

Insurance for Karate Schools
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Buying insurance for a karate school is not as easy as it seems. Purchasing the least cost karate school insurance will not insure all your needs. In many instances your karate school could face important exposures to loss which are not included in your current coverage. Of course, broader coverage may require a larger insurance expenditure, but could save you thousands of dollars and much aggravation if you are faced with a large lawsuit. Savings would be found not only in loss payout, but in the high cost of legal defense. If nothing else, you should at least be cognizant of what your policy covers and what options are available.

Basic insurance needs for a karate school can generally be broken down as follows:

- Property insurance including loss of income, inland marine, auto physical damage, and crime coverages.
- Liability insurance including General, Professional, and Auto.
- Workers Compensation
- Medical Expense Coverage

Some of these insurance coverages may not be appropriate for your circumstances, but an understanding of the various coverages and what they can provide will allow you to make an educated business decision on the coverages necessary for your specific situations.

Property Insurance is direct coverage on your business personal property. It covers the perils of fire, lightning, windstorm, etc. and can be extended to include theft. Coverage is limited to property while it is on the premises and minimum percentages of total value must be carried to avoid a coinsurance penalty. To insure property off premises an inland marine floater is required. Computer systems can be insured under separate computer forms with broader coverage or included as business personal property. Separate crime coverage can be purchased to cover burglary or theft on merchandise if not provided in the property insurance. Crime coverage can also cover theft of money and securities and protect against infidelity of employees. Many karate schools do not insure their business personal property as investments in equipment and inventory are often small.

When considering property insurance, however, it is a good idea to review your lease. Most leases will stipulate that Improvements and Betterments to the location are not covered as part of the landlord's building coverage and thus you will have to provide insurance if they are to be covered. Improvements and Betterments are additions or alterations to your premises such as partitions, carpet or other flooring, wiring, paint, decorations, etc. that you put into the school location. If you are renting an entire building, it is not uncommon for the lease to require you to insure the building you are renting. Even if you are a partial renter of the building, your lease could contain wording on your responsibilities which many necessitate property insurance on the

building or your part of the building or at a minimum require fire legal liability. You should try to get a waiver of subrogation in your lease if possible. This can negate the need for legal liability coverage. A subrogation waiver prevents the building owner's insurer from subrogating back against you in the event of a loss arising out of your occupancy.

Leases usually require the lessee to be responsible for glass doors and storefront windows. Most business do not insure glass because of the cost of coverage, but you should be aware of whose responsibility it is should the glass break or be damaged. Read your lease carefully. Finally, some loans require collateral and you may be responsible to insure your business personal property or inventory if used as collateral for a loan.

Business interruption is a time element coverage under property insurance that insures your loss of income in the event income is lost from an insured peril. Another form of Business Interruption called extra expense insurance insures the extra expense required to continue business operations in the event of an insured loss. Both coverages may be applicable. Finally, loss of rents coverage can be purchased which pays for the loss resulting from untenability of the premises in the event of a loss. Does your lease require you to make rent payments even though the premises has been damaged?

Comprehensive and collision insurance on owned autos is called auto physical damage. While written on an auto policy, physical damage to vehicles is a property coverage. Auto Physical Damage is usually written with deductibles. Rental Reimbursement and Towing and Labor coverage can be included. Special endorsements may be needed to cover equipment such as cellular phones or other business personal property in the vehicle. If you entered into a lease for the vehicle, the lease may require the lessor of the vehicle to be named as an additional insured and the actual owner of the vehicle to be named as a loss payable for damage to the leased vehicle. If a loan was taken out, the lending institution often requires a loss payable class in its favor protecting its investment. Both leases and a loan agreements usually stipulate minimum coverages to be carried.

Workers Compensation consists of two parts, Coverage A is Workers Compensation and pays for injuries medical bills and loss of wages to employees required under workers compensation laws. Coverage B is Employers Liability and covers business for a suit from an employee alleging negligence because of an injury at work. Workers Compensation may be mandatory or elective in your state and some states mandate participation in state funds. Sole proprietors and partners are usually not covered in the policy unless they elect to be. Officers of a corporation are covered unless they elect to be excluded. A workers compensation policy for a corporation will not extend to work as an individual reported on a Schedule C. Review carefully the options in your state in order to meet mandatory requirements and to purchase the coverage you desire.

