

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

insurance gap in coverage when changing from claims-made form. Tail coverage extends the reporting period beyond the expiration date of claims-made policies.

Liability coverage can vary a great deal. There are numerous options in addition to the basic liability, such as: counseling; sexual abuse; directors, officers and trustees; and hired and non-owned auto liability; medical for premises and activities (including sports and volunteer labor, etc.). It is important to be adequately protected in all these areas.

Sexual Misconduct Insurance

Regretfully, sexual misconduct can happen anywhere, including churches. It can involve any church employee, including members of the clergy. In recent years it has become a more frequent occurrence.

The *Los Angeles Times* has reported that child sexual abuse is the worst problem facing the church in centuries. According to *Church Law and Tax*, the sexual misconduct problem is the most serious financial exposure facing church-related organizations. Nationwide media coverage of such incidents reflects the growing concern of our society about sexual misconduct.

Similarly, false allegations of sexual misconduct have increased. One of our Southern Baptist ministers was sued for \$6,000,000 alleging sexual misconduct. Although he eventually won the case, substantial expenditures were required for his personal defense. A number of sexual abuse claims have been filed in Kansas and Nebraska against churches and other religious organizations.

Sexual misconduct insurance provides protection for legal liability up to the stated policy limits. This type of coverage protects the church and its members, directors, officers, employees, and volunteers where the church may be held legally responsible and liable for the acts or conduct of such individuals. This is true even if the church is not specifically aware of, does not participate in, and does not direct or condone such conduct or actions in instances of sexual misconduct. Those claims, which occur most frequently against churches or individuals, are based upon poor hiring or supervisory practices, although the allegations can take many forms.

Sexual misconduct insurance is available through most church insurers. The church leadership should review this coverage with the insuring company. Generally, the limits available for this coverage will be stated as a separate amount, usually lower than your other liability exposures. Church insurers are offering higher limits for an appropriate screening procedure. Some companies offer protection to employees for allegations of sexual misconduct (including the pastor). Most companies will not continue defense for the employee if there is a confession or conviction, but will continue to defend the church. This coverage will not apply to individuals who actually engage in sexual misconduct nor will it apply if a KNOWN perpetrator is appointed to a position within the organization.

Director's and Officer's Liability

This optional endorsement provides protection for covered claims of financial damage arising out of decisions made by your organization's leaders, including trustees.

Employment Practices Liability

This optional endorsement provides protection for covered claims of emotional injury, personal injury, or financial damages arising out of employment-related events.

The covered injury must be sustained by a past or present employee or job applicant and the event(s) causing the covered injury must constitute an improper employment practice or wrongful employment act of your church or related organization.

Counseling Acts Liability (Non Fee-Based)

Coverage for bodily injury, emotional injury, or personal injury arising from counseling acts undertaken on your behalf by your pastoral counselor(s) or trained lay counselor(s) is provided through this optional endorsement coverage. Incidental counseling liability is available by some religious institution insurance specialists.

Fee-Based Counseling Acts Liability

Where this exposure exists, coverage can be provided with or without coverage for the counselor(s), depending on whether the counselor has his or her own professional counseling liability coverage.

Excess Liability (Umbrella)

Additional liability coverage available either as a separate policy or as an option included in the multi-peril policy will extend your liability limits under most of your liability coverages, including: vehicle coverage, workers' compensation, general liability, etc. Check with your agent for a more complete description.

Additional Liability Coverages

Check with your insurance carrier for additional coverages that are available such as:

- Day Care Liability
- Nursery & Child Care Emotional Injury Liability
- Christian School Liability
- Christian School Teachers Liability
- Christian School Counseling Acts Liability
- Food Preparation Liability
- Employment Benefit Liability
- Civil Liability & Defense Reimbursement Liability
- Wage Loss Reimbursement Coverage
- Religious Communication & Religious Activity Liability
- Membership Emotional Injury Liability
- Personal Injury Liability

Pastor's Personal Liability

The church should determine that the pastor has personal liability, particularly to cover a parsonage, rented dwelling, or apartment. This coverage is available in some church multi-peril packages at a nominal premium.

This liability will also cover the pastor's family. (See "Pastor's Business and Personal Property" under "Additional Property Coverage.")

Foreign Liability & Foreign Travel Insurance

Many churches and related ministries are sending students, mission teams, or tour groups outside the United States. Virtually all insurance policies issued to cover domestic ministry operations contain exclusions or restrictions of coverage that leave your organization and the individuals who travel inadequately insured or completely uninsured.

The following coverages are available to protect your ministry for these events:

- Foreign General Liability
- Foreign Contingent Auto Liability
- Foreign Employers Liability
- Foreign Worker's Compensation
- Foreign Accidental Medical and Sickness for non-employee volunteers
- Foreign Accidental Death and Dismemberment for employees & volunteers

- Emergency Medical Evacuation/Repatriation Exposures
- Other (Check with your convention or associational office.)

Workers' Compensation

The Kansas State law requires churches to carry this coverage if in the preceding twelve-month period the church paid its employees (including the pastor) a sum of \$20,000. This includes housing allowance and utilities paid by the church.

Nebraska state law requires all churches with one or more employees to carry this coverage without regard to any minimum payrolls.

NOTE: Churches are not exempt from this law and can be **held liable** to an employee (including their pastor) for injuries that occurred to any employee while performing duties for the church.

Workers' Compensation is to protect your valued employees and their families from life threatening or life altering accidents and injuries. Just one "slip and fall" or fall down a flight of stairs or auto accident by an employee could cause serious injuries and time-consuming recovery periods during which huge medical bills will be accumulated with no means for payment. Such an accident could devastate your church and cause serious emotional injuries and conflicts.

Personal medical coverage **may not apply** for injuries incurred in the performance of your duties of employment. Workers' Compensation benefits are more generous than other benefits and are automatic without the necessity of filing a lawsuit.

Employers (churches) are required by law to post written notice, in Spanish and English, of their worker's compensation coverage. Free posting notices and other posters are available by calling the Division of Workers' Compensation or your insurer.

When income is received from more than one source it should be directed through the primary ministry and reported to the primary ministries insurer in order to provide maximum benefits.