

After the Fire

Club owners may be tempted to cut back on their insurance costs, but those who are recovering from a catastrophic event to their club are glad they didn't.

Smoke that billowed from the fire in the club's sauna seeped into the rubber floors and the rubber on the equipment, rendering all of it useless. The sheet rock and duct work had to be ripped down. Ceilings had to be washed with a solvent. Other damaged property included tables, chairs and temporary signage, as well as the company's membership files, which had to be moved off-site and were frozen before going into an ozone room for contamination removal. Adding insult to injury, someone later stole the club's IT equipment for its makeshift operations.

It has been nearly a year since a fire erupted on July 26 in the women's sauna of the corporate club of WOW! Work Out World in Brick, NJ. After initially trying to reconstruct the 30,000-square-foot club, owner Stephen P. Roma has instead decided to sell it and open a new club in the area.

Roma said all of the damage from the fire was covered by his insurance, except for one element—the stress level. In the months since the fire, Roma has had help in reducing his stress level by working with his insurance agent and a public adjuster to detail the damages, estimated at well over \$1 million.

“If it was not for us obtaining and retaining the public adjuster, I think we probably would have achieved at best 60 percent of what we're achieving financially through the insurance company,” says Roma, who also has nine other locations.

In this tight economy, some club owners are contemplating cutting back their insurance premiums, but examples such as Work Out World should make them reconsider that notion. Ken Reinig, senior vice president of Association Insurance

Group, Kennesaw, GA, says he's received more questions from club owners about cutting insurance costs in the past few months than he has over the last 20 years. Each time, Reinig advises club owners to keep their premiums.

“It is definitely on the minds of club owners today, trying to just figure out ways to hang in there,” Reinig says. “Their insurance costs, at least in their mind, is an area that they may be able to cut back in, but really, they can't.”

To the Rescue

Roma's insurance agent, Jon Denley, senior vice president of Creative Agency Group, Holmdel, NJ, arrived at the scene of the World Out World fire on the day it happened—thankfully, no one was injured. The cause of the fire, Denley says, was a protruding nail that had been

By Stuart Goldman, managing editor

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touching a live wire since the sauna's renovation. It took months for the nail to create a spark, Denley says.

Denley, who serves as the go-between for his client and the insurance carrier, surveyed the damage and immediately contacted a company to begin clean-up work the next morning. Roma was out of town on the day of the fire. When he returned home that night, he found an introductory packet from Leslie Knox, a public adjuster from the firm Andrew K. Knox and Co. in Toms River, NJ, already in his mailbox. Knox would end up putting together several hundred pages of photos and other details of the club's damage to show the insurance carrier.

"The damage was great enough that you've got to get a public adjuster involved," Denley says. "An insurance agent is just not going to be in a position to advise and counsel in a catastrophic position. An insurance agent is not trained for that. Public adjusters are. They will attempt to

get advance money for the insured. They will attempt to get all of the necessary permits. They'll make arrangements for the debris removal and the reconstruction. They get very deeply involved."

The three types of claims a public adjuster prepares for the insurance company are a building claim (detailing construction costs), a business personal property claim (featuring furniture and fixtures, equipment, stock and supplies) and a business income portion claim, which estimates the amount of revenue the company lost from the time of the fire.

"The devil is in the details," Knox says. "The more detail I can provide to document the loss and prove the value, the more satisfactory the settlement is going to be for the insured."

The public adjuster and the club owner agree to a contract in which the public adjuster receives a percentage of the insurance payment, usually between 4 percent and 10 percent, Knox says. The check from

the insurance company to the club will include the club owner, the mortgage or lien holder of the building and the public adjuster. Once the club receives the check from the insurance company, the club owner then writes a check to the public adjuster.

Knox says the insurance company has paid off the building claim and the business personal property claim so far in the Work Out World case. The business income portion check from the insurance company is expected to arrive soon, Knox adds.

At first glance, public adjusters might appear to be stepping on the toes and the duties of the insurance agent. Regardless of whether egos are damaged, the public adjuster knows what role he or she has to play, Knox says.

"Very often, there will be a battle of wills between the insurance agent and the public adjuster," Knox says. "That's not unusual. But as long as both sides enter

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the relationship with the goal of getting the insured paid as quickly as possible and an amount that is truly representative of the loss in damage, then all parties will come out much better.”

Denley says: “It has nothing to do with ego. It has to do with satisfying my client to the best of my ability in the attempt to get them back in business as quickly as possible. Agents get commissions by insurance companies to write business with them. An agent, in my opinion, earns that commission at that time of need when you have a claim.”

A few days after the fire, the office was back up and running, complete with temporary cables that connected the company’s two T1 lines for phone and Internet connection. Roma’s team put together a makeshift operations center in one of the areas of the building not as heavily damaged by the fire.

The 3,500 Work Out World members at the Brick, NJ, location were allowed

to work out after the fire at competing neighboring clubs, to which Roma paid a monthly fee. Roma had hoped to continue those agreements with the other club owners into this year, but when reconstruction went slower than anticipated, and it was apparent the club would not be ready by the start of 2009, Roma decided to sell the building. Roma figured it wasn’t worth the \$2 million to re-build a club that he estimates might have only a quarter of the membership returning.

