

Introduction to insurance for churches and charities

July 2009

stewardship[®]

PO Box 99, Loughton, Essex, IG10 3QJ

t: 08452 26 26 27

e: enquiries@stewardship.org.uk

w: www.stewardship.org.uk

This Briefing Paper and others like it are provided free of charge and help a great many churches and charities. Their development involves many hours of dedicated professional expertise both from within and outside of Stewardship. They are provided at our own cost as part of our mission to equip you.

If you find the material in this Briefing Paper to be of value, we would invite you to respond in the following ways:

- Subscribe to receive our email bulletins at our website, www.stewardship.org.uk; and
- Tell others in your church or charity about our resources.

If you regard the material to have been of particular help and significance to you in your work (for example using it to inform a church or charity group/network) perhaps you would consider making a financial gift to Stewardship in appreciation (though please feel under no obligation).

CONTACT DETAILS

Stewardship

PO Box 99, Loughton, Essex IG10 3QJ

t 08452 26 26 27 or 020 8502 5600

f 020 8502 5333

e enquiries@stewardship.org.uk

w www.stewardship.org.uk

Stewardship is the operating name of Stewardship Services (UKET) Limited, a registered charity no. 234714, and a company limited by guarantee no. 90305, registered in England

© Copyright Stewardship 2009

COPYRIGHT

This publication is the copyright of Stewardship. We want our resources to have the maximum impact, therefore you are welcome to reproduce or otherwise distribute this material in whole or part. We simply ask two things: (1) there must be no use for commercial gain, and (2) Stewardship is clearly acknowledged with the following wording "Reproduced with permission from Stewardship. www.stewardship.org.uk". If extracts are to be used in another context, permission should be sought in advance by emailing enquiries@stewardship.org.uk or telephoning 020 8502 5600. Thank you.

DISCLAIMER

Whilst every care has been taken in the preparation of this material, Stewardship cannot be responsible for action taken or refrained from in reliance thereon. It is recommended that appropriate professional advice be sought in each relevant individual circumstance.

table of contents

	Page
1 Introduction	2
2 What Insurance Cover Should we have?	3
3 What about Trustees' Indemnity Insurance?	8
4 What information is it wise to make sure that we tell our insurers?	11
Appendix 1	13

1 Introduction

This Briefing Paper looks at various aspects of insurance for churches and Christian charities. Specifically, we have addressed some of the key questions that arise in trustees' minds when considering insurance cover. These are:

- What insurance cover should we have?
- What about trustees' indemnity insurance?
- What information is it wise to make sure that we tell our insurers?
- What do all the strange words in our insurance documentation mean?

A separate section deals with each of the first three questions. A glossary of insurance terms deals with the fourth and is presented as an appendix.

As a shorthand, where we refer in the text below to 'churches', this means both churches and charities.

2 What Insurance Cover Should we have?

2.1 "Must Haves"

There are some forms of insurance that **all** churches need to consider regardless of the way in which they operate. Beyond that, deciding what cover is needed will depend on, for example, whether you own or lease premises or if you just hire them for meetings.

All churches should consider Employers' Liability and Public Liability. Let's look at each in turn:

2.2 Employers' Liability

*It is a **legal requirement** that any church that employs staff must have Employers' Liability Insurance for a minimum Indemnity Limit of £5,000,000 (Employers' Liability (Compulsory Insurance) Act 1969).*

Employers' Liability insurance covers the church's legal liability for bodily injury or disease to employees, if caused during the period of insurance. It also covers the insured's own costs and pays for solicitors' representation at inquests and courts of summary jurisdiction. In practice, most insurance companies provide a £10,000,000 indemnity limit under their policies.

