

# INSURANCE PROTECTION FOR THE CHURCH

Your church represents a major financial and personal commitment by your members. It is important that you select the proper insurance carrier and the proper insurance coverage that will give your church the protection needed.

It is suggested that the church prepare, with the assistance of a church insurance professional, "**insurance specifications**" on coverage for your church. This would help insurance companies in their ability to bid the coverage in a manner that could **more easily be understood by the church leadership**. It is further suggested that you deal with a company specializing in church insurance with a rating of "A" or better with the A. M. Best Insurance Rating Service. The lowest premium should never be the only criteria in purchasing insurance coverage. Coverage should be very carefully evaluated along with the service record and reputation of the agent. The coverages discussed below are only skeletal in nature. All coverages should be periodically evaluated to make sure they are adequate. Listed are some important coverages available:

## Property Coverage

This type of insurance provides protection for buildings and personal property. This coverage is usually written on an **all-physical loss form** that includes fire, lightning, explosion, windstorm, hail, vandalism, etc. Be sure that all buildings are adequately **insured for replacement!**

You can insure your property on either a scheduled or combined basis. The combined basis allows you to develop one property limit at additional premium for all your insured buildings and personal property. Should a covered loss occur at any insured location, the combined limit would be available to cover that loss. The combined limit does not override other specific limits or exclusions in the policy.

When the scheduled approach is used the amount of insurance at the time of loss can never exceed the insurance value the religious institution places on each specific building.

Personal property is often underinsured. A complete inventory of all personal property should be taken to be sure that it is adequately insured for **full replacement cost**.

## Additional Property Coverage

**Water Damage** – Various coverages are available including flood and sewer backup. Check with your insurance carrier.

**Theft of Money and Securities** – Limits are usually \$5,000 or lower. Higher limits are available by endorsement.

**Employee Dishonesty/Treasury Bond** – Limits usually available by church insurers up to \$500,000. Additional Bond limits are available through specialty bond companies. Check with your church insurance specialist. This coverage provides benefits to the church because of dishonest acts by persons defined in the policy. This type of loss has become more frequent in churches.

**Limited Law & Ordinance Enforcement Coverage** – This coverage extension provides additional insurance protection for three types of indirect loss, caused by the enforcement of an ordinance or law.

1. The value of the undamaged portion of building that the ordinance requires to be demolished.
2. The increased demolition and debris removal expense, associated with demolishing and removing the undamaged portion of the building.
3. The increased cost of construction involved in rebuilding to a more costly construction standard, due to a change in the law or ordinance. Numerous churches have been penalized because of insufficient limits for this type of coverage for the time of a major loss (fire or tornado). The limits of insurance will vary from company to company.

**Pastor's Business or Personal Property** — Typically church insurers include the pastor's **business** property on the church premises such as books, computers, etc. Some policies include the pastor's **non-business** personal property and may include personal property at the parsonage or rented dwelling. Check with your agent.

**Limited Building and Personal Property** — There is usually limited building and personal property that is away from the church premises included in church policies. Some property may need to be insured on an Inland Marine (Floater). Check with your insurer.

**Systems & Equipment Breakdown Coverage** — Typical property policies — while covering perils like fire, wind, hail and vandalism — specifically exclude most equipment breakdown accidents, including electrical arcing, mechanical breakdown, and explosions from steam pressure and centrifugal force. To protect your church or related ministry's equipment investment, you need to consider Systems Equipment Breakdown Coverage (SEBC).

SEBC pays the cost of repair or replacement of electrical or mechanical equipment such as organ and sound systems, office equipment, kitchen equipment, electrical systems, air conditioning units, and boiler and pressure vessels.

If your ministry operates a day care or school, SEBC provides insurance against the loss of tuition or the extra expense needed to continue normal operations and is covered as the result of a systems equipment breakdown.

From your heating and air conditioning, computers and telephones and sound systems, you rely on equipment every day to accomplish the work of your ministry. Think about the investment you've made. Can you afford the costs of repair or replacement?

Maintenance contracts cover routine care (cleaning, adjustments), but they do not pay for damage due to operator error, the cause of over 35 percent of equipment breakdowns. Maintenance contracts do not pay for business income losses or spoilage resulting from the breakdown. In addition, if you have equipment that requires state-mandated inspection, your SEBC provides that service.

## **Liability Coverage**

Basic Liability (general liability) Insurance and optional liability endorsement forms can be purchased based on the churches ability to pay and the risk they are willing to assume (self insure) above the limits and options purchased.

Liability exposure to churches has increased dramatically in years. You should purchase the highest limits of protection possible that you can reasonably afford. If a plaintiff prevails in a lawsuit against your organization and the judgment is higher than the limits of liability, or for a coverage omitted, your ministry property/assets can be attached for that judgment.

Liability limits should be based on an "occurrence" coverage basis. In simple terms, occurrence means that as long as the coverage was in force at the time a claim-producing event occurred, coverage will apply for the church or organization regardless of when the claim or lawsuit is brought even years after the policy has expired.

Unfortunately, some insurance companies, including some who write insurance programs for church and religious organizations, occasionally introduce "claims-made" coverage forms into their policies. It is common for such insurers to include such forms on director's and officer's liability, pastoral counseling, sexual acts, and employment practice liability.

Claims-made forms are not as broad as occurrence-based forms and can leave the church or related ministry with a significant uninsured exposure. The claims-made form means that the claim-producing event will be covered only if the event occurs, and the "claim is made" within the term of the current "claims-made" policy. It is quite common for claims or lawsuits to be made years after the claim-producing event has occurred. Unless additional "tail coverage" is purchased at considerable expense, changing insurance policies may create an