

# The Essentials of Church Insurance

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## What coverage does your church need?

Churches have become increasingly susceptible to lawsuits and claims. Though not a substitute for good risk management or safety and security planning, insurance is a valuable tool to protect your church. This white paper will help explain the basics of church insurance so that your ministry is free to do what it does best: **minister**.

## The members, facilities, and assets are essential components of your ministry.

As a result, they must be adequately protected. Though not a substitute for good risk management or safety and security planning, insurance is a valuable tool. Church leadership needs to understand the different aspects of insurance.

There are basically two types of insurance: property and liability. Property covers the things you own, while liability covers the actions that could leave the church liable for damage to others (injuries, property, or reputation). Insurance companies cover automobiles under a separate policy due to a variance of the laws from state to state.

### PROPERTY COVERAGE

Property coverage provides protection for your buildings and business personal property. Insurance companies cover automobiles under a business auto policy.

#### Cause of loss.

Recommended coverage form:

*Special form.* This covers almost all risks of loss except those that are specifically excluded. Most policies normally exclude floods and earthquakes. Read exclusions carefully. If you are located in a coastal area or Florida, you will want to make sure your policy has windstorm and hail coverage. This coverage will normally have a percentage deductible much higher than your normal property deductible. Also, if you are located in an earthquake fault area, like California, you will want to look at purchasing earthquake coverage.

#### How Much?

The most frequently asked question agents receive from church leaders is: How much insurance do I need? The answer depends on the needs of the church.

**Replacement cost.** This is the option most churches will want to secure. This will provide enough coverage to rebuild the facilities or replace business personal property with new property of the same kind that was lost.

**Actual cash value (ACV).** Churches might choose ACV if their facilities are in disrepair or the church would never rebuild that building type. Agents determine the value by taking the amount to replace the building or contents less the accumulated depreciation.

**Coinsurance.** This is the specific percentage of insurance to the value of the property insured. For instance, most companies require that a coinsurance rate of 80 or 90 percent of the property value be in place at the time of a loss. If the property was worth \$100,000 and the coinsurance requirement is 80 percent, there would need to be at least \$80,000 of coverage limits available to pay the claim without a penalty. Many companies offer lower rates for customers who keep a higher percentage coinsurance in place. Coinsurance helps provide adequate coverage and reduces disputes at the time of a loss. Because of the rapid increase of building costs and the complexity of coinsurance requirements, it is

extremely important that you discuss your property values and coinsurance requirements with your agent. If your insurance company will include an Agreed Value clause, make sure to add it. Agreed Value eliminates any coinsurance penalty.

### Determine Building Values

The coverage limits purchased by a church should be the cost to replace or rebuild the facilities with contract labor and new materials. While the church may have less money invested in the building, it cannot count on volunteer labor and donations to get the facilities replaced quickly.

Building costs have increased significantly in the past few years and, ultimately, it is the insured's responsibility to make sure it has adequate limits to replace the building and its contents. When figuring the value of the building, include everything that is permanently attached. Pews, video projectors, sound systems, and appliances that are anchored to the building are factored into the building value. Chairs and portable equipment are business personal property or contents.

Do not assume that the amount you paid for the church or the amount of the loan is the correct value. Not having a sufficient amount of insurance to rebuild a church is the number 1 issue with claims. Therefore, ask your agent to calculate the replacement cost. He will normally have software, such as Marshall Swift, to do this appraisal. If you are purchasing your building, it is common practice for the appraisal to have a replacement cost value as well as the market value.

Business personal property includes all items that are not part of the building. Because churches tend to add these items over time, they may not have adequate insurance coverage on these items. Consequently, coverage may not be adequate when a loss occurs, making it difficult or impossible to replace what the church owned.

In the event of a loss, it is often difficult to verify what is missing. That is why having an updated inventory list with values for each property item is important. Storing a copy of your inventory list and supporting pictures or video off site will enable you to access the inventory in the event that a major incident destroys your church records.

### Additional property coverage

(Always check with your insurance carrier.)

**Inland marine.** This coverage is for business personal property that church members take off site and use in various locations. It can also cover items that the church uses in various locations on a larger church campus, such as golf carts, tools, rental equipment, etc. The name has nothing to do with watercraft. It refers to portable equipment moved around "inland."