Some insurers will include cover for voluntary workers who are working for you in connection with church activities. This is an important aspect for trustees to consider. On this, the Charity Commission's own guidance states:

"The trustees may need to seek advice as to the rights and position of volunteers, which may not be the same as those of employees. It is important to ensure that volunteers as well as employees receive adequate training and supervision and that they and those that they come into contact with in fulfillment of their role are afforded care for their well-being, for example in accordance with the duties imposed by legislation such as the Health and Safety at Work etc. Act 1974. **The trustees are advised to regard volunteers as being employees for insurance purposes and to ensure that they are appropriately covered by the usual types of insurance a charity might buy, such as that for employers' liability or public liability** *[emphasis added]*. The policy will need to be checked to see how it defines what the term "volunteer" means for the purposes of that policy and the trustees should keep accurate records of the volunteers working for the charity who fall within that definition.¹"

A copy of the Employers' Liability Certificate **must be displayed** at every location where people are employed. This can be in electronic form provided that each employee to whom it relates has reasonable access to it, in that form.

Failure to carry this compulsory insurance runs the risk of heavy daily fines.

Whilst the former requirement for employers to retain a copy of their Employers' Liability Insurance Certificates for a period of 40 years has now been repealed (Employers' Liability (Compulsory Insurance) (Amendment) Regulations 2008), it remains best practice to do so: If no insurance records can be found the employer will be responsible for payment of any claim.

Claims relating to (for example) adverse health conditions, such as asbestosis and mesothelioma, are a salutary reminder that either having no insurance or not being

¹ Extracted from [CC49 - Charities And Insurance](#)

able to prove that you did have it can be fatal to the church and to the personal pockets of the trustees.

2.3 Public Liability

As a church, you should also consider cover for your liability to third parties for any loss, injury or damage that may arise through any activity you carry out or anything that you may sell or supply. Although we all hope and expect that claims of this nature are unlikely to arise, it can be the most unexpected events that give rise to a claim against the church. If a claim is made, the nature of the risk is such that the amount claimed may be very significant. Trustees should therefore seriously consider insuring the risk in order to limit risk of seriously prejudicing the future of the church.

Public (and Products) Liability cover indemnifies the insured up to a specified 'limit of indemnity' for amounts that the church is legally liable to pay as damages or as related costs and expenses. A typical level of cover is £5,000,000.

Church insurances will provide cover for 'Church Activities' which are sometimes defined as church activities undertaken with the full knowledge and authority and under the control of the insured or authorised church officials. So it is important to list all outreach activity or community work undertaken by the church when seeking cover. Certain activities may be deemed to be beyond the scope of this definition and will need to be considered separately.

2.4 Optional covers

This part considers areas of insurance that are only relevant if certain activities are undertaken, certain assets are held, or are otherwise optional dependent on the trustees' appetite for risk.

2.4.1 Churches that own or occupy land and buildings

The extent of cover required will depend upon whether the church is:

- A freehold owner
- A lessee
- Or a freehold owner or lessee who is also a landlord.

Churches that own their own buildings will normally consider buildings and contents insurance. This paper does not go into detail on the finer points of that cover but rather concentrates on insurance responsibilities in lease situations.

It is sufficient to state here that buildings insurance must be kept current – so as to replace the building for its full re-building costs (which may be very different from market value). Failure to do so could result in a future claim not being met in full by the insurance company. Advice on the level of cover to take out is advisable. This should include not only the cost of re-building but also:

- any demolition work which might be needed;
- clearing the site;
- professional fees (architects, surveyors etc.);
- replacing the building in the same style as the original; and
- complying with any relevant planning requirements or building regulations.

2.4.2 Churches who are lessees

The lease of the building will normally contain provisions relating to insurance. It should, therefore, be inspected carefully to see who is responsible for arranging the buildings insurance and what cover is stipulated. The landlord may have responsibility to insure, but responsibility could (for example) be limited to certain risks only e.g. fire, lightning, earthquake and explosion. If the church is responsible for repairs to the building, then it may be necessary to purchase cover for additional perils such as storm, burst water pipes, impact etc.

Where a church leases only part of a building, then the landlord will probably arrange cover on the whole property and ask the tenants to pay a contribution in addition to their rent to cover the cost of insurance.

2.4.3 Churches who are landlords

Responsibility for insurance is normally detailed in the terms of any lease and if the lessee or tenant is not responsible under the lease, then the landlord should insure the building for its full reinstatement value as set out above.

