

Your Guide to Purchasing Insurance

Church insurance needs may be broken down into the following six distinct areas: I. Property, II. Liability, III. Crime, IV. Automobile, V. Workers' Compensation, & VI. Excess Liability (Umbrella). However, products sold to fulfill these needs can vary tremendously from company to company.

It is extremely important that congregations understand what they have purchased and that what they have purchased covers their needs. The following will explain the types of coverage a church should have. Immediately following will be a form that agents quoting your congregation's insurance should be required to complete. This will help assure that you are purchasing what you need and that any quotes you receive are "apples to apples" comparisons.

I. PROPERTY:

A. Special Multi-Peril Building & Contents

1. ***Special Form Including Theft*** – This form is the broadest type of coverage available and covers everything that is not excluded from the policy. The two other forms, basic & broad, cover only the perils named in the policy. The Special Form should be carried unless your church does not qualify.
2. ***Replacement Cost Building & Contents*** – This means the insurance policy will replace the parts of the building or the pieces of the contents destroyed with new parts of like kind and quality. There is no deduction for depreciation to either the building or contents should a loss occur.
*****Functional replacement cost** – Some churches are in buildings that are far too large or more ornate and expensive than they need. In these cases, if the building were to be destroyed, it is most likely that a more suitable and often smaller or less expensive structure would be built. If this is the case with your church, you would want to have a functional replacement cost of the larger, more ornate structure.
3. ***Plain windows, stained glass windows and art glass windows*** – Unless your windows are truly of unusual and expensive value, they should be included as part of the building with the limitation of payment subject only to the amount of the insurance on the building itself. If any of your windows are unusual or of high value, they should be separately scheduled on a fine arts floater policy which will provide coverage for the amount stated for each item.
4. ***The building description for the church*** is important in that certain items you may consider contents are actually a part of the building, and do not need to be included in the value of the contents. Your building value should include any "built-in" items such as your organ, altar accouterments, sound system and pews.
5. ***Agreed Amount*** – This option is extremely important to your policy. Without it you are obligated to maintain the insurance on your building to a co-insurance amount that is stipulated at the time the policy is written. For example, let's say that your building has a 90% co-insurance clause, and that you have \$600,000 worth of insurance on your building. At the time of loss an appraisal shows that your building is worth \$1,000,000. By contract you have agreed to maintain 90% of the value which would be \$900,000. The amount of the claim paid by insurance company then becomes a factor of what you should have carried and what you did carry. In this case, the insurance company would

pay 60/90 or 2/3 of the claim. With agreed amount, the claim is paid up to the amount of the insurance that you carry without a penalty clause. As appraising is an art and not a science, the agreed amount clause takes a large area of contention out of your insurance policy.

6. **Blanket Building & Contents** – You should always have your insurance policy written in this manner. This takes the policy from a stated value for each building and its contents, to at total value for any loss. For example, if you have three building insured for \$200,000 each on a standard form, and one burns down, you would receive \$200,000 even if it was found at the time that it was worth more. However, on a blanket form, the total amount of coverage or \$600,000 is applied to any loss at any location. Therefore, if a building burned down and it was determined to be worth \$240,000, you would receive a check for \$240,000.
7. **Ordinance Coverage** – Many political jurisdictions have changed and are continually changing building requirements on new construction. Oftentimes, in order to rebuild after a partial loss, the building commission in your area will require the building be brought up to code to receive a permit. It is important that you have coverage to fulfill this need.
8. **Business Personal Property** – Many ministers have musical instruments, computers, art and decorative works, as well as large libraries at the church. Under church insurance policies, protection for these types of contents is often limited to as little as \$500. In addition, most homeowners’ forms limit business personal away from the home to a maximum of \$1,000. It is important for your pastors to address this matter at the time your insurance is written. In most cases this coverage cannot be added to their homeowners’ policy, and even if it could, it is much less expensive to add it to the church policy.
9. **Extra Expense** – At the time of loss it may become necessary for the church or school to rent space at another location in order to continue their ministry while the building is being rebuilt. Extra expense provides dollars to offset additional costs incurred over your normal monthly expenses while operating at another location. It also covers expediting expenses such as overtime or air freighting of needed materials in order to complete the job faster.
 - *****Loss of tuition** – This is a special form of extra expense that relates to schools and offsets tuition losses that may be incurred because you are not able to function while the building is being rebuilt.
10. **Sewer Backup** – This simply means that if you sewer backs up, the damage caused is insured and covered. The policy should provide coverage up to the policy limit. (Most policies written today either exclude or limit this coverage.)

