Gilbert LLP

What Do You Get When You Cross March Madness With Insurance?

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A chance to win one billion dollars. Quicken Loans and Berkshire Hathaway recently announced that they are teaming up to award one billion dollars to be shared by persons who correctly predict the winners of every game in this year's men's college basketball tournament. Quicken is running the competition and paying Berkshire Hathaway an undisclosed premium to insure the prize.

While this may be one of the largest promotions tied to a sporting event, it is just another example of a growing trend.

For example, during the 2013 Super Bowl, Beyonce's halftime performance was just a precursor to a larger celebration for certain customers of Gardiners Furniture Company ("Gardiners"), a furniture company with locations in the Baltimore, Maryland area.

Baltimore Ravens return man Jacoby Jones took the second half kickoff one hundred and eight yards for a touchdown. As part of a Super Bowl promotion, Gardiners promised to give free furniture to customers who purchased furniture between January 31, 2013 and 3 p.m. on Super Bowl Sunday if a player returned a kick for a touchdown at the start of the game or after half-time. As a result of Jones's dash, Gardiners gave away approximately $600,000 of free furniture.

Gardiners' customers were thrilled and, according to Kasee Lehrl, the advertising and marketing manager at Gardiners, the company was "just as happy." Kelcie Pegher, *Gardiners Furniture Refunds $600,000 in Furniture on Super Bowl Bet*, CARROLL COUNTY TIMES, Feb. 6, 2013. That is because Gardiners reportedly paid $12,000 for an insurance policy in case the store had to follow through on its end of the promotion. According to Gardiners co-owner Gary Mullaney, it was worth every penny for the publicity and the winning feeling it gave his customers. Ron Dicker, *Gardiners Furniture Store Loses $600,000 Super Bowl Bet on Baltimore Ravens Kickoff*

Return, THE HUFFINGTON POST, Feb. 6, 2013. No doubt, Quicken and Berkshire Hathaway are enjoying similar publicity linked to their March Madness tournament.

Promotions tied to sporting events or other events of chance are limited only by the imagination of marketing teams. Some of the most common examples include:

- Hole-in-one competitions;
- Shoot the puck games;
- Basketball shots;
- Soccer or football kicks;
- Sweepstakes; and
- Scratch and win games

Contests such as these continue to increase in popularity and are becoming a staple of marketing departments. The size of the awarded prizes also continues to grow, resulting in an increased demand for prize indemnity insurance.

Prize indemnity insurance is a category of contingency insurance that works by transferring the risk of somebody winning the prize from the promoter to an insurance company. The insurance company calculates the cost of the insurance coverage based off of the probability of a winner. In case you were wondering, the chances of somebody predicting all sixty-three games in the men's college basketball tournament accurately is approximately 1 in 9.2 quintillion (eighteen zeroes).

Typically, insurance carriers charge policyholders a premium of approximately five to twenty percent of the value of the prize being offered. However, the premium will vary based on the type of promotion and the statistical likelihood of the customers winning. The three most significant factors in determining the premium level are: (1) the difficulty of the promotion; (2) the number of attempts to win; and (3) the value of the prize.

Instead of keeping cash reserves to cover large prizes, the promoter pays a premium to the insurance company, which then reimburses the insured should a prize be given away. As a result, in exchange for the premium payment, there is no risk on the insured that the prize will be awarded.

As marketing departments increasingly utilize promotions such as these as another arrow in their advertising quiver, it is important that risk managers work in concert with their marketing department to ensure that financial risks to the company are properly managed. Increasingly, that includes purchasing prize indemnity insurance.

So remember, get your bracket in on time and GO BLUE!