



WHAT KIND OF INSURANCE DO WE NEED?

An article from Church Administrative Professionals
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Consider the following situation:

Your church's youth leader wants to attract more teens to your church and wants to build a skateboard park on church property. A board member asks if the church's insurance policy will cover it.

What kind of coverage should you have?

- A. Property insurance?
- B. General liability coverage of at least \$1 million?
- C. Personal property coverage?
- D. Worker's compensation?
- E. Umbrella policy?

A key component of every church's risk management plan should be an appropriate level of property and liability insurance. In addition, the state where your church is located may also require that your church carry a worker's compensation policy as well. But there may be other related policies that your church may also want to carry, such as for employment practices, sexual misconduct coverage, counseling coverage, and directors and officers insurance.

Of the top five reasons that churches went to court in 2015, two involve situations covered by one type of insurance or another: sexual abuse of minors (11.7%) and personal injuries (9.5%). Even if your church could successfully defend itself against such claims without the help of insurance, the legal costs likely would be considerable and could even be enough to financially cripple your church. A third category of court proceeding on the list interestingly was for insurance coverage disputes. Apparently churches need to do a better job of knowing what their insurance policies cover and what they don't cover.

Fortunately churches form a large enough business segment that several companies exist to primarily if not solely provide insurance to churches. Because churches are their bread and butter, they understand the church market and its specialized needs better. They also understand how insurance needs can vary widely from church to church depending on which ministries are involved or are emphasized. Some insurance companies sell their products directly to churches while others go through independent agents. If you can find a company and/or agent who specialize in churches, you'll find their knowledge and expertise a real asset to your church.

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They will understand that a church with a large pipe organ and ornate stained glass windows needs different coverage than a church that meets in a converted warehouse. Likewise a church with a large and growing youth ministry needs different insurance coverage than one that is attended mostly by senior adults.

A few of the companies who specialize in insuring churches (listed alphabetically) are Brotherhood Mutual Insurance Company, Church Mutual Insurance Company, GuideOne Insurance, Southern Mutual Church Insurance, and the United Methodist Insurance program. In addition to insurance policies, all offer their customers excellent information on how to control various risks that churches face. Their websites are informative. Many work through local agents.

Why Buy Insurance?

So why even have insurance? After all, there is no legal requirement for a church to have property or liability insurance. But it is the rare church that is financially strong enough to withstand the financial devastation that insurance is intended to guard against. In fact, such a church may not exist.

The two types of insurance that we're going to focus on in this article are property and liability insurance. Churches may also need Worker's Compensation insurance, but that is an issue which we will not consider here. First, let's look at property insurance.

If a church is renting its meeting place, insuring the structure is usually the responsibility of the property owner. But the church likely has all sorts of other personal property inside the building that it owns and that it would hate to see stolen or destroyed in a fire. Think of some of the more expensive items like sound equipment, video cameras and computers. In fact some of them may require special endorsements in order to be covered sufficiently. Also, if a church that rents its facility does remodeling, they may need insurance for what is known as tenants' improvements and betterments.

But if your church owns the building where it meets; the structure, its fixtures, as well as its contents likely need to be insured. If your church building is heated by a boiler, a special endorsement may be needed. Likewise, one may also be needed if there are any special items such as a pipe organ, concert grand piano, stained glass windows, hand bells, artwork or sound equipment. The church may also want to have coverage for items owned by members or employees such as expensive coats left in a coatroom or an employee's own laptop or tablet computer.

But one also needs to also pay attention to situations that are **excluded from a basic policy**. This list usually includes earthquakes, mold, sewer or drain backup, and floods. In order to keep your insurance premium down, a church will often choose a high deductible. That is, if there is a loss, the church agrees that it will pay for the first \$5,000 of loss and not just \$1,000. Another way to reduce costs is to choose coverage that does not pay full replacement cost. For example, if a loss occurs, the valuation is based on one of two options, actual cash value or replacement cost.

Actual cash value isn't as generous as it may sound. That is because depreciation is taken into account. If your building is more than a few years old, that could be considerable. Most policyholders prefer replacement cost instead. That way it's more likely that a building will be completely rebuilt and re-furnished as before.

Another way churches can reduce their costs for property insurance is by including a coinsurance clause in their policy. In turn for a lower premium, the insurance company requires that the church maintain coverage equal to a specified percentage of the property's value. Usually this is somewhere between 80 and 100 percent. If the church fails to maintain the specified coverage, the benefit is lowered when there is a loss. In order to avoid the risk of a co-insurance penalty, a church will want to include a coverage known as agreed value or agreed amount.

The most important thing that a church can do to be sure that it carries sufficient coverage is to have its building and contents appraised every few years. Also, when the church adds to its inventory by buying new expensive items, the insurance company should be made aware of the acquisitions so that policy limits can be adjusted if necessary. Lastly, please understand that **church property taken off the premises for non-church ministry purposes is generally not covered by the church's property insurance**. However, *the church may be liable for damages* caused by your property, even if it is being used by another (Consider: someone borrows church tables for a family event, and the tables fall off the truck, injuring the car behind. The injured party will add the owner of the tables to the lawsuit. They may claim the church did not properly see their property was secured before it left the facility).

Liability Coverage

The purpose of liability coverage is to compensate someone else for harm or loss when the church is perceived as being at fault or negligent in taking reasonable steps to protect others. Common examples include slips and falls and sexual misconduct.

