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Hole-in-one windfall creates insurance coverage headache

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For those readers of this blog who are also golfers, you've probably attended more than your share of charity golf events. Inevitably, there is one hole – a par three – with a car parked next to the tee box. If a golfer is lucky enough to ace this particular hole, he or she wins the car.

Most readers of this blog probably also understand that, most of the time, the charity does not bear the cost of purchasing the car. Instead, a competitive market exists for this type of insurance product, transferring the risk of paying out on the car from the charity to the insurer, in return for a small premium.

But, like any policy, a "hole-in-one" policy has terms, conditions, limitations and exclusions that are binding on the policyholder, and should be clearly understood before the golf event. This is illustrated by what happened at the 2015 Grienbrier Classic PGA golf tournament.

During that tournament, its charitable partner promised that if any golfer made a hole-in-one on the 137-yard 18th hole, they would pay the fans in attendance $100. If a second golfer repeated the feat, spectators would be paid an additional $500. Well, as luck (and skill) would have it, both George McNeill and Justin Thomas aced the hole, and the charity paid out almost $200,000 to the fans.

A claim was promptly filed with the tournament's hole-in-one insurer, which was just as promptly denied. Indeed, it seems that the policy specified a minimum yardage of 170 yards for the hole in question. In addition, the application stated that the hole had to be at least 150 yards for the coverage to apply. Again, the 18th at the Greenbrier that day was set up at just 137 yards.

Undeterred, the policyholder sued, seeking a declaratory ruling in favor of coverage. The charity also included claims for bad faith, breach of contract, negligence and fraud. The district court dismissed these claims on summary judgment, finding that the plain language of the policy foreclosed all of the charity's claims. The charity appealed, but the U.S. Court of Appeals for the Fourth Circuit affirmed.

While the per curium opinion does not contain a lot of facts or discussion, it can be inferred that the basis of the charity's arguments was that it was never informed of the minimum yardage requirement and that, in addition, it was without authority to dictate hole yardages during the tournament. This last point is not unusual, as the PGA Tour determines course setup, rather than tournament sponsors or organizers.

Unsurprisingly, the court was unsympathetic that the policyholder had not read its policy or noticed the yardage requirement. The court enforced that clear and unambiguous provision, also holding that the charity did not have a reasonable expectation of coverage. The court also noted that the carrier had notified the charity's broker of the minimum yardage requirement and that it could not be held responsible for the apparent failure of the broker to inform the charity. With the issue of coverage resolved against the insured, the court noted there was no basis on which to impose liability, and also dismissed the bad faith and other claims.

As always, the lesson is fairly simple – read your policy and raise any questions with your insurance professional. It might also help to call your local golf pro for a lesson, if only to increase your chances of winning the car one day.