YELLOWSTONE CONFERENCE BOARD OF TRUSTEES

Insurance Petition
June 2013

Proposal for Property and Minimum Liability Insurance

Why the Insurance Petition?

One of the responsibilities of **Church Trustees**, according to the Book of Discipline (2012, Par 2533.2), is to make an annual assessment of the adequacy of the property and liability insurance coverage for their facility. After three years of data collection on insurance coverage for the churches, camps and other facilities in the Yellowstone Conference, data indicates this isn't always being done. Part of this is from a lack of knowledge about the duties of **Trustees** and part is due to lack of knowledge of what is adequate insurance coverage. After working with Church Mutual (they insure over 95 of our churches, all four of our camps and the church office) a new Tiered Approach to liability coverage has been developed. This approach has three tiers for churches, one for camps and one for the Conference office. The specific coverage for each Tier is listed in the attached **"Snapshot"**. The idea is that minimum liability coverage limits will increase with the size and activity level of the churches. One size does not need to fit all. Churches with large buildings and congregations are exposed to more <u>risk</u> than a small rural church.

The <u>minimum</u> coverage we are recommending is mandatory. Higher coverage limits are acceptable and encouraged. Churches will still be <u>free to choose</u> their own insurance carrier. Tier definitions below:

Tier 1 – A typical small town church with little or no activities beyond that of normal church business.

Tier 2 – A medium sized church with average or basic exposures including youth ministries, camping, retreats, schools and daycare, etc. The church should be considered financially stable.

Tier 3 – A church with higher asset value as well as above average exposures including day cares, school operations, camping retreats, youth groups and other ministries.

Tier 4 – All camps have distinct and unique exposures and therefore it is prudent to have them in a separate Tier.

Tier 5 – The Conference and District offices have very special needs concerning coverage and therefore need a separate Tier.

What is Liability Insurance?

Liability insurance provides protection against claims for which the insured becomes legally obligated to pay as a result of "bodily injury" or "property damage". There are numerous liability categories that can and should be covered. While payments for liability claims can be relatively small, i.e. an injury from a fall on icy pavement, they can also be quite large. The various category definitions of liability coverage that are included in this program are outlined below.

More information can be obtained from the insurance agent handling your policy.

Why is it Important?

Liability claims can be placed against the organization (church, camp) or individuals (trustees and other officers, clergy, and even volunteers) acting on behalf of the organization. Claims can also move up the line from the local organization to the Conference as a whole particularly if the organization has inadequate liability insurance or is not insured at all. *Currently there is a one million dollar plus claim outstanding against one of the Conference facilities resulting from a vehicle accident.*

Definitions

General Liability Insurance – Covers claims for negligence involving the premises, sponsored activities (on or off-premises), operations, products (including food preparation) and construction.

Medical Expenses – Covers medical expenses for members, guests and volunteer workers who are injured on the premises or while participating in sponsored activities on or off premises.

Sexual Misconduct or Molestation – Provides coverage, including defense costs, for damages arising out of injury to any person as the result of an act of sexual misconduct. Coverage does not protect those who participated in such action. Settlement costs can be very high.

Legal Defense – Covers defense costs for most lawsuits including contract disputes and landlord/tenant disputes.

Corporal Punishment – Coverage against an act of corporal punishment, e.g. a claim is filed because a child was spanked in Sunday school.

Money and Securities – Provides coverage for theft, disappearance or destruction of money and securities. Coverage doubles for one week prior to and one week after three named days of the year as indicated on the declarations page. There is a deductible associated with this category.

Fidelity Bonds – Bonding for treasurers and others who handle funds of the organization.

Counseling Professional – Covers damages arising out of a counseling incident provided by pastors, employees or volunteers acting under the organizations direction.

Employment Practices – Covers claims for wrongful termination of an employee.

Directors, Officers and Trustees (DO&T) – Covers claims against the officers of the organization who can be held personally responsible in the absence of such coverage. DO&T is often called errors and omissions insurance.

Employee Benefits – Covers inadvertent errors in adding new employees to benefit programs, i.e. a new pastor is left off the health insurance program. Coverage applies primarily to the Conference office (Tier 5).

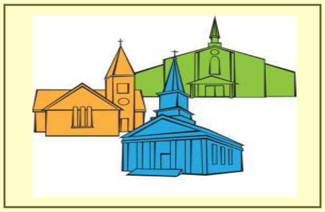
Hired/Non-Owned Automobile – Coverage is provided for hired or non-owned autos used in the organization's business, including those owed by employees. Coverage is in excess of their personal policy.

Medical Expense – Covers medical and/or funeral costs arising from an accident with the covered auto. Payment is made without regard to fault.

Rental Car – Designed to cover short term rental situations, limited to liability damages of $100,000.

Umbrella Coverage – Liability coverage over and above what is stated under General Liability (GL). Must have at least $1,000,000 GL coverage.

Property Insurance – What is it?



Property covers a partial to total loss of a facility and its contents due to fire, hail, wind or some other hazard (but not flood or earthquake). Coverage for property and contents accounts for the majority of the total premium. Losses are covered, less a deductible depending on the valuation method of that property. In most cases valuation is based on **Agreed Replacement Cost (AGRC)**, i.e. the facility will be repaired or rebuilt as it was prior to the damage. The property premium can be lowered by raising the deductible (more of the loss is carried by the insured) or by using an alternate valuation method.

Two alternate valuation methods are available, **Modified Replacement Cost (MPC)** and **Actual Cash Value (ACV)**. The latter is not recommended because partial losses are only covered up to the value of the loss when it occurs. For example, payment to replace a ten-year old roof will be in the amount of the value of the roof when it was damaged less the deductible, or maybe only one-half of the cost to replace the roof assuming a 20-year life. **Modified Replacement Cost (MPC)** coverage will cover more of a partial loss but will pay out less than the full replacement value of the facility upon a total loss. This may be acceptable if a smaller replacement structure meets the needs of the congregation and community. Thus the new structure would be less costly to build. Prior planning is needed before adopting MPC. Specifically, a both plan and a valid cost estimate for a replacement structure are required.

*Contact the Yellowstone Conference Board of Trustees for more information on **MPC**.*

Why is it Important?

Property losses occur due to many causes. In the past six years, Church Mutual has paid out over $850,000 for 60 property claims in the Yellowstone Conference, mostly for hail and water damage. Losses have occurred to churches insured by carriers other than Church Mutual but that data was not available.
Because of property insurance coverage, repairs to churches, camps and other facilities can be made without a significant financial burden being imposed on the organization.

Definitions of several terms in the "**Snapshot**" are:

TRIA - provides coverage for losses due to acts of terrorism. There is a small, identifiable amount added to the total premium.

Co-insurance - requires policyholder to carry insurance equal to a specified percentage of the property value to receive full payment on a loss. Typically at least 80% is required.