B. Earthquake – This is written in two different forms. It can either be an endorsement to the Special Multi-Peril Policy or it can be written as a separate policy called a Difference in Conditions form. (There are some variations between the two, but they are normally not significant.)

1. **Deductibles** – Earthquake deductibles are written in one of two ways. The most common form is a percentage, usually either 5%, 10% or 15%. Many people confuse this with a percentage of loss, thinking that if they have a 10% deductible and have a \$5,000 loss they have a \$500 deductible. However, this is incorrect. The percentage deductible is calculated on the total building and contents value, so a 10% deductible on a \$3,000,000 building containing \$200,000 in contents would result in a \$320,000 deductible regardless of the amount of loss. The other deductible form, while not often

quoted, is a flat deductible and subject to availability in your region. The deductible normally written is a minimum of \$10,000.

2. **Building Structure** – There are normally three types of rating factors used on earthquake. These are brick or masonry, brick veneer, and frame. Be certain that your building is classified correctly; if it is not it may affect your coverage limit if a loss occurs.

- C. **Flood** – Churches that need flood coverage are located in flood plains and normally cannot purchase this coverage from a standard insurance market. However, the federal government has established the National Flood Insurance Program, and this coverage is readily available through this program. If you do not know whether you are in a flood plain, you may contact the National Flood Bureau which is listed under the federal governments section of your telephone book.

- D. **Mechanical, Electrical, and Pressure Equipment Coverage** – *Basic or Comprehensive* – This coverage is normally written in one of two ways; basic or comprehensive. The basic form is very limited, and we recommend the comprehensive or broad form (as it is sometimes called). The basic form is very limited in scope and oftentimes covers only the equipment listed, whereas the comprehensive form covers all equipment that is applicable to the coverage. This includes but is not limited to air conditioning, heating systems, electrical panels, phone systems, and computer systems. Some of the coverage's provided under this form, which is specifically excluded on special multi-peril coverage policies, is explosion of pressure vessels, mechanical breakdown, and outside power surges of electrical equipment.

- E. **Inland Marine** – The Inland Marine coverage is designed to list specific pieces of property at a designated value. The coverage for those specific pieces is broader than what is normally provided on the standard Special Multi-Peril form.
*****Valuation** – The value for a piece of equipment or a specific item such as a computer is fairly well defined by the cost and needs only be scheduled for that amount. However, fine arts, collector's items, or one-of-a-kind items that have intrinsic value attached to them should be appraised and insured for the intrinsic value. If this is not done, the policy is not obligated to do any more than replace the item with as close as they can to like kind and quality. In addition, if you don't schedule intrinsic value items, the coverage provided under the Special Multi-Peril policy is often limited.

II. SPECIAL MULTI-PERIL GENERAL LIABILITY

The general liability limits of your policy should be no less than \$1,000,000 per occurrence and \$3,000,000 annual aggregate in amount. The form on the insurance policy is relatively similar throughout most companies in terms of coverage they provide. However, there are some areas of difference, and you should address them when purchasing your insurance package. These differences are as follows:

- A. **Named Insured** – The definition of the Named Insured should be as broad as possible, including employees and volunteers for the organization.

- B. **Personal Injury** – The definition of personal injury should include disparagement of a person or organization.

