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15 Things Richard Hammar Wants Pastors to Know

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Church Insurance

Determine if your church has the right insurance.

Richard R. Hammar [posted 3/03/2020]



There are few areas more important for a minister to master than those dealing with insurance coverages and exclusions. Consider the following.

What kinds of insurance should your church have?

Some insurance is *essential*, and should be obtained by every church. Other kinds of insurance coverage are *desirable*, meaning that they are not absolutely necessary but may be highly desirable depending upon a church's circumstances. Most church leaders would consider property and liability insurance to be essential. Other forms of insurance should be regarded as essential depending on the circumstances. These include:

Property Insurance Coverage

Covers many major risks to church property, including fire, smoke, lightning, hurricane, and tornado.

Action points

- Check to see if unique items such as stained glass windows, pipe organs, handbells, artwork, and sound equipment require special endorsements.
- Obtain appraisals of unique items to be sure they are adequately insured.
- Conduct periodic inventories of property to prove claims in the event of loss or destruction.

- Check to see if coverage is limited to the *market value* of damaged or destroyed property. If so, consider obtaining *replacement cost* coverage.
- Check on coverage for items of personal property owned by members or employees. Examples include expensive coats left in a coat room and an employee's personal laptop computer.
- Check to see if boilers require a special endorsement.
- Check the exclusions under the policy. Some risks, such as earthquakes, mold, and sewer or drain backup, may be excluded and require special endorsements.
- If your church is located in one of 22,000 communities that participate in the National Flood Insurance Program (NFIP), you can obtain flood insurance from insurers that participate in the NFIP. Coverage amounts are often inadequate.
- Check to see if your policy contains a coinsurance clause. If so, you are required to insure your property for a specified percentage of its market value. If you don't, you become a coinsurer, meaning that your policy will pay less than the stated limits in the event of a partial loss. These clauses make it essential for churches to have adequate coverage. This review should be done annually.

Liability Insurance Coverage

Covers many forms of personal injury and damage to the property of others. Common examples includes slips and falls, sexual misconduct (coverage may be limited to the church, and exclude the offender).

Action points

- Check to see if sexual misconduct coverage is limited, and if higher amounts can be obtained by complying with specified procedures.
- Check to see if liability insurance is provided on an "occurrence" or "claims made" basis.
- Some policies provide minimal medical benefits to persons injured on church property. Additional coverage should be considered.

Church-owned Vehicles Insurance Coverage

Covers injuries and damages resulting from the use of church-owned vehicles.

Action point

- Check to see if your property or general liability policy contains coverage for church-owned vehicles. If not, obtain a separate endorsement for this coverage.

Non-owned Vehicles Insurance Coverage

Covers injuries and damages caused by members who use their own vehicle while performing services for their church. The driver's personal car insurance is also available, but if inadequate, the church will likely be sued. This coverage often must be obtained as a separate endorsement. Essential for churches that allow members or employees to drive personal vehicles on church business.

Action point

- Check to see if non-owned vehicle coverage applies to rented vehicles.

Counseling Insurance Coverage

Covers injuries caused during counseling activities. Often must be obtained as a separate endorsement. Essential for churches that provide counseling services.

Action point

- Check exclusions carefully. For example, some policies exclude sexual misconduct.

Employment Practices Insurance Coverage

Covers certain employment-related claims such as wrongful dismissal and some forms of discrimination. These are among the most common types of church litigation today. Many church leaders erroneously assume that their general liability policy covers these claims. In most cases it does not.

Action point

- If your church has employees, you should consider this coverage. The more employees you have, the more essential this becomes.

For other important considerations, see “[What You Need in an Employment Practices Liability Insurance Policy](#).”

Directors and Officers (D&O) Insurance Coverage

Covers several potential legal claims that can be brought against officers and directors directly. D&O policies also may cover claims not covered by general liability policies. While uncompensated directors of nonprofit organizations have “limited immunity” from personal liability under both state and federal law, this protection does not cover compensated directors and does not cover acts of “gross negligence.” Must be obtained as a separate endorsement or policy.

Action point

- If your church lets children ride in fully-loaded 15-passenger vans, does not screen youth workers, or engages in other high-risk activities that may be deemed “grossly negligent,” then you need to purchase this coverage.

Theft Insurance Coverage

Covers embezzlement and other misappropriations of church funds and securities by employees and others having access to money or property. Often must be obtained as a separate endorsement. This form of insurance is also referred to as bonding.

Action point

- Remember, the opportunity to steal, rather than a need for money, is often the primary reason for employee theft. Institute procedures to minimize unsupervised access to funds.

Foreign Travel Insurance Coverage

Provides medical benefits for injuries occurring during foreign travel. Costs of a medical evacuation may also be covered. Often must be obtained as a separate endorsement or policy.

