

Section 9 – Risk Management and Insurance

This Section includes a discussion of the types of insurance churches and middle governing bodies should secure; leading companies that offer insurance; and, recommended minimum standards. Various helpful checklists appear at the end of the Section.

I. Insurance

The *Book of Order* directs all churches, synods, and presbyteries to obtain adequate property and liability insurance coverage to protect the facilities, programs, and officers:

G-3.0112 Insurance

Each council shall obtain property and liability insurance coverage to protect its facilities, programs, staff, and elected and appointed officers.

While there are many risks that must be considered and a wide array of insurance types, securing insurance is not an impossible task. Working with agents and other resources, a board of trustees, session, or middle governing body can ensure it has adequate coverage in place.

Insurance policies should be reviewed annually for adequacy and completeness. Coverages should be adjusted upward as property values increase. As costs increase, churches often find themselves underinsured because coverages have been held steady while inflation has increased property values. Periodic appraisals of the property can help to update the coverage to reflect current values. Coverage that increases automatically by a set inflation factor is also available. Casualty (liability) coverage should be reviewed periodically as well. Should a change in use be implemented, such as opening a day care center, school, or other new program, be sure to review potential liability insurance needs with the church's insurance agent and to adjust coverages accordingly. **Give the agent at least 30 days notice before an event or starting a new program.** This will give the insurance company time to review the new risk, give a response, and provide a quote on any additional charges. It is important that a binder or endorsement be obtained before the event or program begins. You may wish to contact your agent within ten days of the original notification to ask for an update.

The reasons why insurance coverage should receive high priority and review include the following:

- the recognition of the varied risks faced by the church, with special attention to fund-raising events, acquisition of new property, leased property, counseling services, and fiduciary responsibilities
- increase in building costs and the purchase of new property
- the need for specialized coverage for day care and counseling
- fluctuating annual premium costs
- expanding ministry of many churches

The following should be used as a guideline for establishing insurance practices:

- an annual review of the church's insurance program
- an annual safety inspection of the buildings with fire officials to identify hazards that may cause personal injury, fire, or other loss of property. Check with your local fire department. Typically, they are happy to assist you with a voluntary inspection and ideas to prevent fires

- a detailed inventory of all furniture and equipment, kept current with additions and deletions of items. A photographic inventory of all furniture, equipment, and rooms of the church is an excellent inventory record. Videotapes have been used effectively by some churches. All inventory reports should be kept off the church property in a bank safe-deposit box or similar secure location
- a periodic building appraisal to update the value of all property, at least every three years
- at least two quotations when purchasing or renewing insurance coverage. Contact your agent at least ninety days prior to the expiration of your policy to provide quotes.
- a determination of actual annual premium costs for budget development.

A. Types of Insurance

1. Property Insurance

Property insurance is designed to cover buildings and personal property for loss or damage. The property policy may be amended to include the following coverages: newly acquired property, property in transit, stained glass windows, valuable papers, loss of business income, extra expense, computer equipment and boiler and machinery. This is just a partial list of coverages that may be available, check with your insurance agent for a complete list of coverages.

Property insurance limits on your policy should be adjusted upward as property values increase. Churches often find themselves underinsured because coverages have been held steady while inflation has increased property values. To prevent underinsured losses, periodic appraisals of the property can enable the church to update the coverage to reflect current values. Property insurance limits can also be automatically set by an inflation factor. Check with your insurance agent about this option.

2. General Liability

Casualty (general liability) coverage is designed to protect the insured from losses in which they are legally liable arising out of the ownership of property or activities from your premises. General liability policies should be reviewed periodically and should include coverage for slips and falls and other bodily injuries, property damage of others, products liability, completed operations, libel and slander, false arrest, employee benefits liability, contractual liability, and other types of claims usually covered by this policy. It is important to verify that employees, directors, trustees, officers, and volunteers are covered under this insurance policy. Most general liability policies restrict coverage to the United States, its territories, and Canada. For any travel outside of these areas, contact your insurance agent prior to the start of the trip.