- C. ***Property Damage Legal Liability*** – Provides coverage for damage to those premises that are leased or rented to you. This limit should not be any lower than the total value of all your leased and rented premises.
- D. ***Hired & Non-Owned Auto*** – Hired auto protects the church against lawsuits brought against it when someone on business for the church has an accident while using a rented vehicle, i.e. members attending a convention in a rented car. Non-owned auto insurance protects the church against lawsuits brought against it while a person on business for the church, driving a privately owned vehicle, has an accident and the church is sued. For example, it could be as innocent as a member running to the post office to mail a letter for the church and having an accident. The individual's insurance will protect him but it does not extend to the church. If the church does not have non-owned auto coverage, the church is without protection in this type of loss. While this coverage is listed under the special multi-peril liability form for some companies, it may also be found on a business auto policy for the insured auto. This coverage should be provided in either one of these two places. (Limits should be \$1,000,000 per occurrence.)
- E. ***Ministers' Counseling*** – This is an extremely important coverage to have and may be written in one of two ways; either as an endorsement to your Special Multi-Peril policy or as a separate policy. From a coverage standpoint, it can also be written in one of two ways; position or blanket. Position is a very limited way to write this coverage as it will only cover listed positions such as "only called pastors" or "called pastors and assistant pastors." The preferred way to carry this coverage is on a blanket format as it will provide coverage for the minister, lay employees, and volunteers while performing activities within the defined ministry of the church. (Limits should be \$1,000,000 per occurrence, \$3,000,000 aggregate.)
- F. ***Sexual Misconduct*** – This coverage provides protection for the church in the event that a lawsuit is brought claiming a member of the church staff or volunteer working for the church, has been involved in some type of sexual misconduct or harassment.
- G. ***Directors & Officers*** – This coverage protects the directors and officers of your church from lawsuits brought against them for not performing or improperly performing their duties. Many insurance agents will tell you that you don't have to worry about this coverage as state statutes protect you from liability. Each state has its own statutes and in most cases they are extremely limited in what protection they afford, if any. In addition, you do not have to be liable to be sued, and in most cases you still have to defend yourself in court. (Limits should be \$1,000,000 per occurrence, \$1,000,000 aggregate.)
- H. ***Specialty Coverage*** – If you have a daycare facility or a school, there are other areas of insurance you need to consider carrying that are not a typical part of the basic insurance policy. These are corporal punishment and excess medical payments for students.

***In addition, schools, instructors, and the school board require a specialized form of Directors and Officers Liability Coverage. This coverage is commonly referred to as **Educators Legal Liability coverage and may be purchased with limits of \$1,000,000.** Coverages that should be included are: First Dollar Defense, Discrimination, Failure to Educate, Civil Rights Violations, Unfair Employment Practices, and Wrongful Termination.

As coverage forms vary a great deal, it is essential that they be compared in detail. You should also be sure the coverage form chosen will provide defense for the individual accused as well as the school itself. Never accept an oral statement as to the extent of coverage provided – always require that it be written and signed by your insurance agent.

III. CRIME

- A. ***Employee Dishonesty or Fidelity Bonding*** – This coverage protects the church against thefts of money by employees. This type of loss normally occurs in small amounts over a period of time, but it can accumulate to a substantial amount before discovery. A rule of thumb for determining your coverage needs for fidelity should be 10% of the average monies on deposit in a month, times 12 months. This is considered the average amount that can disappear, and the length of time over which it can disappear before discovery. A limit of \$10,000 of fidelity coverage will usually fulfill this need for small & medium sized churches. Larger churches may need considerably more coverage. The bond form is written in two different formats Scheduled position and Blanket. A scheduled position bond covers only the designated position, such as treasurer and assistant treasurer. If a secretary were to steal funds, then coverage would not extend. The most desirable method of writing this coverage is on a blanket format. This provides protection against any employee or officer that might take funds from the church. In order to help the church protect itself from these losses, a counter signature requirement should be in force so that no one person can write a check. (Please note that in order for a claim to be processed, the guilty party must be turned into law enforcement officials as theft is considered a crime.)
- B. ***Loss of Monies*** – This includes theft and robbery of monies or securities from the church premises or off-premises while being taken for deposit. The amount you need to carry is determined by the highest amount of negotiable cash that may be available for theft at any given time. Keep in mind that checks can be replaced if you have a record of who wrote them.
- C. ***Forgery*** – Forgery protects the church against someone forging checks. It is normally written in the same incremental limit as fidelity.