Other Insurance Claims

Midtown Athletic Clubs, Chicago, experienced a similar situation about two years ago when a fire erupted in its club in Evansville, IN, says Steven Schwartz, CEO of TCA Holdings, which operates Midtown Athletic Clubs. Like the fire at Work Out World, the Midtown fire started in a sauna. And like Work Out World, Midtown initially attempted to rebuild the club but ended up selling it, Schwartz says.

“We realized that the cost to rebuild was going to be more than our mortgage,” Schwartz says. “We already spent a significant amount of money trying to repair the club. We sat down with our insurance company and negotiated a final settlement, which would have saved them money from having to completely rebuild but got us enough to be whole.”

Schwartz adds that Midtown sold the club to a company that finished construction at a lower cost than his insurance company could have paid to reconstruct it. Because of Midtown’s cooperation with the insurance company, the company did not raise Midtown’s premiums, Schwartz says.

“Insurance companies historically do not increase your annual premium or future annual premium as a result of a catastrophic loss,” Denley says. “They generally increase your premiums because of claim frequency and not severity.”

Mark Mastrov, founder of 24 Hour Fitness, San Ramon, CA, who now heads

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the private equity firm New Evolution Fitness Co., remembers dealing with insurance companies after three separate instances resulted in heavy damage to his clubs.

The roof of one 24 Hour club caved in over the pool area after drain blockage from heavy rainstorms caused the roof to fail. No one was in the pool at the time, Mastrov says. It took the insurance company more than 12 months to agree to the

repairs, Mastrov adds, and the amount the insurance company offered 24 Hour for coverage of the loss of business was much less than the company suffered. After arbitration, it took 24 Hour more than three years to receive payment from the business loss revenue claim.

In another case, after tornados damaged several 24 Hour clubs in Texas, it took more than 60 days for insurance companies to agree to bids for repairs,

Mastrov says. In a third case, a fire in a neighboring building spread to a 24 Hour club, causing management to have to shut it down for more than a year, Mastrov says,



Tips for Risk Management Services

Mary Wells, area vice president, risk management for Arthur J. Gallagher Risk Management Services Inc., Eden Prairie, MN, offers tips for how insurance agents manage their catastrophic claims with their club owner clients.

Prior to a loss, insurance agents should negotiate a broad policy with their club owners to include:

- An agreement on an independent adjuster
- The loss adjustment expenses to include attorneys in loss preparation and coverage analysis
- The identification of a business interruption expert
- Arrangements for remediation partner(s)
- The establishment of a chain of communication and coordination between all parties

After a loss, the insurance agent should:

- Immediately schedule an on-site meeting with the insurance carrier and the club owner
- Develop a strategy to mitigate and handle the claim in a timely fashion
- Establish an agenda, identify key issues and set the expectations of all parties involved
- Identify the needs for claim team members (such as consultants, independent adjusters and attorneys) and to assemble and manage the experts
- Make sure the claim continues moving forward and time frames are met

On-site:

- Take digital photos of the damages; distribute electronically to all parties
- Assist with coordination of temporary repairs; mitigate the initial damage
- Help get the club owner up and running
- Provide a spreadsheet with the statement of values, copies of policies; clarify how deductibles/self-insured retentions are applied, etc.

On-going:

- Manage the expectations and work as a team towards a fair settlement
- Obtain initial advance and mid-term payments
- Continue to schedule meetings and/or conference calls as needed
- Review documentation submitted for payment
- Assist with rebuttal analysis and counter proposals, seeking win-win compromises
- Monitor reserves for accuracy and appropriate adjustments—avoid surprises

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and once again, the company recovered the business loss revenue after arbitration with the insurance company.

“Generally, in any insurance request, we had tremendous difficulty in getting reimbursed for work done,” Mastrov says. “The insurance companies generally drag their heels and sometimes take years to pay off what we are owed. The damage claims are a bit easier than the business interruption losses [claims].”

Not Time to Trim Costs

Despite some of the difficulties that can occur in dealing with insurance companies, now is not the time to cut back on insurance costs—especially liability insurance—no matter what financial situation a club owner is in during this strained economy, insurance agents say.

“Any club [operator] that would be self-insured for liability would be a complete fool,” Denley says. “The fitness industry



Fitness Club Insurance Carriers

Some of the main insurance carriers that work with the club industry are:

- The Hanover Insurance Group
- Liberty Mutual
- Meadowbrook Insurance Group
- Philadelphia Insurance Companies
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is vulnerable to a liability claim every day. You can't go without liability insurance. As far as the property insurance, if they own the building, they usually have a mortgage, so the bank is going to make certain that you have insurance to protect their financial interest.”

Club owners need to understand the value of insurance and how affordable the amount of coverage is for the protection they get in return, Reinig says.

“If an insurance agent is doing their job, they will attempt to make sure that club owner understands that you don't want to cut off your nose to spite your face,” he says. “You don't want to save \$400 when it could end up costing you \$400,000 in a claims situation.”

Roma doesn't have those worries, thanks to his insurance policy and the agents with whom he worked. Roma's stress level may have been reduced, but the emotional tie to the club that suffered the fire and will eventually be sold is still there, he says.

“I used to ride my bicycle to this building because I don't live that far,” Roma says. “I won't be doing that this summer.” ■●

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