to claims and injuries with the aim of extracting information that will aid in identifying strategies for reducing the likelihood or consequence of claims. This will benefit not only the cost and availability of insurance, but will allow for a safer sporting environment for all participants.

#### Questions To Ask Your Broker

It is virtually impossible to compile a generic list of questions that should be asked of your broker. The questions will depend on the risk to be insured. Even when looking at a single industry (sport), the questions say a suburban croquet club will have for it's broker will be quite different to the questions of a football club with licenced premises and poker machines. However, the following list provides a broad outline of the type of issues that should be addressed with your broker. These questions are split into two categories:

##### a) Prior to broker appointment

- What insurance and risk management qualifications do you have?
- How much experience do you have in insuring sport and recreation organisations?
- In what way are you going to add value to our business relationship? i.e. what services (if any) are you going to provide in addition to sourcing and



arranging insurance cover? Services to look for are those that will assist with administration and contribute to a sustainable insurance program. Claims management, including data analysis, and risk management education and advice are examples of services that will lead to safer sport and recreation.

- Are any risks placed under a binding facility? If so, will the broker / client relationship be compromised by the binding authority?
- How do you receive your remuneration? Is it commission only, fee only, or commission and fee?

b) In regard to insurance protection to be provided

- Which insurance company is underwriting the policy? How financially stable are they? What is their credit rating? What is your experience with their claims management?
- What cover is the policy providing? The cover to be provided must be specific to sport and recreation activities. For example, for public liability insurance unless the policy includes cover for participation in sport it is inappropriate. Similarly it should provide first aid treatment risk etc. (refer to the section on public liability insurance earlier in this document).
- What exclusions apply to the policy? Do any of the exclusions pose problems in regard to the risks to be insured?
- What special conditions apply? For example, what obligations do I have in the event of a claim? Do any of these conditions pose problems?
- Who is covered under the policy? It is necessary to ensure that the policy protects all within the organisation that it is intended to insure e.g. the organisation as a legal entity, the players, officials, coaches, committee members and volunteers as individuals. In the case of liability insurance, will it provide protection if one member of the organisation injures another member of the same organisation?



- When does the policy provide cover? Does it cover all activities of the organisation - does the policy define the activities covered? What is the period of insurance?
- Where does the policy provide cover? Does cover apply to Australia and New Zealand only? Does it cover all the jurisdictions in which you have exposure?
- What is the level of cover? What are the sums insured? Is there an aggregate limit for the period of the policy in addition to a limit for any one event? You need to determine whether or not these limits are sufficient.
- Is the policy subject to an excess? If so, can I remove or reduce it for extra premium? Or can I increase the excess for a premium saving?
- Is the policy an “occurrence” or “claims made” wording? An occurrence wording covers incidents that occur during the period of cover, regardless of when the claim is made. Under claims made wordings, the alleged breach must have occurred after the “retroactive” date stated in the schedule and the pending claim must be notified to the insurer during the period of cover.

It is important these items are addressed prior to the appointment or purchase decision. Often it is only in the event of a claim that you learn of the appropriateness of your policy