

## **INSURANCE OF CHURCH BUILDINGS & CONTENTS**

### **INTRODUCTION**

This discussion paper is prepared to guide the SJE Church Committee in complying with **Canon VIII Article 24**<sup>1</sup>, which require compulsory insurance of all church building and content (vested in the Incorporated Lay Body) - at replacement value, with a General Insurance Company registered under the Insurance Act (1971).

### **CURRENT SITUATION**

#### **CHURCH BUILDING**

- Previously insured for value of \$8,600,000 with Anglican Church Insurance Fund (ACIF). Premiums last paid in 2018.
- Not now insured;
- Replacement Value \$43,950,000 - 2022 Mar (Allison-Pitter).

#### **CHURCH HALL BUILDING**

- Previously insured for value of \$4,300,000 with ACIF. Premiums last paid 2018;
- Not now insured;
- Replacement Value \$24,850,000 – 2022 Mar (Allison-Pitter).

#### **CHURCH CONTENTS (in Church & Church Hall)**

- Church Contents listed as Pews (\$600,000), Electric Organ (\$1,200,000), Currently insured with General Accident Insurance (2023/24) for premium of \$40,000 + GCT. Was \$25,000 + GCT in 2019/20.
- SJE Church Committee prepared a more complete list of Church Contents in 2021 and estimated their replacement value at \$10,198,392 (including the Pews and Electric Organ). Contents valued at \$8,398,392 (82%) not now insured.
- 2023 Budget provided \$200,000 for insurance of Buildings and Contents, \$46,000 of which has already been spent insuring \$1,800,000 of Church Contents.

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<sup>1</sup> Please note that **Canon VIII Article 24** is silent as to which entity is responsible for payment of the insurance premiums. Traditionally, payment is made by Congregations, although they have no legal claim to ownership of these properties. Should the insurance premiums be paid by the Incorporated Lay Body or the property be vested in the respective Congregations?

ACIF **contribution** was \$77,685 for Church Buildings and Contents on declared value of \$15,536,950. Last paid in 2018. **Church Buildings and Contents currently valued at \$78,998,392 (2022).**

## OPTIONS

### COMMERCIAL INSURANCE COMPANY (Buildings + Contents)

- Allied Insurance Brokers: Insurance Rate - **0.013%**; Declared Value **\$78,998,392** (2023/2024); Annual Premium - **\$1,181,025.96**.
- 3No. quotes requested. 2No. declined to quote.

### ANGLICAN CHURCH INSURANCE FUND (ACIF)

- ACIF was established in May 2001.
- Trusteeship appointed by Diocesan Financial Board, with requirements for Trustees' Annual Report to Synod and Annual Financial Audit.
- Church House has provided a copy each of the following ACIF documents in response to a request from SJE – Trust Deed (Registered); Report of the Trustees 2022; Church House 2022 Update, and Audited Financial Statements 2020.
- ACIF is a Diocese Self-Insurance Fund. Fund Balance **\$441.8M** (Dec 2022). Investment Income 2012/2022 - max **\$21.2M** (7.7%) in 2013; min **\$8.6M** (2.2%) in 2019; average **\$15.3M** (4.3%). Annual Contributions by Congregations **\$7.2M** (2012/2022) – compliance low (34% in 2022), church properties undervalued by an estimated 70%.
- Upper Limit of **Total Annual Payout** by ACIF set by Trustees annually. Was **\$16.0M** in 2018 and **\$12.0M** in 2022. Payout **\$24.9M** to 131 Congregations since inception in 2001 – average **\$1.132M** per annum. Excess and Average Clauses applicable.
- Insurance Rate 0.005% per annum. Current contributions due: -

Church Building	- \$219,750
Church Hall Building	- \$124,250
Contents (Church + Church Hall)	- \$ 50,992
<b>TOTAL</b>	<b>- \$394,992</b>