The amount of liability coverage is usually based on two primary considerations:

1. The nature and frequency of a church's activities,
2. The net value of the church's assets.

General liability insurance comes in two forms, claims made, or occurrence coverage. A claims made policy covers injuries for which a claim is made during the policy period so long as the insured has been insured continuously with claims made policies with the same insurer since the injury occurred. If a church covered by a claims made policy chooses to switch insurance companies, it should purchase either adequate tail coverage from the current company or adequate retro date coverage from the new company. Taking one of these steps better protects them from claims made outside of a policy's period, which is often the case in child sexual abuse claims.

Occurrence liability policies cover injuries that occur during the policy period, regardless of when a claim is made. It is highly unusual for insurance companies that

specialize in the church market to offer anything but Occurrence form general liability coverage. If your church's leaders are thinking of switching from one form to the other form of liability policy, we recommend that legal counsel be retained first.

As we mentioned earlier, usually there are situations that are not covered in a basic general liability policy. Often, however, these excluded losses can be covered by separate endorsements or riders by paying an additional premium. Some of these excluded losses can be serious enough that they shouldn't be overlooked.

One such endorsement is for **employment practices**. The more employees your church has, the more essential this coverage becomes. An employment practices endorsement covers certain employment-related claims such as wrongful dismissal and some forms of discrimination.

Given the significant judgements awarded by juries across the country, coverage for sexual abuse of minors should not be overlooked.

Another important endorsement to consider is **Directors' and Officers'** coverage, also known as D&O. It covers potential legal claims that can be brought against your church's board of directors and its officers. Even though uncompensated directors of non-profits have limited liability from personal liability under both state and federal law, it's wise to provide them with additional protection. However, please understand that acts of gross negligence are not covered by this endorsement.

Examples of gross negligence include such things as allowing youth workers to serve without being appropriately screened or allowing high-risk activities to occur.

Coverage for **sexual abuse of minors** may be somewhat limited under the usual liability policy, so additional coverage can and should be purchased as a separate endorsement. Given the significant judgements being awarded by juries across the country, this coverage should not be overlooked.

Does your church own and operate a van, rent vehicles, or rely on volunteers to drive their own vehicles when transporting children and youth to off-site activities? Additional coverage should be sought. Even though your church is careful to choose safe drivers when it allows people to drive personal vehicle for church activities, the level of insurance that they carry may not be sufficient to adequately cover everyone who might be injured in an accident. It's also wise to be sure that non-owned vehicle coverage applies to rented vehicles, too.

Churches tend to be communities of trust. But sometimes people working around the church's money can't resist the temptation. Make sure that your church is covered in case of embezzlement and other misappropriations of church funds and securities. Once a case of embezzlement is discovered, in order for this form of insurance, which is also known as **bonding**, to provide coverage, the church is required to prosecute the offender. Often

churches choose the path of grace and forgiveness instead and end up with their insurance company refusing to reimburse any of the church's losses.

Does your church provide counseling services? If some kind of injury occurs during **counseling**, as long as it's not considered sexual misconduct, a counseling endorsement can provide coverage.

If your church sends staff or volunteers on overseas mission trips, costs of medical treatment in a foreign country is often not covered by individuals' health insurance. But their medical treatment can be covered by a **foreign travel endorsement**. You may also want to look into additional coverage in case medical evacuation is deemed necessary. A new field that insurance providers are starting to dip their toes in is cyber-liability. As churches utilize more and more technology, for online giving, spreading their message and storage of data, the potential and concern for cybercrime increases. This increasing tech activity has caused insurance providers to respond by developing special **cyber-liability coverage**. You may want to talk to your insurance agent about it.

Lastly, if your church has substantial assets to be protected or insufficient liability insurance, you will want to consider **umbrella coverage**. If damages rise to the level of being catastrophic, this is the coverage to have. Fortunately, often it is reasonably priced. But remember that good insurance is only one piece in your church's risk management toolkit. Your church also has a responsibility to maintain a safe environment for its staff, members and guests. This means filling that pothole in the parking lot so that no one accidentally twists their ankle. It also means that best practices such as background checks, interviews and references are used in vetting everyone working with children and youth. Another responsibility that a church needs to take is when an incident occurs or is first reported. Most policies state that a representative of the insurance company must be notified in writing within a specified period of time. Failure to do so could relieve the insurance company of any duty to defend the church in a lawsuit or pay a settlement or jury verdict as a result of the damage or injury. Be sure that you are familiar with your **insurance company's notification requirements**.

When churches are cleaning out their files, they need to hold on to copies of old insurance policies, especially if they have Occurance form policies. Likewise if they are filed in volunteer leaders' homes, the church needs to get them under their control. This is because, when claims of child sexual abuse turn up years after they may have happened (which really happens) churches can call on their insurance carrier at the time to help. But, in the absence of any policy document, it may be difficult, or even impossible, to determine what company and limits of coverage were in place at the time of the alleged incident. There are coverage archaeologists available, but their services are expensive and not always successful in resurrecting an old policy. It's much easier to just hold onto all the old policies in the first place.

If this article has piqued your interest in insurance for your church and you would like more information, we recommend that you visit the Church Law and Tax Store website (<https://store.churchlawandtax.com/>) and purchase an online copy of their

publication, Understanding Church Insurance. Before your church pays thousands of dollars for coverage, it may be the best twenty dollars your church spends.

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