Medical Expense Insurance is another coverage that is available. This is different than premises medical payments coverage. Medical Expense Insurance will pay for medical expenses to an injured student regardless of fault. Most medical expense insurance is excess or secondary coverage. This means that it will pay only if other medical coverage is not in effect or the claim exceeds the limits or the primary carrier. This insurance does not protect you from lawsuits but may help discourage a claim should an injury occur and does have some social value. Often this insurance can be extended to include Accidental Death and Dismemberment and Disability Income coverages.

Next month we will complete a discussion of karate school insurance and discuss liability insurance and certain other problems that can crop up.

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Liability Insurance is an important part of any insurance portfolio. It protects the business from suits by third parties for bodily injury or property damage. This insurance is written subject to certain agreements, exclusions and definitions. An understanding of the agreements, exclusions and definitions in your policy is mandatory if you are to determine if your policy provides adequate or at least the broadest protection available.

Third party liability insurance commonly sold to karate schools does not usually extend to cover the karate school for off premises activity - camps, demos, outdoor training, etc. This type of form is called a designated premises form. Further, coverage may not cover you for claims arising out of any negligent act, error or omission in rendering or failure to render the professional services of a karate school -- injury alleged because what you taught failed to work -- known as professional liability. Some policies protect you for an occurrence regardless of when a claim is made, others protect only for claims made during the policy period and are time limited ceasing all protection at the expiration date. A policy can carry an athletic participation exclusion which excludes the practicing for or participation in any contest or exhibition of an athletic or sports nature. You should read the insuring agreements, definitions, and exclusions in your policy carefully to know what coverage is and is not granted.

Insurance policies only cover the named insured unless specifically requested to extend coverage. A common addition to a policy is called lessors risk. Most leases require the landlord to be named as an additional insured and may stipulate minimum limits and coverages to be carried. The additional insured lessors risk endorsement provides for the landlord.

If your business is an incorporation, coverage will not apply to your individual activities or property. Receiving test fees directly and not through the business is considered a separate business activity and you are a separate business entity and not covered unless the corporate policy also names you individually as an insured. Many policies are scheduled forms and only

cover those activities for which liability codes are scheduled on the policy. You should make sure that all activities that you desire coverage for are declared to the underwriter to make certain that they are not overlooked. Even then, look at the quote carefully and do not be afraid to ask questions. Often insurers, regardless of the application, only quote the coverage they offer. If your agent is not knowledgeable about this special class of coverage, he may not catch the differences.

Auto liability exposures exist whether the karate school owns a vehicle or not. Anytime an auto is used for dojo business activities the business can be sued. This can include arranging rides to class or a tournament, sending a student or secretary out to a store or to pick up the mail, or even your employees going out for lunch. Use of non-owned autos requires a special endorsement on a business auto policy or general liability policy to be covered. Another auto liability coverage available is hired car coverage which picks up liability for a borrowed or rented auto. Be careful if you travel and rent vehicles. Make sure you have this coverage and that the coverage applies out of state. Note, the coverage only applies to the named insured.

One area of special concern should be understood when insuring a vehicle. Liability tends to follow the vehicle ownership. If the vehicle is in your name, you should insure it in your name. If owned by the business, insure it in the business. Otherwise you can create a gap in coverage for the owner of a vehicle. Remember, you are separate from your business. If you have a vehicle in the business and do not own and insure a vehicle in your personal name, consider buying drive other car coverage for bodily injury, property damage, uninsured motorist coverage and medical payments. In any event, non-owned auto coverage should be included whether you have a business auto or not. If you do not write the policy in the name of the owner of the vehicle, you may violate state law in states where liability coverage is mandatory. Further, you could have a claim denied to the owner because he has no insurance and the claim would also be denied to the holder of the policy if he has no insurable interest. To avoid these problems, if the vehicle is owned personally and is insured by the business, have an \$1 lease arrangement with the business which requires the business to insure the vehicle and protect the interests of the vehicle owner. If you insure on a personal policy, a similar arrangement with the business should be made creating an insurable interest. Business auto policies will cover any driver using the vehicle within the scope of permission.

Auto medical payments coverage can be purchased as part of a business auto policy and under/uninsured motorists coverage is also available under a business auto policy. UM coverage provides for bodily injury coverage in the event you are in an accident and are injured by an underinsured motorist. Underinsured motorist coverage provides additional protection should you be hit by a driver who carries lower limits than your policy.

A common oversight when purchasing general liability insurance is known as the broad form coverage endorsement. A number of coverage extensions are included in this form and certain ones should be given serious consideration.

Host liquor liability covers the serving of alcoholic beverages at a party or other business get together.