### SJE SELF-INSURANCE FUND

- Possible option. Does not now exist.
  - Proposed Insurance Rate 0.0065% per annum. Current contribution due: -
- |                                 |                    |
|---------------------------------|--------------------|
| Church Building                 | - \$285,675        |
| Church Hall Building            | - \$161,525        |
| Church Contents (Church + Hall) | - \$ 66,290        |
| <b>TOTAL</b>                    | <b>- \$513,490</b> |

## **DISCUSSION**

### **NATURE OF RISK**

#### **Electrical Fire Hazard**

- Electrical Fire to fully destroy 2 of 2 buildings + contents - **Low Risk** (separate electrical systems)
- Electrical Fire to fully destroy 1 of 2 buildings + contents - **Medium Risk**
- Electrical Fire to partially damage 1 of 2 buildings + contents - **High Risk**
- Electrical damage (short circuit/power surge) to electrical equipment - **High Risk**

Preventative maintenance (rewiring, periodic inspection) can reduce Electrical Fire Hazard.

#### **Hurricane Hazard**

- Hurricane to fully destroy 2 of 2 buildings + contents - **Low Risk** (walls wind resistant)
- Hurricane damage to roof of 2 of 2 buildings + contents - **Medium to High Risk**
- Hurricane damage to roof of 1 of 2 building + contents - **Medium to High Risk**
- Hurricane water damage to contents (only) - **Low to Medium Risk**

Hurricane damage minimized by structural strengthening (hurricane straps), periodic roof inspection and maintenance.

#### **Earthquake Hazard**

- Earthquake to destroy 2 of 2 buildings + contents - **Low to Medium Risk**
- Earthquake to damage 1 of 2 buildings + contents - **Low to Medium Risk**

Major earthquake (>7 intensity) overdue. Investigate what can be done to retrofit the buildings to minimize damage.

### **NATURE OF INSURANCE COVER**

#### **Commercial Insurance Company**

- Adequate coverage but premiums unaffordable - \$1,181,025.96 per annum (2023).
- Annual premiums lost if no Claim is made – a major disadvantage.
- Annual premiums unstable – tend to increase regularly.
- Claims subject to Excess and Average Clauses.
- Management subject to regulation by the Financial Services Commission.

#### **Anglican Church Insurance Fund (ACIF)**

- Inadequate Cover but premiums affordable - \$394,992 per annum.
- Annual premiums lost to individual Congregations, but contributes to Fund Balance.
- Annual insurance rates and premiums stable.
- Claims subjected to Excess and Average Clauses.

- Accumulated Contributions by Congregations to Fund not likely to support significant payout for Loss Claim(s) by SJE (or any other Congregation).
- Management of Fund not subject to regulation by the Financial Services Commission. Annual Reports indicate adequate management of ACIF, except for reinsurance guarantees.
- ACIF not-in-compliance with Canon VIII Articles 24(4) that requires that the insurance of Church property “... *shall be carried by an approved General Insurance company or companies which are registered under the Insurance Act of 1971, or any subsequent amendment of this Act, to carry on such business.*”

#### **SJE Self-Insurance Fund (proposed)**

- Inadequate Cover, but premiums affordable - **\$513,490** per annum.
- Annual Premiums contributes to the accumulated Fund Balance.
- Annual insurance rate and premium stable.
- Claims not subject to Excess and Average Clauses.
- SJE Insurance Fund to be deposited in interest bearing account with Diocese (or Commercial Bank). Depositor protection available from the Financial Services Commission for Commercial Banks.
- Management of the Fund not subject to regulation by the Financial Services Commission. Rules to guide management of Fund yet to be prepared by Church Committee for Church approval.
- Trustees to manage Fund to be appointed by Congregation, on the recommendation of Church Committee.