If the church as landlord arranges the cover, then they need to ensure that rents reflect the costs or, more likely, make provision to separately recharge the costs to tenants. In all cases, it is essential for the landlord to ensure that they control the level and terms of the cover arranged and make certain that their interest is at the very least 'noted' on the policy.

Being noted on the policy does not provide the landlord with any protection. It merely facilitates the landlord knowing if the policy has been renewed each year.

Further advice on leasing or hiring out church premises can be obtained from Stewardship's Property Services Manager. We have also produced a Hiring Agreement Pack, available for purchase from our online shop.

2.4.4 Contents Insurance

It is the duty of charity trustees to protect the assets of their charity. Therefore, consideration must be given to contents insurance and whether it:

- is arranged on a "new for old" basis;
- covers theft;
- includes accidental damage;
- covers specific items such as computers and other hi-tech equipment;
- whether the policy provides for the automatic index-linking of sums insured.

2.4.5 All Risks Insurance

If the property to be covered is likely to be moved from place to place (e.g. PA equipment, laptops etc. used by a fellowship at hired premises and which is taken to and from the premises between meetings), the church needs to consider 'All Risks' insurance. This is because standard contents insurance usually limits cover to contents on the premises and may not cover accidental damage.

All Risks cover will cover equipment, etc. temporarily off of the premises for loss or damage, although there are generally exclusions for wear and tear, depreciation or gradually operating cause, action of light, atmospheric or climatic conditions or frost, mechanical or electrical fault, breakdown or failure and certain other risks.

All risk items are often individually specified on the policy and may be covered at a specific location or anywhere within stated geographical limits or anywhere in the world. You will need to provide details of the property (typically a description, the make and manufacturer's model number and the serial number) and the sum insured that you require. This should equate to the full cost of replacing the equipment as new.

2.4.6 Residential Property

If the church owns residential property, for example for occupation by a minister or church worker, separate cover will be needed. The policy should also cover property owner's liability.

2.4.7 Loss of Income

This covers loss of income following damage to buildings or contents at the premises which causes interruption or interference with church activity. Most insurers provide extensions for denial of access, failure of public supply and murder, suicide and disease.

2.4.8 Money

It is prudent for a church to seek cover for cash in hand. Referred to as money cover, typical cover and limits are as follows:

- cover for cheques and 'non-negotiable money' subject to an overall limit of £250,000
- money at the home of a church official, with them on the church premises or in transit between the church, home and bank subject to a limit of £2,500 (increased to £5,000 for a limited number of special occasions each year)
- Optional extension to cover money unattended but in a locked safe limit, £1,000
- Cover in any other circumstances (e.g. unattended on premises), £300 limit.
- Misappropriation by a church official subject to a limit of up to £5,000 by any one individual or £10,000 in any one period of insurance provided it is discovered within 60 days of the occurrence.
- Cover for damage to personal effects and clothing caused by theft or attempted theft of money up to £500 for any one person.

The term 'money' will be defined in the policy.

2.4.9 Personal Accident

This covers injury to employees, ministers, pastors and voluntary workers (age limits may apply) arising from accidents whilst they are engaged in authorised church activities. Certain specified sports and hazardous activity e.g. football, abseiling, etc. are likely to be excluded.

The policy will provide for benefits to be paid in the event of death or loss of limbs, eyes or permanent total disablement and a weekly benefit for temporary total disablement.

2.4.10 Trustees' Indemnity Insurance

Trustees' Indemnity cover should also be considered. Charity law and regulation limits the application of this form of liability insurance in certain circumstances and therefore professional advice should always be taken before taking out a policy. Given the quite complex nature of trustee indemnity insurance, this is dealt with in detail in the next section of this Paper.

