

ARE YOU REALLY COVERED: TIPS FROM OVER 10,000 INSURANCE CLAIMS

It's probably safe to say that most consumers don't read the fine print of their home, auto, business or organization's insurance policy. Reading an insurance policy, even one written in plain-language, is a daunting task for anyone! However a lack of basic insurance knowledge can cause serious gaps in important protection when choosing an insurance provider, policy and coverage options.

What if your organization could have the benefit of experience from over 10,000 claims at other churches and Christian charities?

What if it could help your organization avoid lawsuits, uninsured or underinsured claims and preventable injuries to your employees, volunteers, members, participants and guests?

Well that's exactly the kind of experience and advantage we offer as an insurance provider specializing in property and liability protection for over 7,000 Christian charities across Canada!



BY THE NUMBERS

- ♦ 11,800 claims paid out since 1978
- ♦ Over \$100,000,000 in claims settlements in the past 20 years
- ♦ On average our insured organizations have 1 claim every 6.5 years
- ♦ The most frequent Property claims are:
 - Water Damage
 - Windstorm
 - Theft
- ♦ The most frequent Liability claims are:
 - Bodily Injury, including Trip and Fall claims
 - Wrongful Dismissal
 - Actual or alleged Abuse
- ♦ The most severe claims are:
 - Fire
 - Water Damage
 - Windstorm
 - Bodily Injury

COMMERCIAL INSURANCE POLICIES ARE NOT CREATED EQUALLY!

- The insuring agreements, conditions, exclusions and definitions in a policy wording can result in hundreds of thousands of dollars in coinsurance penalties in a major building claim, or the difference between full coverage and no coverage in a lawsuit.
- Uninformed decisions or cutting corners on important coverages to save a few dollars can be a costly mistake for an organization and its leaders.

Covering your Church... Inside and Out!

REMEMBER: Whether you are a large organization or a small community charity operating on a limited budget, the potential for a multi-million dollar lawsuit against your organization is a reality. The largest liability settlements paid out in an insurance claim against our client organizations were for charities with annual revenues of less than \$250,000 or church membership under 150 people.



Following are five (5) key insurance coverage considerations that are often missed by Christian ministry leaders, board members (and sometimes by their insurance brokers or agents), that can leave an organization seriously underinsured, jeopardize charitable assets and open directors and members up to uninsured personal liability in a claim.



1. INSURING TO VALUE

INFLATIONARY TRENDS: 2003-2015

- The consumer price index has increased by a factor of 154.8% for nonresidential buildings (institutional construction) in the past decade. Buildings that cost \$1,000,000 to construct in 2003 should be insured for \$1,548,000 today. (Source: Canada.gc.ca Aug/2015)

A visit to Home Depot or Rona to purchase a 2" X 4" or a sheet of plywood is a good reminder of what has happened to the cost of building materials over the past decade!

- The Canadian consumer price index (CPI) has increased by a factor of

132.6% for most types of consumer goods and services. This means that equipment, furnishings and other contents purchased for \$100,000 in 2003 should be insured for \$135,300 today to keep pace with the rate of inflation.

MARKET VALUE VERSUS REPLACEMENT VALUE

- Market Value, also known as Real Estate Value, is what a particular building or property is worth to a willing purchaser at any given time during the real estate market cycle.

- Replacement Value, is the current cost to rebuild, repair or replace an existing structure with current building materials of like kind and quality, regardless of when that building was originally constructed.

- Replacement Value is the proper basis for establishing the limits of building and contents coverage on an insurance policy in order to ensure that the claim settlement covers the full cost of a partial or total claim.

CO-INSURANCE: THE HIDDEN DANGER

- Most commercial fire or property insurance policies contain a Co-Insurance Clause requiring the policyholder to insure their building and contents to within a specified percentage of current replacement value (i.e. 90%).
- Failure to do so can result in a penalty that is equivalent to the proportion that the building or contents are underinsured at the time of an insurance loss, even in a partial claim!
- Property owners, including charities, who

have neglected to keep their buildings insured to full replacement value can face significant co-insurance penalties in a major fire, water damage or windstorm claim that may result in the organization being responsible to pay hundreds of thousands of dollars out of pocket.

- Even when an organization has a sufficient limit of coverage to pay for a smaller claim such as a sewer backup, an act of vandalism or the theft of equipment, they may still have to pay

tens of thousands of dollars as co-insurer, if their total coverage limit is less than 90% of the current overall replacement value of their building and contents at the time of a loss.

For example if, an organization with a policy coverage limit representing only 50% of the full replacement value of their building suffers a \$200,000 partial fire claim, they may face the unpleasant surprise of receiving a claim cheque for only one half of the cost of repairs!