The general liability policy is usually provided on an occurrence basis as opposed to a claims made basis. This is preferred because the occurrence is covered under the policy in force at the time of the accident, regardless of when the claim is reported or the suit is filed. Some coverages, however, are traditionally provided on a claims made basis, such as directors and officers coverage and employee benefit liability. Under claims made coverage, the claim must be reported during that policy period or any extended reporting period specified by the policy. The extended reporting period, commonly referred to as a "tail," frequently is for one year following the policy term. When claims made and coverage is provided, it is important to have a "retroactive date" that covers previous time periods in addition to the current policy term. Review the claims made coverage option with your insurance agent.

As changes occur in use of church property, such as opening a day care center, school, or other new program, the church's insurance agent should be notified of the changes in exposure. The new uses of property may result in new liability risks that will need to be addressed. Contact the insurance agent at least thirty days in advance of the event or new program. This will give the insurance company time to review the new risk, give a response, and provide a quote on any additional charges. **It is important that a binder or endorsement be obtained before the event or program begins.**

3. Sexual Misconduct Liability

Most general liability policies exclude sexual abuse or molestation and pastoral professional liability. Both coverages can be purchased by endorsement or on a separate policy. Check with your insurance agent for availability of these coverages. It is wise to secure these coverages. It is a good practice to review your general liability policy's exclusions and limitations with your insurance agent to avoid uninsured claims.

4. Pastoral Professional Liability

Pastoral Professional Liability is designed to cover liability for pastoral counseling services. The church should be included in the definition of the named insured as well as the pastoral professional and any other professional staff. There are many definitions of coverage under this form. Review with your insurance agent definitions as well as the exclusions in the contract carefully.

5. Workers' Compensation

The purpose of workers' compensation insurance is to give greater protection and security to the worker in case of injury, illness, or death occurring in the course of employment. Worker's compensation provides, as a matter of right, for the payment of benefits to employees injured on the job. The amounts paid are set by state law for covered occupational injuries or disease. The compensation award is, in nearly all situations, the covered employee's exclusive remedy against the employer. The laws in most states provide for fixed awards to employees or their dependents upon a showing of employment-related injury. Payment for injuries or illness is not based on determination of fault or negligence, with a few exceptions, on the part of the employer. Some states go beyond simple establishment of the right to worker's compensation and provide insurance systems, either under state supervision or otherwise. Under these laws, methods are usually prescribed that allow employers and workers to accept or reject the compensation system. Several states have provided workers' compensation funds that coincide with the coverage required by law. In most states, employers who refuse to come within the provisions of the workers' compensation law are denied the customary defenses to actions for injury by the injured employee.

It is not the purpose of this Manual to compare the workers' compensation laws of the various states, other than to point out that these laws differ not only in detail but in major features as well. In evaluating considering workers' compensation coverage, the following considerations are particularly important:

- Persons covered and type of employment
- Injuries and diseases covered
- Benefits provided
- Civil law and administrative requirements and options — including limitations on the ability of injured parties to sue the employer for damages

- Method of securing benefits

The workers' compensation laws of every state require the employer to secure payment of compensation benefits. Jurisdictions may require either the purchase of insurance with a state fund, a private insurance company, or a qualified self-insurance program. Workers' compensation insurance is provided through a Workers' Compensation and Employer's Liability Policy. Two types of basic coverages are afforded by this type of policy: one provides actual worker's compensation benefits, and the other insures the employer for liability when employees or dependents are able to sue for such problems as employer negligence and unsafe working conditions. The combination of these two coverages is intended to provide the employer with protection against liability that may arise out of the employee-employer relationship due to occupational injury and disease. Supplementary coverages are available to cover the needs of employers that are not satisfied by the basic coverage. Ask your insurance agent about the supplemental coverages available and to identify the supplemental coverages required by your state.

6. Umbrella Liability

Consider purchasing an umbrella (excess) liability policy, which provides excess limits over the primary general liability, auto liability, and the employer's liability section of workers' compensation policies. An umbrella policy will be activated when the underlying primary limits are exhausted or exceeded by a single loss. Umbrella policies are issued with an aggregate limit, which is the most the policy will pay during a one-year policy term, regardless of the number of claims. Umbrella policies are purchased in coverage multiples of \$1 million increments. All churches are encouraged to purchase umbrella policies especially those with owned vehicles, day nurseries, or schools.