2.4.11 Other typical areas which insurance arrangements should be reviewed:

- If the church owns or operates a minibus.
 - Details of individual drivers may need to be supplied.
 - If any form of payment is accepted from passengers (even if simply a contribution towards running costs), the need for a 'Section 19' or 'Section 22' Permit should be investigated, as failure to have a valid Permit may affect the validity of insurance.
 - As a result of the Local Transport Act 2008, a number of changes have been made to the Section 19 / 22 Permit rules with effect from 6 April 2009.
 - For further information, refer to Booklet PSV 385 **together with the Update Insert**, available to download from www.businesslink.gov.uk or by calling the VOSA Contact Centre on 0300 123 9000.
 - If you have any questions relating to the permit system, you should contact the Permit Team at Hillcrest House, 386 Harehills Lane, Leeds, LS9 6NF by e-mailing permits@vosa.gov.uk (telephone 0113 254 3209).
 - A revised guidebook incorporating these changes is scheduled to be introduced in August 2009 and you will be able to download it from www.businesslink.gov.uk or obtain it by calling the VOSA Contact Centre on 0300 123 9000.
- Use of a church office at a separate location
- A church operated shop or café or similar premises

3 What about Trustees' Indemnity Insurance?

A number of changes to the availability of Trustees' Indemnity Insurance to charities were made in the Charities Act 2006. Where appropriate, the changes are incorporated below.

Before going into detail on the insurance specifics, it is useful to review the legal responsibilities of the trustees of a charity.

3.1 Legal responsibilities

A charity trustee has an overall duty, together with his or her fellow trustees for the proper administration of the charity of which they are a trustee. This means acting impartially and in the best interests of the charity at all times, in order to pursue the charity's objects as set out in the Governing Document (trust deed, memorandum & articles of association or similar).

Any breach of those duties may result in a trustee being held personally liable for any losses sustained by the charity. Liability is said to be *joint and several*. This means that a person or body taking legal action against the trustees can pursue any one or more of the trustees, or all of them together.

In summary, trustees must:

- Ensure that the charity only acts within its charitable objects (i.e. purposes) and powers. Clearly, this means being aware of them!
- Be diligent and sensible in the management and administration of the charity's affairs, including compliance with all relevant law and regulations such as charity law, accounting and taxation.

Our Briefing Paper 'Powers and Responsibilities of Charity Trustees' covers this topic in detail. Further helpful guidance can be found in the 'Charity Commission booklet CC3: The Essential Trustee'.

The development of charity law and practice over the last 15 years has brought clarity to the obligations placed upon charity trustees and promoted greater transparency and accountability. The law has also given the Charity Commission greater compliance powers. This in turn has brought media profile to some of the, thankfully few, occasions that trustees have failed in their duties. These trends have led to the need for trustees to protect themselves from 'honest mistakes'.

Charities may be established in many ways but commonly they will be constituted as trusts (unincorporated associations) or as companies limited by guarantee. Regardless of structure or actual titles, the charity 'trustees' according to charity law are those that "are responsible for the general control and management of the administration of the charity". Therefore, charity trustees include deacons, PCC members, committee members and directors and officers of charitable companies.

Trustees, however honest and competent, cannot afford to be complacent. Mistakes occur and the costs of maintaining an adequate defence against a claim can be expensive, regardless of whether there is any ultimate liability.

Since trustees are jointly and severally responsible, they must act collectively. This will usually be by majority decision unless their Trust Deed specifies otherwise. Actions taken and agreements entered into by one or more trustees affect the others. Therefore, if a minority trustee is particularly unhappy about a certain course of action

decided upon by the majority, his or her ultimate option is to resign. Short of this, he or she should have any objections recorded in writing in the minutes of any meeting.

3.2 Types of liability

There are two basic types of liability that a charity may incur:

- Liability for breach of trust, negligence or default:

A breach of trust occurs when the trustees act beyond their powers (or *ultra vires*). For example, spending trust funds on an activity that is not within the charity's objects (or purposes), or using restricted funds for the wrong purposes. Negligence includes taking risks without due care or taking proper advice before acting. If a loss to the charity results, the trustees can be required to make it up from their own resources.

- Liability to third parties.

This is not a matter of trust law, but of contract or tort. For example, if the trustees enter into a building contract, they are liable to pay the contractor the price of the work, whether or not there are sufficient funds in the charity bank account. These liabilities attach to the charity itself. So, in an unincorporated (trust) charity, if the charity itself has insufficient assets to meet the liability, the excess can become payable by the trustees. But if a charity is incorporated, personal liability of the trustees for liability to third parties can be limited, provided that the liability has not also arisen from, for example, the negligence of those trustees.

