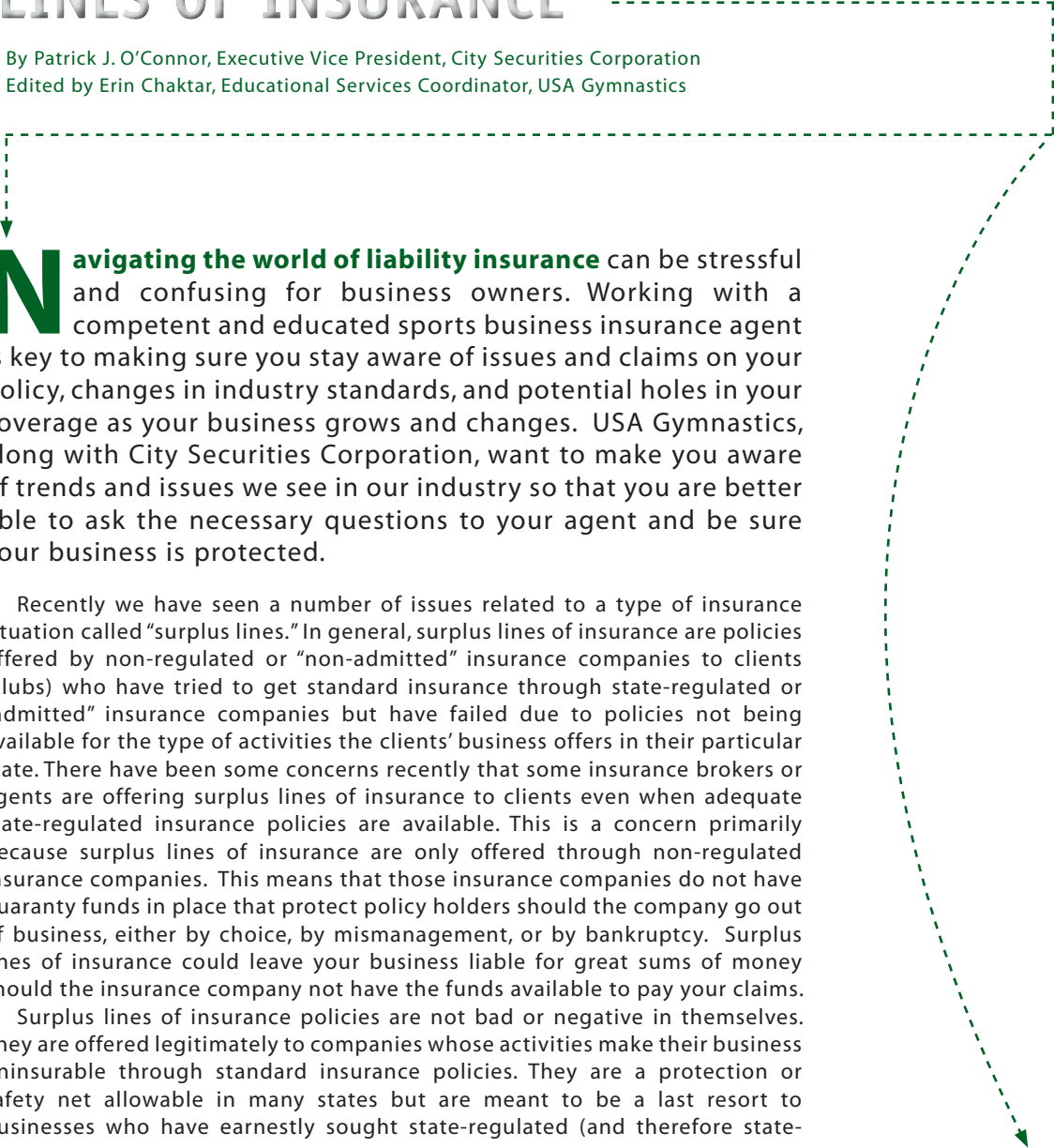


# INSURANCE ISSUES FOR GYMNASTICS BUSINESSES: UNDERSTANDING SURPLUS LINES OF INSURANCE

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**N**avigating the world of liability insurance can be stressful and confusing for business owners. Working with a competent and educated sports business insurance agent is key to making sure you stay aware of issues and claims on your policy, changes in industry standards, and potential holes in your coverage as your business grows and changes. USA Gymnastics, along with City Securities Corporation, want to make you aware of trends and issues we see in our industry so that you are better able to ask the necessary questions to your agent and be sure your business is protected.