7. Minister's Personal Liability

Many ministers live in manses furnished by and insured by the local church. If a homeowner's policy is provided with the church named as additional insured, the policy should be written to protect the minister and her or his family for both personal liability and damage to their personal property. Even when the manse and personal property is insured under the church policy, there is still a need for a tenant's homeowner policy for the minister and her or his family. For example, family events/activities would not be covered under the church policy unless the activity was considered part of the minister's responsibilities. Ministers who own or rent homes should consult an insurance agent regarding the coverages needed.

8. Employee or Volunteer Dishonesty

Employee dishonesty coverage provides protection against employee theft. Employee dishonesty coverage provides for losses of money, securities, and other property caused by theft or forgery of an employee of the insured, acting alone or in collusion with others. Make sure to check with your insurance agent to ensure that volunteers are covered under your employee dishonesty policy. It is recommended to include volunteers.

The *Book of Order* provides a minimum standard of financial procedures (G-3.0205) for local sessions that can help to prevent employee dishonesty claims.

G-3.0205 Finances

In addition to those responsibilities described in G-3.0113, the session shall prepare and adopt a budget and determine the distribution of the congregation's benevolences. It shall authorize offerings for Christian purposes and shall account for the proceeds of such

offerings and their disbursement. It shall provide full information to the congregation concerning its decisions in such matters.

The session shall elect a treasurer for such term as the session shall decide and shall supervise his or her work or delegate that supervision to a board of deacons or trustees. Those in charge of various congregational funds shall report at least annually to the session and more often as requested. Sessions may provide by rule for standard financial practices of the congregation, but shall in no case fail to observe the following procedures:

- a. All offerings shall be counted and recorded by at least two duly appointed persons, or by one fidelity bonded person;
- b. Financial books and records adequate to reflect all financial transactions shall be kept and shall be open to inspection by authorized church officers at reasonable times;
- c. Periodic, and in no case less than annual, reports of all financial activities shall be made to the session or entity vested with financial oversight.

Other ways to minimize your exposure include:

- a. At least 2 individuals should be responsible for taking up the collection. The collected monies should be held in a secure area until counted and deposited.
- b. Counting should be done by at least 3 unrelated individuals in a secure area.
- c. Individuals responsible for collecting, counting and depositing monies should be rotated on a weekly basis.
- d. Responsibilities and function of monies should be divided so that no one person has control over all functions of money transactions. For example, the individual who makes the bank deposit or pays invoices should not be responsible for reconciling the bank statement.
- e. Check books should be stored in a secure place.
- f. Bank statements should be reviewed on a regular basis.
- g. Authorized signer of checks should not be the same person who reconciles the accounts.
- h. Reporting of financial records to congregations should be done at least quarterly. Congregations should be informed on how their money is being spent.

Terminology in this section is meant to provide general guidance and is not intended to require or not require specific audit procedures or practices as understood within the professional accounting community. Also see the section titled “Suggestions for Accounting Procedures to Reduce Susceptibility to Loss,” later in this Section.

9. Suggestions for Handling Employee Theft

- a. Report loss to church’s insurance carrier and legal counsel immediately. Follow procedures as set forth by both. Your insurance carrier may have specific protocol in this type of loss.
- b. Report the loss to local authorities for investigation, so that appropriate charges can be brought.
- c. Inform session in a closed meeting of the outcome of the investigation.
- d. Once investigation has been concluded, inform the congregation of the outcome of the investigation. This should be in a closed meeting as well. By keeping the session and

congregation informed of the process will help to keep the trust within the church community.

10. Automobile Liability

Automobile liability provides coverage to the insured for bodily injury and property damage claims arising out of the ownership, maintenance, use, loading or unloading of church-owned vehicles. Physical damage coverage for owned vehicles is insured separately. In many cases, the pastor and/or volunteer uses his or her own vehicle for church activities. In the event of an accident, the policy covering the vehicle provides the primary coverage, but it is very important for the church to have non-owned automobile liability coverage. The church's non-owned auto liability policy may also provide excess coverage for the church if the automobile owner's coverage is not adequate. Hiring car coverage is for the same coverage if a rental vehicle is used. Non-owned and hired car coverages are separate coverages that must be requested at issuance of the automobile liability policy. Issues involving rental vehicles can be very complex; consult your insurance agent prior to renting the vehicle.

