

Adequate Coverage Safeguards Your Place of Worship

Insure to value and you ensure the future



A 110-year-old church in New Brunswick burned down after being struck by lightning.

A 30-year-old church in Alberta was destroyed by an arsonist.

An 80-year-old church in B.C. was completely destroyed by fire.

Besides the tragedy of loss and the irreplaceable intrinsic or historical value of these churches, there is another common denominator: they were all under-insured.

Sadly, the claims files of faith insurers are filled with stories of places of worship without adequate insurance to cover the value of the loss. In cases where the loss was total and insurance coverage woefully inadequate, some faith communities simply did not have the extra funds required to rebuild. As a result, they either dissolved completely or assimilated into a neighbouring faith community. While there was significant monetary loss, the real loss was felt in terms of continuity and the emotional, spiritual, and social loss to the community.

What is insurance to value?

Insurance to value means having sufficient insurance to cover the full value of the property. Being under-insured means just that: having an insurance policy with a coverage limit that is insufficient to pay for the cost of rebuilding a property in the event of a total loss.

Various studies by insurance companies and independent property valuation firms have established that a large percentage of properties are under-insured. Faith properties are no exception. In fact, under-insurance is a common occurrence for faith risks.

What causes under-insurance?

Penny wise/pound foolish

Some faith communities choose to save a few hundred dollars in yearly insurance premiums by purchasing less-than-adequate property limits or by using outdated appraisals. In the event of a total loss, they stand to lose hundreds of thousands of dollars, and often more, when they must pay the difference between the value they chose to insure and the true value to rebuild their property.

It will never happen here

Some faith communities simply don't think that anything will happen to them and act accordingly. This is not a wise course of action. Unfortunately, in today's world, faith communities need to consider many potentially disastrous situations – from extreme weather conditions like lightning, hurricanes, tornadoes and ice storms to vandalism, arson, terror and hate crimes.

Bad math ... bad advice ... no advice

In the absence of professional advice and expert appraisals, some faith communities

- are unaware of the erosion of insurance coverage accumulated over many years as a result of inflation
- underestimate or fail to apply adequate inflationary increases to property values
- underestimate the replacement costs of buildings, contents, historically significant architectural details, religious artifacts, etc.

The impact of under-insurance

Too many faith communities have depleted their cash reserves by not paying enough attention to insurance. Too many have learned that the cost of failing to apply regular updates to property values vastly outweighs any savings in premiums. Too many have seen their congregations devastated on many levels – financial, spiritual, and emotional.

A couple of brief examples speak volumes about the results of under-insurance:

- A small historical place of worship is destroyed in a fire set by a group of teenage arsonists. Their insurance policy covers just over half the cost to rebuild. The faith organization needs to raise over 40% of the replacement cost
- An unattended candle in a place of worship results in a total loss fire. Their insurance limit is based on an appraisal that is over a decade old. Over the years, replacement costs have escalated dramatically. To rebuild, the faith community must come up with a difference of over \$4 million.

Co-Insurance

Another negative impact of under-insurance relates to the co-insurance clause found in many insurance contracts. In simple terms, this clause is designed to penalize an insured for carrying an inadequate insurance limit. Under a co-insurance clause, an insured can only collect on the portion of the loss equal to the amount that the limit of insurance bears to the actual value of the property.

For example, consider a building that is worth \$2 million dollars but is insured for only \$1 million. If the insured were to suffer a loss of \$500,000, they would only collect \$250,000. Co-insurance clauses usually only apply if the amount insured is less than a certain specified percentage of the correct property value, for example, 90%.

Choosing a loss settlement basis

There are several ways to insure any property:

- Actual Cash Value which covers the replacement cost of the property minus depreciation accruing against the value of the property over time
- Market Salvage Value which is appropriate in a situation where the insured knows they will walk away from rebuilding after a total loss and chooses to cover only the value of the used building materials
- Functional Replacement Cost refers to a unique situation in which a building would be rebuilt to meet the insured's current needs. For example, due to demographic changes in a community, a place of worship that was originally built to accommodate 800 people would only be rebuilt to accommodate 350 people
- Replacement Cost is the loss settlement basis chosen by most places of worship. It is the cost of replacing the building as it was without subtracting depreciation. In effect, it means replacing a building with one of "like kind and quality" of the original when it was new. If something should happen, the insured will want to replace both the structure and its contents as they were

In the case of a place of worship, contents might include furniture, paintings, statuary, religious artifacts, stained glass, pipe organs, carved screens, bells and other valuable objects.

When a place of worship has special architectural or historical significance, an appraisal firm with experience in evaluating historically significant buildings should be consulted. Assessing replacement and/or replacement cost must factor in the latest bylaws and building codes for safety and accessibility – for example, sprinklers, ramps, numbers of washrooms, etc.

Replacement cost must also reflect inflation. In fact, the replacement cost of a building increases regularly, rising with inflation and construction costs. That's why it is important to review your insurance coverage annually to ensure adequate increases are applied to your building and contents cover, thus keeping pace with inflation.

All too often, a faulty base number for replacement value, compounded by an inaccurate annual inflationary increase, results in significant under insurance. Restoration costs of valuable objects may also require the help of an expert in the field.

A simple 1% difference in the construction cost inflation factor, compounded over 5 years, results in 6% under-insurance.

A 3% difference over 10 years results in 34% under-insurance!

Stewardship is critical. Because sometimes the unthinkable does happen.

Whatever the size of your faith community, making sure that you have adequate insurance coverage is paramount. Whether you have a large formal board or a small group of lay volunteers, protecting the health of your organization includes managing both finances and risk.

At some point, your insurance broker may have brought up the issue of under insurance and recommended a new or updated property appraisal. Given that additional costs were likely required ... given budgetary constraints ... given all the other needs of your congregation, you may have deferred

all discussion and maintained the status quo. In all likelihood, if this is the case, your place of worship is under-insured and your congregation is at great financial risk. Insurance is simply not a subject that can be deferred. If necessary, you should consider

communicating the issue to your entire congregation and soliciting everyone's input. By taking this approach, your group decision will be driven by what you and your congregants would expect or want to do in the event of a loss.

Ecclesiastical Insurance: Knowledge. Experience. Innovation.

At Ecclesiastical Insurance, we insure more places of worship than any other insurer in Canada. We have extensive first-hand experience with the cost of claims and we know full well how faith organizations can be devastated by a total loss.

An analysis of our own major property losses – that is, losses with insured values of \$1,000,000 or more – reveals that over 80% were under-insured, with average under-insurance of 34%. With statistics like these that speak to the enormous financial losses suffered by faith organizations, we truly cannot overemphasize the importance of insuring to value.

Ecclesiastical's Risk Management Specialists are highly skilled at performing building valuations that can be used to help you determine an appropriate amount of insurance. For more information, speak to your broker. And be sure to ask for an Ecclesiastical Insurance Valuation. Free of charge.

We understand there may be financial constraints in increasing coverage limits and Ecclesiastical does have options available for triaging premium increases over two policy periods. Please talk to your broker to discuss the options available to your congregation.

Arson continues to be the leading cause of fires affecting Canadian places of worship. Ecclesiastical Insurance has developed resources which can assist places of worship and other organizations in protecting against fire, vandalism and arson.

ecclesiastical.ca/risk-control-guidance-for-places-of-worship-re-arson/

ABOUT ECCLESIASTICAL INSURANCE

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