#### **Conclusions**

- **Insurance of Church Property necessary – required by Canons and prudent.**
- **Commercial Insurance Cover at full replacement value unaffordable. As a result, SJE not able to comply with Canon VIII Article 24(4).**
- **ACIF Balance not placed in a legally registered general insurance company and so it is not in compliance with Canon VIII Article 24(4).**
- **ACIF and/or proposed SJE Insurance Fund able to provide only partial cover.**
- **Insurance Cover by the proposed SJE Insurance Fund is likely to be higher than that by the ACIF in the medium and long term, as (1) all of the proposed SJE Insurance Fund Balance could be applied to repairing a loss, and (2) there would be no requirement for reduction of the SJE Claims by Excess and/or Average Clauses.**
- **Lower risk in maintaining SJE Insurance Fund Balance in a commercial bank, because of its regulation by the Financial Services Commission.**
- **The main challenges of the proposed SJE Insurance Fund is likely to be the sustainability of its management in the medium to long term, particularly with respect to maintaining active Trustees and operationalizing decisions concerning investment policies.**

## **RECOMMENDATIONS**

1. **SJE to Self-Insure Church Buildings and Contents at a replacement value of \$78,998,392 (2022), using an insurance rate of 0.0065% per annum, and annual premium of \$513,490.** This shall be done knowing that in the event of a Claim it will not be possible to recover the full value of the Loss, but the accumulating contributions over the years, will mean that a higher percentage of the Loss can be covered with time. Also, a future Claim would most likely be for partial loss or damage, which may be fully covered by the Accumulated Contributions.
2. **The SJE Church Insurance Fund shall be governed by a Board of Trustees and Rules recommended by the SJE Church Committee, as approved by the SJE Church Members at a Congregational Meeting.**
3. **Immediately - insure select high risk Church Content in the short term with a registered General Insurance Company i.e., until the Fund Balance exceeds their replacement value (Electric Organ, Piano, Pews, Audio-Visual Equipment).** Increase existing insurance cover with General Accident Insurance Ltd for church contents (Electric Organ, Piano and Pews), to include Audio-Visual Equipment.
4. **Lower Risk of loss or damage to Church Property by (a) preventative maintenance (rewiring, periodic inspection) to reduce Electrical Fire Hazard; (b) strengthening of the structural integrity of buildings (hurricane straps, etc.), periodic roof inspection and timely maintenance to minimize hurricane damage, and (c) retrofit buildings to minimize earthquake damage.**
5. **Re-estimate the replacement value of select property that are at high risk (Electric Organ, Piano, Pews and Audio-visual Equipment), and insure them with a Registered General Insurance Company.** The 2023 Budget Allocation for expenditure on insurance is \$200,000, of which \$46,000 has already been paid for insurance premium for Church Contents valued at \$1.8M (Electric Organ, Piano, Pews) for the period Jan 2023/Jan 2024. Re-estimation of the replacement value of these assets and the addition of the AV Equipment was estimated at \$4.5M, for an estimated annual premium of \$100,344 (Insurance Rate – 0.022). The projected cashflow surplus of \$2.5M for SJE’s Main Account Dec 2023, should be able to accommodate an insurance reserve of \$0.513M (or some part thereof).
6. **The proposed SJE Insurance Fund Balance to be maintained in a Special Deposit Account at Church House, to allow Church House to benefit from this placement.** This benefit to Church House outweighs the risk associated with the absence of regulation by the Financial Services Commission, the late postings by Church House notwithstanding.

**5. The final decision to establish the SJE Insurance Fund shall be taken by Church Members at a Congregational Meeting i.e., at the Half Yearly Congregational Meeting scheduled for 23 Jul 2023.**

**6. This discussion paper shall be shared with the Deanery Council, Bishop Minott and Church House - after the Church Committee Meeting on 11Jun 2023, but prior to the 23 July 2023 Half Yearly Congregational Meeting.** They would thus be fully informed of the rationale for our decision, and have the opportunity to correct any misconception(s) employed in the SJE rationale.

Michael White  
SJE – Treasurer  
11 Jun 2023

End of Discussion Paper