11. Directors and Officers

This coverage protects the officers, directors, and trustees of the organization against damages from claims resulting from negligent or wrongful acts in the course of their duties subject to the terms and conditions of the policy and the circumstances involved. However, directors and officers coverage does not provide coverage for third party bodily injury or property damage claims because these would be covered by other policies. The insuring agreement, named insured, and exclusions should all be reviewed thoroughly when purchasing a policy. The directors and officers policy may be extended to cover the organization itself (entity coverage) and to cover employment practices liability. Both of these additions are recommended. Directors and officers coverage is almost always written on a claims made form with defense costs inside the limits of protection.

12. Business Travel Accident Insurance

Churches who have individuals that travel at the church's request both domestically and internationally should consider purchasing business travel accident insurance. This coverage provides accidental death and dismemberment insurance for individuals traveling on church business. The policy should also address the needs for travel outside the United States such as repatriation of remains and medical evacuation. This insurance can be purchased in various amounts of coverage and options. Check with your insurance professional to determine your business travel accident needs.

13. Insurance for Travel Abroad

As more and more churches sponsor trips abroad, insurance needs to be factored into the trip. While the trips have educational and spiritual value, they are not done without risks. One way to offset some this risk is through travel accident insurance. The insurance is an accidental death and dismemberment policy that should also include repatriation of remains and medical evacuation while traveling outside the United States. Depending on your trip other coverage may be necessary for travel abroad. Some additional insurance coverage to consider are: foreign commercial liability, commercial foreign automobile liability and foreign workers compensation and sickness insurance. Always check with your personal health care provider before traveling outside your policy area. Please contact your insurance professional to discuss your travel plans and to determine your insurance needs.

14. Employment Practices Liability

Employment practices liability provides coverage for employment related issues arising out of employee hiring, termination, or employment. Contact your insurance agent to discuss if these coverages are available under your directors and officers policy or whether they can be purchased under a separate employment practices liability policy. Employment litigation is one of the fastest growing areas of the law and this coverage is recommended.

B. Guidelines for Minimum Standards of Property and Liability Insurance for Churches, Presbyteries, and Synods

These minimum standards should be used as a general guideline only! As always, an insurance professional must be used to evaluate the insurance needs of each church and middle governing body. Insurance needs as well as alternate ways to reach their insurance goals should be discussed with an insurance professional. One possible alternative is the use of higher deductibles, which could lower insurance premiums. Ask your insurance professional about this and other cost-saving options.

1. Property

- a. Buildings and Contents at Appraised Replacement Cost as an agreed value endorsement.
 - Eighty percent Coinsurance: an alternative to agreed value, offered by some companies as a percentage of appraised value, providing coverage up to fixed limits.
 - Special Form: the broadest coverage available, normally including fire, vandalism, sewer back-up, theft of property, and so on, unless specifically excluded, or deemed not necessary by an insurance professional.
- b. Supplemental Coverage: off-premise coverage, newly acquired property, debris removal, rebuilding to code requirements, necessary demolition of building, personal property of ministers and others, stained glass, organ, other musical instruments, art work, valuable papers, loss of business income, and related extra expenses.
- c. Boiler and Machinery: as boiler and machinery types require, including all related expenses, spoilage, and similar costs.
- d. Earthquake, where appropriate for geographical area, is written separately unless specifically stated in policy.
- e. Flood, where appropriate, is also written separately, and may be offered with state or federal assistance.
- f. Also consider extra expense or loss of income coverage.

Note: Churches should be inspected periodically because of policy exclusions, such as mold, virus, lead paint, and asbestos for which many insurance companies may not provide coverage.

2. Liability

- a. **General Liability:** \$1,000,000 per claim/occurrence, \$2,000,000 aggregate; covers most risks, including products; bodily injury; property of others; \$10,000 no fault medical payments including volunteers, and athletic activities; contractual liability; fire legal liability at \$100,000 limit; day nursery/child care; pastoral professional liability and sexual misconduct coverage at \$1,000,000 limit.
- b. **Umbrella Coverage:** \$10,000,000 per occurrence or aggregate, in excess over primary limits of general and automobile liability; review of coverage by insurance professional for additional excess limits.

