Insurance For The Lodge

Dwight E. Levick

This month's Short Talk Bulletin was written by Mr. Dwight E. Levick, Executive Vice President of Kevin F Donoyhue and Associates of Boston, Massachusetts. Mr. Levick specializes in Insurance/Risk Management and has many years of experience in this field. He has also reviewed the Blanket Policies available to many Grand Lodges It should be stressed that where Blanket coverage is available through a Grand Lodge Program, that will represent the most economical and broad based coverage available to a constituent lodge. Also, this article is not intended to tell a lodge what insurance to purchase, but rather to be a Guide in following good procedures for determining what coverages should be looked for.

For humanitarian, social, legal and financial reasons, a lodge must make every reasonable effort to protect the health and safety of its members and the public from hazards incidental to its operations. And it must protect its resources from losses arising out of accidents, injuries, damages and destruction. Those charged with such responsibilities must, therefore, learn to manage those risks which could destroy or deplete assets or harm any persons. In this article we will try to provide assistance for persons with risk management responsibilities and also provide a better understanding for those who are interested in, but not directly responsible for, such activity. However, before entering into a discussion of risk management principles, a few definitions are in order.

The term "risk" is generally defined as a "chance of financial loss." The function of risk management is to reduce the risk of loss and minimize its effects through:

a. identification of sources from which losses may arise;

b. evaluation of the financial risk involved in each exposure in terms of expected frequency, severity and impact;

c. treatment of risks by elimination, reduction or control, transfer to others or funding;

d. continuous and systematic monitoring of results.

Purchasing of insurance is the most common method of transferring and/or financing risks.

Risk Detection and Evaluation

Probably the most important step in the risk management process is the identification or finding of risks that need to be treated. If you are not aware of the existence of a risk, you certainly can not make plans for handling it.

An insurance agent or broker should be of considerable help in searching for and planning a proper approach for the handling of risks.

Elaborate survey forms have been prepared by insurers, insurance agencies, and consultants. Such forms, of necessity, contain questions that will not be applicable to most lodges and substantial time can be wasted attempting to answer irrelevant questions. But it is important to remember that any questionnaire or survey form is designed to serve as a reminder of general areas of investigation where deeper prodding may be necessary. However, close cooperation of persons within the lodge and a sincere interest in attempting to locate the various risks is an absolute necessity to the successful completion of any survey.

Those charged with the responsibility of analyzing risks must possess enough knowledge of operations and be familiar with standard insurance policy provisions to recognize sources of risk. To repeat, a knowledgeable insurance agent can be very helpful at this stage of risk identification and evaluation.

Treatment of Risks

After identifying and evaluating risks, the third step in our risk management process is to determine what we are going to do with the risks. Certainly, controlling the risk is preferable to merely accepting the financial consequences, but complete control is seldom possible. Therefore, treatment of risks usually involves an intermixing of controlling and financing.

Risks can be reduced in several ways. We can reduce the probability of loss occurring. For example, when other organizations are allowed to use lodge premises we can require them to furnish us with certificates of liability insurance indicating that the lodge is included as an additional insured with respect to their activities in the lodge premises. We can also reduce the amount of loss that is likely to be incurred. For example, we can limit the amount of cash on the premises by making more frequent deposits.

Once we have controlled a risk as much as is practical we have two alternatives. We can retain the risk ourselves or we can transfer the risk to others. Commonly, risk management combines the transfer to others through insurance with the retention of at least some degree of risk through the use of deductibles, self-insurance or no insurance. Generally, if risks are retained under a formal program for which funds have been provided through budgetary allowances or otherwise, we consider the program to be one of "selfinsurance." Unfunded plans are usually considered to be merely uninsured risks and usually involve the absorption of losses as general operating expenses. The risk of losing smaller items is commonly handled in this manner by most lodges. Formal programs of self-insurance are not a practical consideration for most organizations.

In general, when purchasing insurance, deductibles should be used in order to prevent dollar swapping with the insurance companies and consumption of administrative time. The maximum size of the deductible to be used should be determined in light of the ability to absorb losses that would fall within the deductible or the effect that such losses would have on the organization. However, the size of a deductible, or complete self assumption of a particular risk, should be based on a consideration of premium savings, services needed and provided, as well as the financial ability to assume the probable and maximum exposures to loss.