INSURING TO VALUE TIPS:

- Check your insurance policy to ensure that it **DOES NOT** have...
 - A Co-Insurance Clause and Penalty
 - A Same-Site Rebuilding Requirement
 - Actual Cash Value Coverage (i.e. depreciated settlement)
- Check that your policy **DOES** have...
 - An Agreed Value Clause
 - A Replacement Cost Endorsement
 - Inflation Guard Protection

To qualify for coverage without a Co-Insurance Clause, obtain a replacement value appraisal opinion from a qualified property appraiser or an experienced building contractor.

Alternatively with *Church Protection Plus* an insurer may accept a completed Statement of Values form verifying the building value based on a realistic "per square foot" replacement cost factor. If approved, the Co-Insurance Clause can be removed and replaced with an Agreed Value Clause

No Co-Insurance Clause means never having to pay a penalty in a claim settlement!

STATEMENT OF VALUES For Churches and Charitable Organizations

Name of Organization: _____ Telephone #: _____
 Address: _____
 Name of Contact: _____ Telephone #: _____
 Alternate Contact: _____ Telephone #: _____

*** It is extremely important that this form be completed each year in order to avoid co-insurance penalties and to continue to qualify for coverage on an Agreed Value basis. If the values indicated on this form do not coincide with the limits now insured, your coverage will be updated accordingly.

1. What would it cost today to construct your building(s)?
 \$ _____ Church/Hall (including pews permanently attached) \$ _____ Parsonage/Manse
 \$ _____ Improvements and Betterments (Rentals and Condominiums) \$ _____ Other Buildings

2. Were these construction costs established by: Building Contractor Qualified Real Estate Appraiser
 Estimate based on _____ total sq.ft. at \$ _____ per sq.ft.

Please complete the Building Update Form on the reverse side of this form and return to our office, along with a recent exterior photograph of your building(s), as it is required by your insurance company for their underwriting records.

3. What would it cost to replace your contents?

	Church/Hall	Parsonage/Manse	Other
Furniture / Furnishings	\$ _____	\$ _____	\$ _____
Supplies / Stock	\$ _____	\$ _____	\$ _____
Sound Equipment	\$ _____	\$ _____	\$ _____
Computer Equipment / Media	\$ _____	\$ _____	\$ _____
Pipe Organ	\$ _____	\$ _____	\$ _____
Musical Instruments	\$ _____	\$ _____	\$ _____
Sports & Recreational Equipment	\$ _____	\$ _____	\$ _____
Watercraft / Canoes / Kayaks	\$ _____	\$ _____	\$ _____
Appliance / Dishes / Utensils	\$ _____	\$ _____	\$ _____
Props / Sets / Displays	\$ _____	\$ _____	\$ _____
Day Care Equipment / Outdoor Playground	\$ _____	\$ _____	\$ _____

2. MORE THAN JUST “BRICKS AND MORTAR”

Fire, water, windstorm and explosion claims involving structural damage or the complete destruction of a building can result in a church or charity being without important building facilities for months, and in the cases of a total loss, a year or longer. The delay can trigger significant “business interruption” costs, even for non-profits and charities!



EXTRA EXPENSE AND NON-PROFIT LOSS OF INCOME COVERAGE TIPS:

1. Most churches and charities should carry an Extra Expense coverage limit that represents at least 12 months of the anticipated cost to operate at a temporary location(s)
2. Charitable organizations usually seek to temporarily relocate as quickly as possible and are often able to continue to provide services, programs and ministries with little or no interruption.

However in the aftermath of a major claim there can be loss of rental income, reduced attendance and a temporary decline in tithes, donations and revenue. We recommend that any organization also have Loss of Income coverage equivalent to at least 6 months of revenue and preferably a full 12 months.
3. For organizations who derive significant revenue from tenants and outside user groups, ensure that your policy includes Rental Income coverage equivalent to 12 months revenue.

4. Standard Commercial Property insurance policies will often either contain no coverage for the cost of increased construction due to upgraded building by-laws, or contain coverage that is limited to “within” the total building coverage amount. This means that the organization will effectively have no provision for the increased cost of construction due to by-law upgrades in a total loss above and beyond the coverage limit. Therefore we recommend that you check that your policy contains Broad Form By-Laws coverage in excess of your building and contents coverage limit.