Action points

- Check to see if your general liability policy excludes any injuries or damages occurring outside of the US (most general liability policies do exclude such coverage).
- Make sure your church is covered if it sends groups on mission trips to foreign countries.

Umbrella Insurance Coverage

Covers legal judgments in excess of the limits on other insurance policies.

Action point

- Does your church have substantial assets to be protected, or inadequate liability insurance? If so, you need to purchase umbrella coverage to protect against catastrophic damages.

Workers' Compensation Insurance Coverage

Workers' compensation insurance provides benefits to employees who are injured or become ill in the course of (or because of) their employment. Many church leaders erroneously assume that churches are not covered by state workers' compensation laws. In most cases, this assumption is incorrect and exposes a church to a substantial uninsured risk.

Action point

- Check to see if churches are subject to workers' compensation law in your state. If so, obtain insurance to cover potential claims.

What amounts of coverage should your church have?

Church leaders often ask, "How much insurance should we purchase?" Unfortunately, there is no simple answer to this question. Here are a few points that may help:

- In general, the amount of coverage should be based on two primary considerations: (1) the nature and frequency of your activities, and (2) the net value of the church's assets. To illustrate, if your church has a youth program that has frequent meetings involving several minors, or your church provides

counseling, or hosts community activities, then your liability risks are increased and you should be looking for higher insurance limits. Further, as a general rule, liability insurance should have limits in excess of the net value of the church's assets, so that the assets are protected in the event of litigation.

- Annually review all church insurance coverages to be sure they are adequate.
- Periodically obtain appraisals of church property (real property, personal property, and fixtures) to be sure that you have adequate coverage.
- Be sure that your church is insured for an amount in excess of what is required by a coinsurance clause in your insurance policy. A coinsurance clause is often difficult to understand, but the idea is this: unless a church is insured for a specified amount (e.g., 80 percent of market value) then the church becomes a "coinsurer" in the event of a partial loss, and is responsible for paying part of that loss. This is done by a reduction in the amount that the insurer has to pay. The purpose of such clauses is to persuade property owners to insure their property for an amount equal to or approaching its market value. Over time, a church's failure to increase the amount of its property insurance to reflect the current value of the church property will reduce the insured amount to less than the coinsurance amount, and this can result in an unpleasant and unbudgeted expense when the insurer only pays a portion of a substantial partial loss.

What are exclusions?

An exclusion is a loss that is not covered under an insurance policy. In some cases, excluded losses can be covered by a separate endorsement or "rider" by paying an additional premium. Church leaders should be familiar with exclusions under the church's insurance policies, and obtain all desired endorsements.

For example, commercial general liability (CGL) insurance policies generally exclude intentional or criminal acts from coverage. Some policies specifically exclude coverage for sexual offenses. Insurers often assert such exclusions in cases of sexual molestation of minors by church employees and volunteers, since such acts are both intentional and criminal. But churches typically respond to such coverage denials by asserting that the exclusion does not apply since they were not guilty of intentional or criminal acts. Rather, they ordinarily are being sued on the basis of negligence. The courts have come to different conclusions in such disputes. This illustrates the importance of church

leaders being familiar with the terms of their church's CGL policy, and providing for sexual misconduct coverage as a separate policy or endorsement if necessary.

Most CGL policies exclude employment practices. As a result, churches that are sued for an employment-related claim may be denied coverage and the insurer will provide neither a legal defense nor indemnification. The most common employment-related claims involving churches include wrongful termination and various discrimination claims under state and federal law.

The duty to notify

Church insurance policies impose upon the church a duty to promptly notify the insurer of any potential claims when the injury or loss occurs, and not when a lawsuit is filed. This gives the insurance company sufficient time to investigate the incident and provide a defense. Notice is a condition of coverage and a church that fails to promptly notify its insurer of a potential claim may be denied coverage.

When faced with a “no coverage” letter due to failure to promptly notify, a church may argue that its delayed notification was not sufficiently long to violate the prompt notice requirement, or that its delay did not result in prejudice to the insurer. If it can be established that the insurer was not materially prejudiced by the insured's delayed notice, the delay may not be fatal to the insurer's obligations to defend and indemnify.

Additional reading

For deeper readings on church insurance and liability, see the following:

- [*Understanding Church Insurance*](#)
- [*Understanding Pastoral Liability*](#)
- [*Pastor, Church & Law*](#) (in the legal library, or [purchase the book](#) from the Church Law & Tax Store)
- [“Finding a Church Insurance Broker”](#)
- [“Workers' Compensation: Who Is—and Isn't—Covered?”](#)
- [“Court Rules Church's Insurance Policy Exclusion Precludes Coverage for Church in Negligence Lawsuit”](#)
- [“The Limitations of Church Insurance”](#)

Go to the next article, “[Child Abuse Reporting](#)” or return to “[15 Things Richard Hammar Wants Pastors to Know](#),” to choose an article of interest or that fits a particular need.

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