3.3 What does trustee indemnity insurance do?

Trustees' Indemnity Insurance ('TII') indemnifies trustees from personal liability for claims made against them for *breach of trust, negligence or default* as long as the mistake was honestly made and not the result of wilful misconduct. The policy will reimburse *the trust* for the loss rather than the trustees having to do so.

In practice, trustees are not often held liable in this way for honest mistakes but anxiety about the possibility may give rise to reluctance on some people's part to become trustees. The existence of TII may therefore make it easier to recruit new trustees.

A TII policy will **not** cover *liabilities to third parties*. Examples of third party liabilities for which the charity or its property (rather than the trustees) is primarily responsible that are not covered include:

- contractual liability to third parties where there are insufficient funds to meet payments under the contract;
- redundancy payments made to employees of the charity;
- liabilities under a lease (e.g. for the repair and maintenance of a building);
- occupiers' liability for injury to the public whilst on the charity's property (this *can* be covered through public liability insurance);
- liability for fraud or dishonesty by employees (fidelity guarantee insurance is appropriate here); or
- liability for faulty, inaccurate or wrongful advice given by the charity (this should be covered by professional indemnity insurance).

Before purchasing Trustee Indemnity Insurance, trustees should consider the policies and procedures that they have in place for managing and reducing potential risk. Helpful resources include Stewardship's Risk Assessment Toolkit (available by following the link from http://www.stewardship.org.uk/consultancy_helpline.htm). This toolkit is

specifically tailored to church situations. The Charity Commission publication 'Charities and Risk Management' (<http://www.charity-commission.gov.uk/investigations/charrisk.asp>) is also of assistance.

3.4 Purchase of Trustees' Indemnity Insurance

Historically, a charity's own funds could not be used to purchase TII as this would constitute a personal benefit to the trustees, contrary to trust law. However, the Charity Commission's view of the arguments for and against permitting the purchase of TII from charity funds has shifted in recent years. Some modern trust deeds contain a specific power to allow such a purchase and these provisions have been accepted by the Commission.

Where such a power is absent, it was necessary for the charity to seek consent of the Commission before entering into a TII contract. However, following the coming into force of the relevant provisions in Charities Act 2006, there is now statutory authority for trustees to purchase TII out of the charity's own resources *without* the prior permission of the Charity Commission.

To take advantage of this relaxation, the trustees must be satisfied that it is in the best interests of the charity to do so (they must exercise their legal duty of care in reaching such a decision) and there must be no provision in the charity's governing document which specifically forbids the purchase. For these purposes, any provision prohibiting the charity trustees from receiving any personal benefit out of the funds of the charity **does not**, of itself, prevent the purchase of TII.

If there is a specific prohibition in the charity's governing document, then trustees can approach the Charity Commission with a request for an amendment so as to permit the purchase.

3.5 Scope of permitted cover

The 2006 Act permits the purchase of TII designed to indemnify the charity trustees against any personal liability in respect of:

- breach of trust or breach of duty, or
- any negligence, default, breach of duty or breach of trust committed in the capacity as directors or officers of the charity (if it is a body corporate) or of any body corporate carrying on any activities on behalf of the charity.

However, the terms of such insurance **must** framed so as to **exclude** cover for liability incurred by a trustee for:

- fines imposed in criminal proceedings, or
- penalties payable to regulatory authorities for non-compliance with regulatory requirements, or
- costs incurred in unsuccessfully defending any criminal prosecutions for an offence arising out of any fraud or dishonesty, or wilful or reckless misconduct of a trustee, or
- any liability incurred by the trustee to the charity that arises out of any conduct which he knew (or must reasonably be assumed to have known) was not in the interests of the charity or for which he did not care whether it was in the best interests of the charity or not.

Trustees always have the option to pay for the insurance at their own expense.

4 What information is it wise to make sure that we tell our insurers?

Insurance contracts rely on trust. Therefore, there are fundamental principles in Insurance Law governing what an insurance company is entitled to be made aware of if they are expected to honour claims under the policy. This section looks at the kinds of facts that you should make your insurers aware of. Words in *Capitalised Italics* are defined in the Appendix: Glossary of Terms.