In the aftermath of a major claim there can be delays due to:

- Fire Marshall’s investigation
- Structural engineering reports
- Partial or complete demolition of the undamaged portion of a structurally unsound building
- Geotechnical (Soil) Surveys
- Debris removal
- Tendering the project to general contractors and sub-trades
- Obtaining approval from the municipality with respect to upgrades in building by-laws (e.g. handicap access, internal fire walls, etc.), temporary easements to access the site and construction building permits
- The actual construction period can take 6 months to 18 months, depending on the size of the project
- Because most church congregations and charities seek to remain fully functional during

a reconstruction period, they may incur significant extra expenses to operate, including:

- Recreating valuable papers and records
- Moving salvaged contents and renting storage facilities
- Telephone, media and computer hook-ups
- Changes to stationery supplies and website content
- Rental of alternate temporary facilities which may involve multiple locations for church services, Christian education, mid-week activities and office facilities
- Business Interruption may be even more challenging and costly for charities that operate schools, day cares and camping ministries when the rental of temporary buildings and portable generators may be the only solution to operate.



In a recent claim involving a \$2.7 million fire loss to a church building and fellowship hall, the extra bill for claims-related expenses and the cost to upgrade facilities to meet current building code totalled over \$800,000!

3. WATER DAMAGE: THE NEW FIRE

Water damage claims are on the rise exceeding fire as the #1 insurable loss and according to the Insurance Bureau of Canada (IBC), the insurance industry in Canada paid out over \$1.7 billion in claims for water escape, sewer backup and flooding in 2012 and almost \$3 billion in 2013.

- The heavy rainfall that triggered catastrophic flooding in southern Alberta in June 2013 caused over 100,000 people to be displaced and up to \$5 billion in damage, much of it uninsured.
- The July 2013 flood in Toronto was Ontario's most costly natural disaster and resulted in an estimated \$850 million in damage, including \$3 million in flooding and sewer backup damage suffered by 20 of our church and charitable organizations located along the Highway 427 corridor.
- During the past two decades, water damage claims have surpassed fire and smoke damage as the leading cause of property insurance losses among our 7,000 church and charity client organization policyholders
- The frequency of water damage claims has increased due a variety of factors; including increased weather volatility, deteriorating or improperly maintained municipal sewer system infrastructure and an increased prevalence of finished basements with more expensive floor coverings, wall coverings and furnishings.

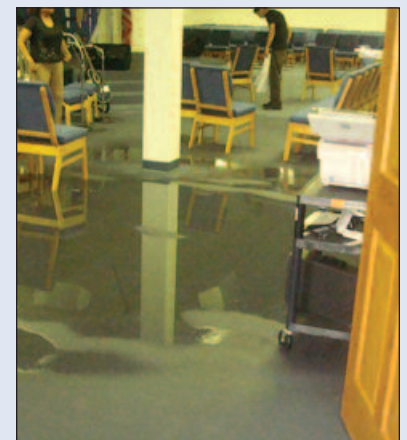


- According to AVIVA Canada, over 40% of all Homeowner's insurance claims are for water damage and among our church and charitable organization clients, the average cost of an insurable water damage claim has more than tripled since 2001, increasing from \$9,000 to over \$32,000.
- A major factor contributing to the increasing size of water damage claim payouts is mold and the cost of mold remediation and removal.

WATER DAMAGE INSURANCE TIPS:

Check with your insurance broker or agent to make sure that your Property Insurance policy includes the following features:

1. Flood Insurance to cover damage caused by the overflow of water from natural or manmade bodies of water and from the influx of ground or surface water into the building. Consumers are often unaware that most policies do not include Flood coverage. This coverage may not be available in certain regions prone to flooding and even when it is available, it is subject to a higher deductible (e.g. \$25,000 or more) and to exclusions for water influx through foundation cracks, windows and other openings.
2. Sewer Backup Insurance to cover water damage caused as the result of the backing up of sewers or sumps, often because of a severe storm overloading a municipal sewer system or through a sump pit. Again this coverage is usually subject to a higher deductible (e.g. \$2,500 or more) and may be unavailable in certain areas prone to sewer backups and unless the building owner has installed a backflow valve and/or monitored sump pump.



MOLD AND INSURANCE

- There is a growing awareness in society of the health issues associated with long-term exposure to black mold, including upper respiratory tract conditions, heightened asthmatic sensitivity and the possibility of other more rare and unique illnesses in certain individuals (Source: Centre for Disease Control)
- The long-term growth of mold behind walls and in other enclosed or hidden spaces due to past water escape, leakage or humidity is generally not insurable. However newly formed mold as a direct consequence of an insurable claim is covered and it is now standard practice for insurance companies and adjusters to engage the services of contractors who are certified mold remediation specialists. Gone are the days of pulling up carpet, underpad and using fans! Claims now routinely involve complete replacement of flooring materials, sub-floors and affected areas of drywall, lower cabinetry and other materials to ensure that all mold is removed.