**Business income.** This replaces lost or reduced income that the church suffers due to damage to the property by a covered event. It also provides the extra expense for temporary locations or to expedite the repairs so ministry can be operational. The income to ministry is as vital to its existence as the property where you meet.

**Electronic Data Processing (EDP).** This coverage provides insurance for computer hardware and software, phone systems, video systems, and other high-dollar hardware used in ministry. General property coverage often places sub-limits on the amount it pays for these items. EDP coverage also provides a broader coverage than the standard commercial property policy.

**Water damage.** Coverage may be available for floods and sewer backup. Options are available through a national flood plan or through other companies. Ask your agent to check the national flood map to determine if you are in such an area. Also, when you are purchasing a church,

the loan company will normally ask for a flood determination certificate. If you are in a hazardous flood zone, you may need to provide an elevation certificate to purchase flood insurance coverage.

### **Crime coverage.**

*Money and securities coverage* will cover tithes and offerings. The insurance company will normally provide a higher amount for specific days such as Easter and Christmas. Look at your normal weekly offerings to determine the correct amount of coverage. Note: Break down the difference between cash and checks when asking for a limit because insurance companies charge a much higher premium for cash than for checks. If you do not give them a breakdown or your insurance agent does not ask, the company will charge you the highest rate.

*Employee dishonesty/fidelity bond coverage* is also available. This protects the church if an employee steals from the church. The most common mistake is not having a high enough limit. The last policy in effect covers all previous years; therefore, if an employee has been stealing from the church for a number of years, only the current policy provides coverage.

### **Limited law and ordinance enforcement coverage.**

This extends coverage to three areas: the value of the undamaged portion of building that requires demolition, the expense attached to the demolition and removal of the undamaged portion, and the increased cost of construction that may arise from a more costly construction standard due to changes in laws and ordinances.

**Pastor's business or personal property.** Most policies cover the pastor's business-related property with a limited amount of coverage. This normally does not include coverage for the pastor's personal property at the parsonage or rented dwelling, so check with your agent to verify adequate coverage.

Systems and equipment breakdown coverage. While property policies will cover such things as fire, explosions, etc., most will not cover the explosion of a boiler or systems if they break down. Churches use this coverage to insure against breakdown replacement or repairs.

**Builders risk/construction occupancy.** During the construction phase, this special policy provides coverage for the new building and construction materials. Most standard policies exclude the property during construction.

## **LIABILITY COVERAGE**

In recent years churches have become much more susceptible to lawsuits and claims for false accusations or inappropriate behavior. If someone claims any level of harm, you will want to know you have coverage. Optional coverages are available for a wide variety of risks. Discuss all the aspects of your ministry and any possible exposures with your agent so that you can obtain proper protection.

Below are some of the available types of liability coverage.

**General liability.** Liability comes into play when the church is legally liable for bodily injury or property damage. In addition to paying the damages for the injured party, the policy usually covers defense costs for litigation. Churches need to carry at least \$1 million in general liability coverage.

**Sexual misconduct liability.** Not only is it wise to have coverage for a real incident but also to defend against an allegation. Defense costs can climb into the hundreds of thousands of dollars. The amount paid to the plaintiff is often substantial, and can force a church into bankruptcy or liquidation. The number of claims under sexual misconduct has remained steady over recent years. Many companies will require churches to meet

screening and supervision standards to obtain higher coverage limits. A church needs to have a minimum of \$250,000 and should strive to obtain higher limits if at all possible. Ask if defense cost is inside or outside of your limit.

**Directors and officers liability.** This is coverage for decisions made by your board, officers, or trustees. Even though many states offer protection for volunteer board members of nonprofit organizations, there can still be significant defense costs should someone bring legal action against board members. This policy provides that defense. We recommend limits of \$1 million for most churches while larger churches or those with significantly more assets need to consider higher limits.

**Employment practices liability.** This coverage provides for claims arising from practices associated with employment-related events. This includes claims of discrimination, wrongful termination, etc. The premium cost for this item is usually less than only a few hours of attorney fees. We are seeing more claims in this area due to age or gender discrimination.