4.1 What do we need to tell our Insurers about?

Aside from essential policy information, such as what is to be insured and the value of cover requested, you must tell your insurer about any *Material Facts*.

A *Material Fact* is one that would influence the judgement of an underwriter in deciding whether to accept a risk for insurance and on what terms. You have a duty to disclose material facts at any time, including changes that occur between renewal dates. Changes disclosed may increase or decrease the premium charged and may therefore give rise to an adjustment (*Additional Premium*) part way through the period of cover. In particular, any alterations resulting in a change in risk must be disclosed immediately.

At first sight this appears quite straightforward, but sometimes what may appear a logical or intuitive course of action is not always the right one. As laymen, we do not always understand the factors that might influence the judgement of an underwriter when he is deciding whether to accept a risk and set the terms. In the following paragraphs, we consider some fairly straightforward issues as well as some more subtle circumstances that insurers should be made aware of as soon as possible.

4.2 Changes to the property or risk insured

Perhaps the most obvious facts that insurers need to be told about are any changes to the property or contents covered (for example new equipment purchases). This may lead to a change in the *Sum Insured* and consequently an adjustment to the premium.

But don't forget less obvious changes, for example a change of meeting venue (if you do not own your own building), use of additional premises on a regular basis or notifying new drivers on a minibus policy.

4.3 Changes to the scope of activities

Other matters that affect the view of an underwriter might relate to the scope of the operations undertaken by the church or charity, particularly in these days of social outreach. When churches start to reach out to the community in new ways, this can be a particularly sensitive area that insurers need to know about in advance. Additional risks can arise because the church becomes involved with people, activities and property beyond what would normally be regarded as traditional church activity and worship.

4.4 'Special Events'

One off (or perhaps annual) special events warrant specific consideration by underwriters. So what is classed as a 'Special Event'? Opinions on this may vary between insurers and it may well depend on the extent of cover granted under the policy and what was envisaged when the proposal was accepted originally. If in doubt, it is best to discuss your event with your insurer well in advance.

4.5 What about claims or losses?

If you suffer a large loss covered by your insurance policy, then you will let your insurer know without delay! But if your church or charity suffers a series of small losses, perhaps all below the policy excess, logic may dictate that there is no need to contact your insurer. But this is not the prudent approach! Do you tell your insurer about losses that occur that are not covered by the policy?

From the Insurer's point of view, any of these factors could point to a trend showing that risk is increasing. Where a loss is suffered that is not specifically covered by the policy, it may nevertheless indicate an increased likelihood of losses from other causes that are insured. An underwriter will therefore want the opportunity to review the position in each of these circumstances and will usually suggest suitable actions (for example, security improvements) that should be taken to prevent future losses.

If the recommended steps are taken, this should avoid later problems should there be a claim. However, serious consequences can follow if you fail to inform your insurer of something that they feel they should have been told about in the past.

4.6 So what could happen if we don't tell our insurers?

This is an important issue. If you should fail to inform your insurer of something that they feel they should have been told about, you have withheld a *Material Fact*. When the insurance company subsequently becomes aware of the facts, not only is that likely to have an impact on their view of your integrity, but it may also prejudice your position under the policy.

In a worst case scenario, your insurers may refuse to meet a claim, refuse renewal (which itself could be a *Material Fact* when you complete a proposal form for a replacement insurer, as they could immediately void the policy cover). If following an unreported loss, a more serious and costly loss arises out of a similar event, then insurers may not look favourably on the latter event, particularly if they consider that suitable precautions could have been taken to prevent a re-occurrence.

4.7 Conclusion

If you are unsure as to whether or not to disclose something to your insurers, then the rule of thumb is that you should! Of course, if you are acting through an insurance intermediary, then your intermediary can advise you and act as a filter.

Appendix 1

Glossary of Terms

The following terms are commonly found in insurance documents:

1 Accident

A sudden, unplanned and unforeseen mishap or untoward event, not under the control of the insured, resulting in injury or damage. Personal accident cover may encompass injury caused by an accident or accidental injury.