IV. AUTOMOBILE

- A. ***Liability*** – Liability is written in one of two ways: split limit or combined single limit. The split limit example we will use is \$100,000/\$300,000/\$100,000. This means that the policy will pay for the liability you incur for bodily injury to an individual or individuals at \$100,000 per person up to a maximum of \$300,000 per accident. For damage you may cause to the property of others that you become liable for, it will pay a maximum of \$100,000 per accident; many property damage losses will exceed \$100,000. For example, a tractor trailer with a load of goods could go as high as \$500,000. You may purchase higher limits on a split limit policy, but the property damage will always remain as a lower limit. Combined single limit coverage, on the other hand, means that you have \$1,000,000 of coverage that applies to the total amount of the bodily injury and property damage incurred. This is the recommended way of purchasing auto liability insurance as there are fewer limitations on the loss.
- B. ***Medical Payments*** – Medical payments under the auto insurance policy pays for injury sustained by the driver of the vehicle or anyone else in the vehicle. This is known as a complimentary payment. Guilt is not necessary for payment, only injury needs to occur. It

is written as excess coverage which means that it will pay the difference between what the individual's health insurance, and/or Workers' Compensation will pay, and the actual amount of the bill. The lowest recommended limit is \$5,000.

- C. ***Uninsured Motorists*** – If you are involved in an accident with an individual who is uninsured and they are found to be at fault, injury to your driver and/or people in your vehicle may result in you being responsible to them. Uninsured Motorist coverage provides protection against this and it should be written in the same limit as the automobile liability. (\$1,000,000)
- D. ***Underinsured Motorist*** – Underinsured motorist is similar to uninsured motorist. However, it protects you against those who have low limits of liability that are insufficient to cover the loss. Some states are “no-fault states” and have coverage's different than described above. Each no-fault state is different and needs to be addressed individually as to what coverage is required and/or available.
- E. ***Physical Damage Collision*** – Collision coverage protects you against loss to your owned auto when it is involved in a auto accident. It is almost always written on a actual cash value basis less the deductible. The car will be repaired or it will be replaced if the cash value is less than the cost of repair. Deductibles for collision rang from \$100 and up. The church should carry as high a deductible as it can absorb in the repair of the vehicle.
- F. ***Physical Damage Comprehensive*** – Comprehensive coverage protects you against loss other than collision such as fire, vandalism, window breakage, theft, etc. Deductibles for comprehensive usually start at \$100 and up. Again, the church should purchase the highest deductible it can absorb.
- G. ***Hired & Non-owned Auto*** – This was addressed in the general liability section above.
- H. ***Hired Car Physical Damage*** – This coverage is often purchased at the time you rent a car on the rental car contract and includes coverage for the loss of use to the rental car company while the vehicle is being repaired. When you rent a car, the rental car agreement obligates you to reimburse them for loss of use. Purchasing insurance from the rental car company is a very expensive way to cover this exposure. Even purchasing it on your church automobile insurance policy, while not as expensive, often does not provide for the loss of use coverage you contracted for when you rented the car. You may be able to secure this coverage through your VISA or MasterCard provider. Check with your credit card company to see if this coverage is available to you and if not, find one that does and consider changing providers.
- I. ***Employees and Volunteers as Insured's*** – Your church probably utilizes many employees and volunteers to drive your vehicles for various church functions. If they were to have an accident while using your auto, the church is covered for the loss as you are the named insured on the policy. Your employees and volunteers however, are not covered individually if sued unless specifically added as an insured to you policy by endorsement. It is very important that both your employees and volunteers be include as insured's under this policy.