**Employee benefits liability.** This coverage provides for claims arising from an error or omission by an employer with regard to the benefits an employee should have received. This would include group health plans, retirement plans, group life, etc. Churches with multiple staff members and school staff should seriously consider this coverage. Churches that only have a senior pastor on staff have less exposure to this type of claim.

**Professional liability/counseling acts liability (nonfee-based and fee-based).** Sometimes people accuse pastors and counselors of physical and emotional harm. This coverage provides for a claim arising from pastoral direction or counseling. Limits should match the general liability limits.

**Garage insurance.** Most churches would never think they need garage or garage keepers insurance. If the church, however, offers valet parking, provides automotive services (like free oil changes to widows or single mothers), or accepts donated vehicles and sells or gives them away, it needs a form of garage liability. The amount of coverage varies depending on the activity of the church. The church should discuss needs with its agent.

**Foreign liability and foreign travel insurance.** If members of your church travel outside the continental United States, your basic coverage may have limits or exclusions. Check with your agent to see if your church should consider this coverage.

**Workers' compensation.** Each state has its own version of Workers' Compensation laws and coverage. In general, Workers' Compensation insurance covers 100 percent of the medical bills for an employee who is injured on the job due to a job-related activity. Each state determines the percentage by which it compensates lost wages. The employer's liability portion of this policy covers the employer for any negligent acts that result in injury to an employee. Your agent should be able to assist you in determining the appropriate coverage and limitations required in your state.

**Hired and non-owned autos.** This provides liability coverage for rented automobiles and use of other non-owned autos. In the event that church members or employees are using personal autos, their insurance is primary and this insurance is available only after the primary insurance is exhausted. All churches should have this coverage. For example, you may have a church secretary or a Master's Commission student run an errand and be involved in an accident. If he or she is performing this activity on behalf of the church, the church can be held responsible. Check with your agent to determine if you need to add this coverage to your general liability or your auto policy. If you have owned autos, it should be added to the auto policy.

**Medical payments.** This endorsement allows a goodwill payment to individuals who are injured on the church property regardless of fault. Usually it is limited to \$5,000.

**Excess liability (umbrella).** This is an added coverage that acts as an umbrella over your other liability coverage should those coverage limits be reached through claims activity. This coverage is for those rare, but extremely expensive, liability claims. For instance, in the event of a serious accident that exceeded the limits of the auto liability policy, it would provide coverage beyond the auto coverage. In other words, the excess liability would provide coverage after the auto policy limits were exhausted. To determine the value of umbrella needed you will normally look at all the exposures the church has and the amount of assets they have. The limits start at \$1 million and can go up to \$10 million coverage plus.

**Business auto.** Any time a church owns its own vehicles, coverage is necessary. Some insurance providers have limitations both on vehicles and drivers. For instance, many will not cover the older 15-passenger vans. Others may limit the age of the drivers. A church should have a minimum of \$1 million liability limits on its auto policy. This is perhaps the greatest exposure for loss for the average church. Check with your agent for advice on your auto policy and for direction on physical damage to your autos.

**Other coverages.** There are other coverages available depending on the level of need and activity your church is involved in. The key is always maintaining a good relationship with your agent and keeping communication open should you have questions regarding your coverage. Also, if you engage in a new ministry, add a new building or room, or obtain a piece of equipment, contact your insurance professional so he can review your policy for sufficient coverage.

## CHOOSING AN AGENCY

It is important to place coverage with an insurance company that has an AM Best rating of A- or better. Also, place coverage with an agent that is knowledgeable about insuring churches. The General Council of the Assemblies of God has a customized insurance program for the ministries we perform. Church Mutual, an A+ rated company with over 100 years experience in insuring churches, underwrites this coverage.

Furthermore, developing a good relationship with your agent is critical. Openly discussing your needs and current situation with your agent will enable you to better prepare for future scenarios. Keep in mind that your insurance agent is in the best position to clarify coverage, help you understand terminology, and keep your ministries protected; they are your best ally should the unthinkable happen.

**For further information on insurance coverage, contact Jerry Sparks at 866.662.8210.**



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