4. LIABILITY COVERAGE: HOW MUCH IS ENOUGH?

Recent multi-million dollar liability suits have been a wake-up call for Christian charities in Canada, including:

- Victims and surviving family members seeking damages in excess of \$11,000,000 against a church and leaders for fatalities and injuries resulting from an accident involving a volunteer's personal vehicle transporting teenagers to a youth rally
- An individual plaintiff seeking \$17,000,000 against a church and missions organization due to an injury during a jointly sponsored short-term mission trip that resulted in quadriplegia as the result of a fall from a balcony at the hotel where the church group was staying



One of the most frequently asked questions is “Do we have enough liability insurance?” While it is impossible to know for sure what type of catastrophic accident might take place, how many people could potentially be injured in a single accident or what civil damages a court may award in a future lawsuit, the above examples send a clear message that a liability policy with a \$1,000,000, \$2,000,000 or even \$5,000,000 coverage limit, may no longer be enough to adequately protect an organization and its leaders.



- Liability coverage limits should be chosen carefully to reflect the nature, scope and scale of your organization's ministries and activities.
- Churches and charities conducting sports and recreational activities, schools, day cares, children's and youth programs, and short term mission trips are particularly susceptible to multiple injury and catastrophic claims.
- Ownership and use of automobiles, vans and buses (whether owned by the organization or by staff, volunteers and members for sponsored activities) can also greatly increase potential legal liability risks.
- Over the past decade, many organizations have increased their liability limits to as much as \$10M, \$15M or even \$25M in combined General Liability and Excess Liability coverage by purchasing an Umbrella Liability policy.

WHAT IS UMBRELLA LIABILITY?

- Umbrella Liability is a separate policy providing an excess layer of coverage over and above an organization's primary General Liability policy limit. For example, a charity may have a \$5M primary General Liability policy and add a \$10M Umbrella Liability policy, for a combined protection of \$15M.
- It provides excess coverage on a follow-form basis for most underlying risks covered in a primary General Liability policy and can also provide excess coverage over and above primary Third Party Automobile Liability coverage if the organization owns or leases vehicles, including autos, vans or buses.
- Umbrella Liability is the single most effective way to reduce the risk of underinsured claims and the potential for having to liquidate an organization's assets and/or personal assets of directors (or members of an unincorporated entity) to pay for damages in a multi-million dollar lawsuit!



Robertson Hall's Church Protection Plus Insurance Plan offers optional Umbrella Liability protection with combined coverage limits up to \$25M

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4. LIABILITY COVERAGE: HOW MUCH IS ENOUGH?...CONTINUED

ALL INSURANCE POLICIES ARE NOT CREATED EQUAL!

It is important to remember that no matter how high the limit of liability coverage you choose, you may have zero coverage "if" your policy contains certain major exclusions, conditions or sub-limits. Some common examples of excluded, restricted or limited in standard liability policies by some insurers include:

- Abuse, Molestation and Harassment
- Employment Practices and Wrongful Dismissal

- Punitive, Exemplary, Aggravated or Multiplied civil damages
- Territorial restrictions for operations outside of Canada and the U.S.
- Participants in sports and recreational activities
- Media Liability including website content and internet streaming
- General Aggregate Limits restricting coverage for multiple claims

Robertson Hall's Church Protection Plus Insurance Plan offers coverage for all of the above risks

A NOTE ABOUT GENERAL LIABILITY AND DIRECTORS AND OFFICERS LIABILITY

- The greatest risk of multi-million dollar lawsuits is bodily injury or multiple injuries arising from an accident, whether on-premises, at off-premises activities or while in a vehicle being operated on behalf of an organization. Bodily injury is covered in a **General Liability** (and Umbrella Liability) policy. Both types of policies can and should include the entity, directors, officers, employees and volunteers as Insureds to defend and protect them in case they are sued in a third party liability claim. Charities and leaders should place a high priority on carrying sufficient General Liability and Umbrella Liability policy limits to cover against the bodily injury risk e.g. combined limits of \$10,000,000 or higher!

- **Directors and Officers Liability** policies do not cover Bodily Injury, Personal Injury or Third Party Property Damage claims.

Directors and Officers Liability is intended to cover an organization and its leaders for other types of fiduciary legal liability claims, including negligent acts, errors, breaches of duty, neglect of duty and misstatements which result in an actual or alleged financial loss by a third party.

Claims covered by a D&O Liability policy have less potential for multimillion civil damage awards, based on actual awards and settlement in Canadian courts.