Recently we have seen a number of issues related to a type of insurance situation called "surplus lines." In general, surplus lines of insurance are policies offered by non-regulated or "non-admitted" insurance companies to clients (clubs) who have tried to get standard insurance through state-regulated or "admitted" insurance companies but have failed due to policies not being available for the type of activities the clients' business offers in their particular state. There have been some concerns recently that some insurance brokers or agents are offering surplus lines of insurance to clients even when adequate state-regulated insurance policies are available. This is a concern primarily because surplus lines of insurance are only offered through non-regulated insurance companies. This means that those insurance companies do not have guaranty funds in place that protect policy holders should the company go out of business, either by choice, by mismanagement, or by bankruptcy. Surplus lines of insurance could leave your business liable for great sums of money should the insurance company not have the funds available to pay your claims.

Surplus lines of insurance policies are not bad or negative in themselves. They are offered legitimately to companies whose activities make their business uninsurable through standard insurance policies. They are a protection or safety net allowable in many states but are meant to be a last resort to businesses who have earnestly sought state-regulated (and therefore state-

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fund protected) insurance policies but found none that would provide coverage. In general, states that allow surplus lines of insurance allow them only when state-regulated policies are not available at all. If a business selects a surplus line policy simply because it seems more affordable even though a state-regulated policy is available, they have often violated state law as well as made a poor business decision. When there is a state-regulated policy available you should ALWAYS select it over any surplus line policy, even though there may be a significant price difference. If your insurance agent advises you that a surplus lines policy is an option for your needs, you can visit the National Association of Professional Surplus Lines Offices at <http://www.napslo.org/imispublic/AM/Template.cfm> to learn more about how these types of policies work, the type of coverage they afford, and other issues you'll want to know about before making your decision.

The National Association of Insurance Commissioners (NAIC) offers these guidelines to help consumers know

Many business owners have not been aware of these types of laws and this article is meant to be a general and limited discussion of this insurance issue. It is not meant to be a legal and comprehensive review and as such, we encourage you to ask about your state's laws with your insurance agent to be sure that your business is protected by legal and adequate liability insurance.

what types of questions to ask their insurance agent or broker, and which "red flags" you should watch for when you are working with a insurance company. It is a sound business practice to not assume that companies that seem popular or are recommended to you are reputable. Do your own research!

1. Be aware of deceptive sales practices. Companies or agencies may sell illegal products or policies through direct-mail solicitations, newspaper or magazine advertisements, or over the Internet.

2. Verify that the company and the agent are both licensed to sell insurance in your state. Contact your state insurance department and ask the following questions:

- Is the company licensed in your state?
- Is the agent licensed in your state and a legitimate representative of the company?
- Does the company have a good record of handling complaints?
- Have any complaints been filed against the agent?

3. Check the company's credit rating. Legitimate insurers have their "creditworthiness" rated by independent agencies. An "A+++" or "AAA" rating is a sign of a company's strong financial stability. You can check a company's rating online or at your local public library.

4. The proof is in the paperwork. It is important to keep detailed, written records of all insurance communications, including rate quotes. After purchasing a policy you should receive a copy of that policy – not a photocopy – within 30 to 60 days of purchase. If you do not receive your copy in a timely manner, contact the insurance company or agent immediately. Make sure that you read through your new policy completely. Double-check that everything in the policy matches any quotes you received, and all the numbers you provided on your application (such as participant and staff numbers) are accurately represented. Write down any terms or sections that you find difficult to understand and discuss them with your agent.

5. Watch for these "red flags" that could warn you of possible deceptive sales practices:

- High-pressure sales pitches from companies or agents who contact you repeatedly, offer "limited-time only" offers, or any one whose style of business makes you uncomfortable or aggravated. Trust your instincts.
- Companies or agents who brush off or ignore your questions or concerns. If you bring legitimate questions to the attention of your insurer and receive responses such as "don't worry about it," that is a red flag that the agent or company is not interested in making sure you clearly understand your policy.
- Quick-change tactics. Skilled scam artists will try to prey on your "time fears." They may try to convince you to change coverage quickly without giving you the opportunity to do adequate research. Don't be pressured into making uneducated decisions.
- Unwilling or unable to prove credibility. A licensed agent will be more than willing to show adequate credentials.
- If it seems too easy or too good to be true, it probably is!

6. Get more Information. Your state insurance department is your best source for information on company and agent requirements, as well as available products. If you suspect you've been the victim of deceptive sales practices, report it to your state insurance department immediately. You can find links to state insurance department websites, as well as other consumer resources, by visiting [www.naic.org](http://www.naic.org). Click on "State Insurance Web Sites," then click on your state. ✕