Personal injury coverage includes libel, slander, and defamation of character as well as wrongful entry or eviction and false arrest or malicious prosecution. (This is a business coverage, not a personal coverage. If you act as a private citizen - such as in a letter to an editor, the coverage will not extend to you.)

Advertising injury means injury arising out of advertising activities which include piracy, unfair competition, or infringement of copyright, title or slogan but does not include trademarks and does not cover if the act is done deliberately or with malice.

Employees need to be separately added to some policies if they are to be covered. This is referred to adding employees as insureds. Volunteers must be separately negotiated if coverage is to apply to them.

Incidental medical malpractice includes the rendering or failure to render certain medical services.

Fire legal liability protects if property damage to structures or portions rented to or leased arises out of fire. A waiver of subrogation in the lease can negate the need for this coverage.

Automatic coverage can be included for newly acquired organizations for a period of 90 days.

Extended bodily injury includes intentional acts by or at your direction to use reasonable force to protect persons or property.

Blanket contractual coverage covers bodily injury or property damage assumed under a contract or agreement. It will not cover contract disputes, however.

Premises medical payments can pay up to a declared amount depending on the limit purchased regardless of fault if someone is injured because of a condition on your premises. This is not a legal liability coverage and is often sold to karate schools with a deductible.

Products liability insurance is a separate coverage and is required if you sell supplies. Your exposure to loss is increased if you repackage or sell products under your own brand whether you make them or not. Some underwriters may require special negotiation to cover such sales of your own products.

This is only a brief discussion of liability insurance and is not all inclusive. Do not take a chance with your business, carefully review your coverages and karate school activities with a knowledgeable insurance agent to make a proper decision on the type of coverage and extensions

particular to your martial arts school or program. Your business is an asset that needs proper protection. It is your lifeblood.

Special Coverage Concerns.

Employees versus Volunteers: If the business exerts any control over someone you pay to teach or help out - whether on the barter system (trading lessons for help) or not - you have an employee according to the IRS and according to many workers compensation or unemployment compensation plans. This means you could be liable for taxes, FICA, FUTA, Workers Compensation, etc. Other tests can be used to determine whether someone is an employee or an independent contractor. If the person is not customarily engaged in an independently established trade, occupation, profession, or business for which you hire services, he would be an employee. Similarly, if the service is not in the usual course of the business for which it is being performed, we have an independent contractor and not an employee. Liability policies cover the business and its owners and can be extended to include employees and volunteers as well as coverage for the insured for acts of independent contractors, but not the independent contractors themselves. True volunteers who teach and help out at the karate school are probably covered under their homeowners policy for liability, if they have one, and your business policy should defend the business if the business is sued for the activities of such a volunteer.

Who/What is insured? The insurance policy covers the named insured. If the named insured is Joe Karate D.B.A. Martial Arts, then Joe Karate is covered for his activities in the business of his D.B.A. -- Martial Arts. If Martial Arts, Inc. is the named insured, then the policy covers only activities of the corporation. If you have a testing and take income separately under a Schedule C, the Schedule C activities are not covered under a policy for the business unless you are individually named on the policy for these activities. Fifty-one percent (51%) or more common ownership will usually allow the insurance company to name more than one business on a policy.

Homeowners policies. Some of you may want to consider the below extensions to your homeowners policy:

Business Pursuits - covers business activities at your home for a business not controlled by you.

Personal Injury - same basic perils as business personal injury except they cover you as a person. Some forms will include civil or public activities under this coverage if performed without pay.

Incidental Business at Residence - covers permitted incidental business occupancies at your residence.

If you are on any non-profit boards, you should check to see if your Homeowners policy covers those activities. Personal Umbrella policies can provide high limits and broad coverage if you are engaged in a number of these activities.

Karate Tournaments. Referees at a karate tournament operating as volunteers are probably covered under their Homeowners Policy. Most dojo karate policies do not cover this personal activity. If you are paid for refereeing, you have either a business activity and you would have to see if your business policy covers this, or you could be considered an employee of the organization paying you to referee. Regardless of the situation, you should know if the tournament promoter carries insurance which would defend you or your business against a suit by an injured participant. Suits for injuries will inevitably involve the referee so knowing the rules and refereeing according to those is very important. If you follow and implement the rules, you should have nothing to worry about. Please note that suits between competitors are not usually covered in sports insurance liability contracts. Competitors have to have their own coverage, probably under a homeowners to have protection. Competitors who negligently break the rules could be held liable for injuries. Competitors who deliberately break the rules could be charged for assault just like in other sports! Think about that one next time you tell a competitor to "get him!"