Choose coverage limits of \$1M, \$2M or \$5M, depending on the financial size and fiduciary obligations of your organization.

TIPS FOR CHOOSING ADEQUATE LIABILITY LIMITS

1. Inquire with your insurance provider about the cost of excess liability protection for your organization and leaders through an Umbrella Liability policy.
2. Choose an Umbrella Liability limit that reflects the potential risk posed by your operations, ministries and events, on and off premises.
3. Maintain combined General Liability and Umbrella Liability limits of between \$10M and \$25M and a Directors and Officers Liability limit of between \$1M and \$5M.
4. Read "the fine print" in your policies. Ask your insurance provider to ensure that you do not have any insurable gaps in protection that may cause zero coverage for certain risks or for certain types of civil damages in a claim.
5. Include excess protection for any owned or leased vehicles (i.e. cars, vans, buses) by adding your Auto Insurance Third Party Liability as an underlying policy covered by your excess Umbrella Liability policy limit of protection.



5. SPENDING INSURANCE PREMIUMS WISELY

EXAMPLES OF MAJOR COVERAGE DIFFERENCES

	<i>Church Protection Plus Insurance Plan</i>	Standard Policy
Agreed Value Clause	✓	—
“Excess” By-Laws Coverage	✓	—
No Same-site Re-Building Requirement	✓	—
Excess Extra Expenses (\$1,000,000)	✓	—
All Insurable Civil Liability Damages Covered	✓	—
Full Worldwide Liability Territory	✓	—
Abuse Liability up to \$5,000,000	✓	—
Umbrella Liability up to \$25,000,000	✓	—

The above is a partial summary of the coverages and options available through the *Church Protection Plus* Insurance Plan. Please refer to actual policy wordings for full details.

- Uninformed decisions or cutting corners with important insurance coverages can be financially disastrous
- Underinsured property claims may result in hundreds of thousands of dollars in shortfall to repair or rebuild a building and to replace expensive contents, furnishings and equipment
- Inadequate liability protection can result in a lack of financial resources to pay for bodily injury lawsuits that can force an organization to liquidate its properties, result in directors being sued personally, and in the case of unincorporated organizations, open members up to potential personal liability
- The original concept of insurance was to transfer the risk of a catastrophic event that the policyholder did not have the financial resources to pay for, by pooling the risk with other individuals or organizations, in the event that one policy holder suffers a loss that could wipe them out.
- One way of effectively transferring those risks is through an insurance policy, whereby each policyholder pays a premium against the likelihood of suffering a major fire, water damage or liability claim.
- Therefore it is important to remember when choosing your insurance coverage, amounts and deductibles... “don’t sweat the small stuff”
- “Self insure” minor property claims through higher deductibles.
- Focus on protecting against high risk perils that nobody likes to think about, but can happen to any organization.
 1. Check with your broker or agent about the premium credit available for a higher deductible on your building and contents coverage in order to save premium dollars for claims and amounts that you can easily self insure. Churches and charities who own buildings can save hundreds of dollars or more each and every year by carrying a property claim deductible of \$5,000 or higher.
 2. Consideration should also be given to removing full current coverage on buildings that your organization plans to demolish in the near future, or that you would have no plans to replace. Instead, cover them for Liability and Wreckage Value only, in order to save additional premium.
 3. Utilizing the premium savings above, ensure that your Buildings and Contents are covered to full current replacement value, to avoid being underinsured in a total claim or having to pay a co-insurance penalty in a partial claim.
 4. Also with the savings from self-insuring, make sure you have Directors and Officers Liability coverage for your board members and an Umbrella Liability policy with excess limits of coverage to avoid your organization, leaders and members being underinsured in a multi-million dollar bodily injury lawsuit.

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5. SPENDING INSURANCE PREMIUMS WISELY...CONTINUED

This sample Risk Mapping graph for not-for-profit entities plots the frequency and potential severity of claims faced by organizations such as churches and charities.

Larger organizations face a higher frequency of claims based on sheer size of their operations and value of their property; however ALL organizations large or small, face the same potential severity of claims, especially liability claims. The largest two liability claims suffered by our

church and charity clients in terms of liability awards and settlements were very small organizations.

So remember to focus your insurance premium dollars on protecting against high risk perils by insuring to full replacement value to cover major property damage claims and by obtaining excess Umbrella Liability coverage for bodily injury lawsuits that nobody likes to think about, but can happen to any organization!

RISK MAPPING (Not-For-Profit Entities)

“Self Insure” what you can afford
“Transfer Risk” through insurance for what you cannot afford!