2 Accidental damage

If there is no definition in the policy, the term will have its normal everyday meaning. *Accidental Damage* usually means unintended and unexpected damage caused by sudden (and external) means. Insurers will usually exclude specific causes from cover, such as electrical and mechanical faults, inherent vice, and 'action of insects, moths, vermin and the like'.

3 Additional Premium

A further premium payable by the insured as a result of a policy *Endorsement* that may have increased the risk or amended the policy conditions or *Sum Insured*.

4 All risks

A term describing wider cover than is normally given under a property insurance policy. It covers any loss or damage unless the cause is specifically excluded. Typically, *all risks* cover will be used to protect items that are taken out of an insured building, but would otherwise only be covered whilst 'on the premises'. An example would be PA equipment that is used in a number of venues. The 'all risks' exclusions will include standard exclusions plus others, for example limiting cover to the British Isles.

5 Average

If the policy is subject to an *Average* clause, which is usually the case, and the *Sum Insured* is less than the total value of the property insured at the time of loss, the claim will be reduced in the same proportion. For example, if a church is insured for £200,000, when its true insurable value is £600,000 and the church is seriously damaged by fire at a cost of £200,000, insurers will apply the *average* and only pay £66,667 on the claim. This combats under-insurance.

Commonly, church property is subject to a special condition of average, as values of church buildings often fluctuate or are difficult to assess. Typically this means that if the sum insured is 75% or more than the value at the time of loss, the *Average* clause is not applied.

6 Betterment

An improvement made to the standard of insured property when it is repaired or replaced following a claim. Insurers may expect the insured to pay something towards the claim in these circumstances.

7 Cancellation clause

A general insurance clause permitting the insurer to terminate insurance cover during the policy term. The clause sets out the notice procedure the insurer must follow and

the basis for refunding the unexpired premium. Some policies also give the insured the right of cancellation.

8 Claims condition

A condition setting out what the insured has to do in the event of a claim. It sets out when a claim should be reported, the evidence required and the assistance that the insurer may expect. In the case of liability claims, it also makes it clear that no admission of liability should be made to a third party.

9 Employers' liability insurance

Is a compulsory insurance that covers the insured's legal liability for bodily injury or disease to employees if caused during the period of insurance. The policy also covers the insured's own costs and pays for solicitors' representation at inquests and courts of summary jurisdiction. Note that the term 'employee' may or may not include volunteers and so the definition in the policy should be checked carefully before proceeding with cover.

10 Employers' liability insurance certificate

Insurers must issue a Certificate of Insurance to employers who take out or renew policies. Employers must display the certificate, or a copy, at each place of business for the information of the employees, retain them for 40 years in a safe place because the authorities have the right to request sight of these.

11 Endorsement

A written change to the standard insurance policy which becomes part of the insured's policy. See also *Mid-Term Adjustment*.

12 Ex-gratia payment

A claims payment made by the insurer 'as of favour', even though there is no legal obligation to pay. Such payments are made to preserve goodwill, often where the right to refuse payment is founded on a technicality.

13 Excess

An amount deducted from each and every claim paid out under the policy. Different excesses may apply to each section of a policy. Claims for amounts equal to or less than the excess will not be paid. Higher value claims will be reduced by the amount of the excess.

14 Forcible and violent entry

Insurers sometimes restrict theft cover to loss arising from forcible and violent entry or followed by forcible and violent exit. The words eliminate shoplifting or entry via an open or unlocked door. The word 'violence' is used in its ordinary sense, meaning that an entry or exit, where force might have been minimal, should be accompanied by an act characterised as violent.

15 Hazardous pursuits

In most Church Policies, certain hazardous sports and activities are excluded from personal accident section, as they are high-risk pursuits not undertaken by all policyholders. The 'pursuits' typically include aviation (other than as a passenger on

normal flights), hunting and polo, football, motorcycling, mountaineering involving the use of ropes, winter sports and others.

16 Inception Date

The date when cover under a policy starts.

17 Index Linked

A method whereby sums insured are increased (usually annually) by a factor derived from an index of prices. Building sums insured are linked to a rebuilding cost index and contents cover increases annually in line with an index reflecting replacement costs.