- c. **Automobile:** \$1,000,000 per occurrence or aggregate, including uninsured and underinsured motorist protection; \$10,000 medical coverage; personal injury protection in states where applicable; hired and non-owned coverage to policy limits.
- d. **Workers' Compensation:** As required in each state, including pastors and all employees.
- e. **Directors and Officers:** \$1,000,000 per claim/occurrence, or aggregate, for corporate protection of session, deacons, trustees, officers in performance of regular duties.
- f. **Employment Practices Liability:** \$250,000 per claim, or aggregate for claims related to employment, benefits, termination, and sexual harassment.
- g. **Crime Coverages:** \$50,000 per claim or occurrence for protection from employee dishonesty, theft or loss of money or securities, depositor's forgery; volunteers with access to church funds in any way should be covered.
- h. **International liability:** This coverage provides protection for incidents that occur outside the United States in which the church or individual would be legally obligated to pay. If your church sponsors mission trips outside the United States, consider purchasing this coverage. Analysis of your exposure should be done by your insurance professional.
- i. **Repatriation of Remains:** In case of death, this coverage will cover the expense of returning remains to the United States. Consider this coverage if your church is sponsoring mission trips outside the United States.

C. Suggestions for Property Lease Procedures to Reduce Loss

1. The tenant should sign a lease spelling out the rights and liabilities of the parties. As part of that lease, there should be an indemnification and a hold harmless agreement in favor of the church. The church should carefully draft the lease in conjunction with its legal counsel so that the church's requirements and needs become lease obligations of the tenant. For example, if your congregation has sexual misconduct and child and youth protection policies (as required by the *Book of Order* G-3.0106), these should be referenced in the lease and the tenant should be required to comply with them and copies of the policies provided to the tenant. To confirm receipt of those policies, draft a simple receipt form to have an authorized agent of the tenant sign, date, and acknowledge receipt.
2. As part of its duties under the lease, the tenant should be required, prior to occupancy, to submit a current certificate of insurance from the tenant's liability insurer naming the church as an additional insured under that policy. If the lease is a multi-year agreement, a new certificate should be submitted each year. The certificate of insurance should show general liability and property coverage. It should also show property insurance for the tenant's contents. If the tenant is conducting a business such as a day care, the certificate should show workers' compensation insurance for their employees. A copy of all insurance certificates should be sent to the church's insurance agent for review.
3. There should be an inquiry made in writing to the church's current insurance company to make sure coverage is provided for any liability resulting from the proposed rental. Also check with your insurance agent for possible increases in premium or for possible exclusions that may apply. Any increase that is incurred may be offset by adjusting the terms of the lease or requiring the tenant to pay for the increase. The church also may wish to review the adequacy of its own insurance policy limits in light of any new activity. If supplemental or specialized coverages are needed, they should be obtained prior to lease execution and property occupancy. Ask the insurance agent to send you a binder or endorsement showing coverage is in effect for the new occupancy. The lease should not be signed until you receive written confirmation from your agent. If any insurance claim or lawsuit should arise, give immediate written notice to your agent and the insurance company.

D. Federal Bus Regulations

If your church has vans or buses you may be required to comply with federal regulations which are summarized at this link:

<https://www.fmcsa.dot.gov/regulations/faith-based-organization-related-transportation>

You should speak to your insurance company about those regulations when you discuss your insurance needs for the vehicles.

For more information about the regulations, contact the Federal Motor Carrier Safety Administration at (855) 368-4200 or find a field office near you at www.fmcsa.dot.gov/mission/field-offices .

E. Arson and Bombing Attacks on Churches

After the mid-1990s, there were arson and bombing incidents against local churches. While the problem seems to be decreasing, there is cause for concern, and incidents are still being reported. Churches are easy targets for the arsonist. Most of the time they are unoccupied, and schedules of activities are predictable. Arson is often an afterthought to cover up another crime or a crime of emotion. Whatever the reason for the increases, the federal government has taken an aggressive stance against these acts. For more information on arson and bombing attacks on churches you can contact the Bureau of Alcohol, Tobacco, and Firearms:

Bureau of Alcohol, Tobacco, and Firearms: <https://www.atf.gov/contact> (<https://www.atf.gov/>)

ATF National Arson Hotline: 1-888-283-3473

ATF National Bomb Hotline: 1-888-283-2662

- a. For Your Records (*see* Appendix N)
- b. Safe Conditions and Practice Survey: A Self-Inspection Guide (*see* Appendix O)