The mere fact that a lodge has the financial capacity to absorb losses up to a particular level does not mean that deductibles of that size should always be used for all types of insurance being purchased. Generally, deductibles should be used to eliminate coverage for losses that are apt to recur with some degree of regularity. For example, deductibles of $100, $250, or $500 are common when purchasing property insurance. The use of deductibles for liability coverages is usually not practical as liability claims for a lodge are not expected to occur with any degree of frequency. Also, it usually benefits both the insured and the insurer to have the insurance company use the expertise of their claims personnel to handle investigation and settlement of liability claims.

Insurance –A Transfer of Risk

Certainly, the most common method of transferring risk is through the purchase of insurance. There is no particular method or procedure for purchasing insurance that can be said to be appropriate for all entities, or for even a single entity at all times. Contrary to popular belief, there are considerable differences in underwriting practices and pricing from one insurance company to another, and often within the same company, from one underwriter and/or insured to another.

In general, as many casualty coverages as possible should be placed with the same insurer. The same may be said for property lines. For a lodge, there are usually advantages to placing all property and casualty coverages with the same agent and insurer.

While the centralized purchasing of insurance is generally recommended, such programs are generally much more effective when there is direct control of all lodges insured under the program by the Grand Lodge. Accordingly, programs are available for the Grand Lodges in each state and all constituent lodges with very broad insuring agreements, and very low premiums, usually based on membership. However, if premises owned or controlled by a lodge are used for other than lodge purposes or if the premises contain an elevator, no liability coverage is afforded for those hazards unless the underwriter is advised and specific coverage for the risk involved is provided by endorsement.

Similarly, crime insurance can be provided for a Grand Lodge and constituent lodges on a standardized basis with excess fidelity coverage provided on specific positions.

Liability policies that are specifically designed for fraternal organizations are usually quite broad in scope covering both liability imposed by law and liability assumed under contract. Often, General Liability and Automobile Liability (nonowned autos) coverages are provided and there are very few exclusions. The definition of insured usually includes officers, employees, trustees, matrons, directors, stock holders, members, committee men, individually or collectively, while acting within the scope of their duties or activities as such.

Coverage applies on a worldwide basis as long as suit is brought in the United States, its territories or possessions or Canada. Coverage is commonly afforded for personal injury as well as bodily injury and property damage.

While the basic policies are extremely broad as indicated above, there are often endorsements to the policies which restrict coverage. For example, there is usually an endorsement indicating that the policy will not extend to cover any homes for adults or children, hospitals or other miscellaneous property or operations. Also usually excluded is coverage for liability if a lodge owns or leases buildings and rents or allows others to use the building, or if there is an elevator on the premises. Generally, coverage for such exposures can be provided, but must be handled by specific endorsement to the policy for each location requiring special treatment. A simple questionnaire distributed by The Grand Lodge can be used to determine the exposures for each lodge requiring specific treatment.

Crime insurance is commonly written for Grand Lodge with rather low limits applicable to Employee Dishonesty and Depositor's Forgery losses. Generally the Grand Lodge should purchase a limit such as \$50,000 or \$100,000 to apply to all Employee Dishonesty and Depositor's Forgery losses.

It should be remembered that Employee Dishonesty (Fidelity) coverage applies only to losses caused by "employees." Therefore, an endorsement should be added to a lodge policy to extend the definition of "employee" to include persons rendering service without compensation who perform acts coming within the scope of usual duties of any of the officers, clerks or other members of the insured.

It is common for property insurance to be written under "package" policies such as a Special Multi-Peril Policy providing both property and liability coverage. If liability coverage is being provided by the Grand Lodge, this could result in a considerable duplication of coverage which should be avoided. In such case, in order to prevent difficulties in the handling of claims, endorsements to the policies covering both the Grand Lodge and a constituent lodge will be needed. Generally, these endorsements should indicate that the coverage for the constituent lodge will be primary and that the Grand Lodge policy will afford coverage on an "excess and difference in conditions" basis with respect to any coverage purchased by a constituent lodge.

Certainly, there are many other types of insurance which may be necessary or desirable for a constituent lodge or The Grand Lodge. If there are employees, Worker's Compensation coverage is probably necessary. There may be liability risks involving owned or non-owned boats or aircraft. Snowmobiles and vehicles of various types used in parades or otherwise may also need special treatment. Generally, risks of this sort are insured by each constituent lodge and by The Grand Lodge for their own benefit only.

In summary the first steps in the risk management process are to identify and evaluate the possible exposures to loss. This must be done on a local basis by each constituent lodge. After this has been done, the availability of insurance through the Grand Lodge should be checked and coverages appropriately designed to handle all of the risks without gaps or duplications of coverage. This will require time, patience and the assistance of a knowledgeable insurance agent.

STB - July 1988