18 Indemnity

The term Indemnity refers to the principle by which the insured is put in the same financial position after a loss as they were immediately before it.

19 Indemnity limits

The *Indemnity Limit* is the maximum sum for which an insured is protected, under the policy. For example, Public Liability insurers usually limit their liability by reference to each 'Event' within the period of insurance. So, the claims relating to that Event can be up to the full *Indemnity Limit*, but claims related to a separate Event in the same period of insurance will also be covered up to the *Indemnity Limit*.

20 Indemnity Period / Maximum Indemnity Period

A Section often found within Church Policies is a Business Interruption Section. Here there will be an *Indemnity Period* or *Maximum Indemnity Period*. This is the period beginning when damage or loss occurs and ending not later than the end of the period stated in the policy as the *Maximum Indemnity Period* (for example, 24 months). The stated period reflects the time needed to restore the business to its pre-loss trading level and is specified by the insured.

21 Insurable interest

A principle of insurance whereby a policy is not valid unless the insured person themselves stands to suffer a financial loss if the insured event occurs or benefit from the non-occurrence of the event, i.e. the property being preserved or no liability being created. Generally, an insurable interest must exist when the policy is taken out *and* at the time of loss

22 Legal liability

Liability attaching to a party because of the breach of a legal duty or law. Employers' liability, public liability insurances, etc., insure the *legal liability* of the insured and not the injury, damage or loss suffered by the third party. If there is no legal liability there will be no payment to an injured claimant. The allegation of liability is sufficient to give the insured access to the insurer's help by way of defence costs and claims handling.

23 Liability insurance

Insurance against the legal obligation to pay compensation and costs to third parties and employees for loss, injury or damage caused by the insured. Liability may arise, for example, through negligence, strict liability, breach of statutory duty or breach of contract. Liability policies include employers' liability, public liability, products liability, professional indemnity and cover for directors' and officers.

24 Loss adjuster

Independent expert engaged by insurers to investigate claims and assess the true extent and value of any loss.

25 Material fact

A fact that would influence the judgement of an underwriter in deciding whether to accept a risk for insurance and on what terms. The proposer has a duty to disclose all material facts at the inception, at renewal and in respect of mid-term alterations where there has been a change in risk.

26 Mid-term Adjustment

An adjustment to existing insurance arrangements, other than at the renewal date. An adjustment may be needed, for example, to change, add or remove property to be insured, change the *Sum Insured* or because of a change in the nature of the risks insured since last renewal. A mid term adjustment may give rise to a change in premium, such that a refund or *Additional Premium* is required. See also *Endorsement*.

27 New For Old

Cover for property where an item lost or destroyed is replaced with a brand new one, with no deduction for wear and tear. Insurers will commonly pay the lower of *New for Old* value or *Sum Insured*. This type of cover is alternatively called *Replacement as New*.

28 No claim discount (NCD)

A reduction in renewal premium to reflect a claim free record under a policy.

29 Rebuilding cost

The cost of rebuilding premises following their destruction by an insurable cause. The amount should take into account professional fees and debris removal and will be the relevant figure for the *Sum Insured* under a buildings policy or buildings section of a policy.

30 Replacement as New

See *New for Old* above.

31 Schedule

The part of an insurance policy that sets out the detail that is specific to the individual insurance contract. The information includes: name and address of insured, policy inception date, the period of insurance and the premium.

32 Subrogation

The right of the insurer who has granted an *Indemnity* to take over any recovery rights the insured may have against third parties liable for the same loss. A *subrogation condition* in the policy enables the insurer to take action in the insured's name before paying the claim.

33 Sum Insured

The amount for which property is insured, and the maximum amount that the insurance company will pay for any claim.

34 Warranty

A condition that must be complied with literally. A failure to do so prevents the insured from recovering under his policy, although the loss may not have been affected by the warranty. Insurance warranties may consist of undertakings that certain things shall or have been done (for example, that the burglar alarm is set whenever the premises are left unoccupied), or things that shall not be done (which may, for example, if done increase the risk factors), or a declaration whereby the insured confirms or denies a certain state of affairs (for example, confirmations given in a proposal form).