V. EXCESS LIABILITY OR UMBRELLA

This coverage is an extra layer of liability protection that falls over most of the liability policies you have: Special Multi-Peril, Automobile and Employers Liability (This is a part of Workers' Compensation that will be discussed in the next section.) If a lawsuit were to occur that caused a loss potential of more than \$1,000,000 on an occurrence basis, or several losses that caused a total loss of over \$3,000,000 during a policy period, the umbrella or excess policy would normally provide a layer of protection over that. In addition, in the event that there is an uninsured liability, the umbrella or excess policy will normally, unless the loss is excluded, drop down and provide protection subject to a \$10,000 deductible. We highly recommend that all churches carry an Umbrella liability policy especially if you have a school, day care facility, provide any unique ministry to the community or are in an urban or semi-urban location. Limits to the particular policy are normally purchased in \$1,000,000 increments. Most churches can suffice with a \$1,000,000 umbrella policy. However, if your church is a very large church with a school and varied ministries, higher limits should be purchased.

VI. WORKERS' COMPENSATION & EMPLOYERS' LIABILITY

Workers' Compensation seems to be a highly misunderstood issue within the church today. Churches have confused their statutory obligation to carry Workers' Compensation with the need to provide protection for the church against the liability they may have for their employees. State statutes simply provide the requirements that mandate whether or not an organization must carry Workers' Compensation. In some states all organizations have to carry Workers' Compensation coverage. In other states you may be required to have 1 to 5 or more employees before it is mandated. However, in all states, if an employee sues you and you do not have Workers' Compensation, you do not have protection. In fact, in most instances because you failed to purchase Workers' Compensation, whether mandated or not, the courts have upheld that you abdicated your right to defense and you are liable for injuries sustained to the full extent of the law. This type of coverage and protection is specifically excluded from your Special Multi-Peril General Liability form.

This particular coverage has many facets that need to be addressed. The most misunderstood is the definition of what an employee is. By state statutes, an employee is anyone that provides services for you under contract or is employed by you. For example, most churches have a pastor and secretary. In addition, they often pay someone to cut the grass, and an organist to play music. All four of these are employees. If you hired somebody to paint your building, and you did not obtain a certificate of insurance from them stating they have Workers' Compensation insurance, the individual and all of their employees become your employees. If they are injured, you are responsible.

The Employers Liability form provides coverage for most claims from employees and/or their families or other parties that are not otherwise covered by the Workers' Compensation policy. Claims of this nature are excluded from your general liability form i.e. • If an employee is injured and the spouse of the injured were to sue you for loss of consortium, your protection would come under this form. • If your janitor modifies a ladder that is used by them or somebody else and it collapses, the ladder manufacturer would most likely be sued. In all probability, the manufacturer would be held liable in the court environment we have today. However, because your employee modified the ladder, you then become a manufacturer and are subject to lawsuit from the ladder manufacturer for reimbursement or partial reimbursement of the loss. This type of claim is covered only under employer's liability.

PROTECTING YOUR RIGHT TO PURCHASE INSURANCE AND ACQUIRING THE LOWEST AVAILABLE PRICE

The property sections of insurance policies are not intended to be maintenance policies for the organization. If claims are occurring because your organization is failing to maintain the property, you

stand a chance of having your insurance canceled or having the rate increase dramatically at the renewal. Insurance is intended to cover losses that are accidental and unforeseen. As a good steward of your congregational properties, you should be maintaining them to the best of your ability. Liability portions of your policy can be adversely affected by this same maintenance problem. Crumbling broken steps, parking lots with large potholes, interior/exterior steps without railings, deficient lighting, etc. are all potential injury spots for members of your congregation, your employees, and the general public. Once again, while the insurance carrier will pay these claims, they will not pay them for long because you are not maintaining the property to a level that is expected.

Proper maintenance will assure you of the right to purchase insurance and also assure that it is at the lowest possible price.