



Adventist Risk
Management[®] Inc.

...our ministry is to **protect** your ministry[®]

SELF INSURANCE AND HOW IT WORKS

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Principles of Biblical Stewardship

adapted from <https://tifwe.org/four-principles-of-biblical-stewardship/> Author: Hugh Whelchel

1. Principle of ownership –

- “The earth is the LORD’s, and everything in it, the world, and all who live in it” *Psalm 24:1*

2. Principle of responsibility –

- “Although God gives us “all things richly to enjoy” nothing is ours. Nothing really belongs to us. God owns everything; we’re responsible for how we treat it and what we do with it. While we complain about our rights here on earth, the bible constantly asks, What about your responsibilities? Owners have rights; stewards have responsibilities.” *The High Calling, Bill Peel, 2008* Accessed: <https://www.theologyofwork.org/the-high-calling/blog/not-ownership-responsibility-leadership-stewardship-part-2>

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3. Principle of accountability –

- We are all stewards of resource, abilities and opportunities that God has entrusted to our care, and one day each one of us must be called to give an account for how we have managed what the Master has given us. E.g Parable of talents

4. Principle of Reward –

- “Whatever you do, work at it with all your heart, as working for the Lord, not for men, since you know that you will receive an inheritance from the Lord as a reward. It is the Lord Christ you are serving” *Colossians 3:23-24*

How can we apply these principles?



- We do live in a dangerous world
- There are risks
- We should be wise while being caring

Pelandaba Primary School in Bulawayo – Zimbabwe
Security guard savagely attacked
January 2017

What is risk?

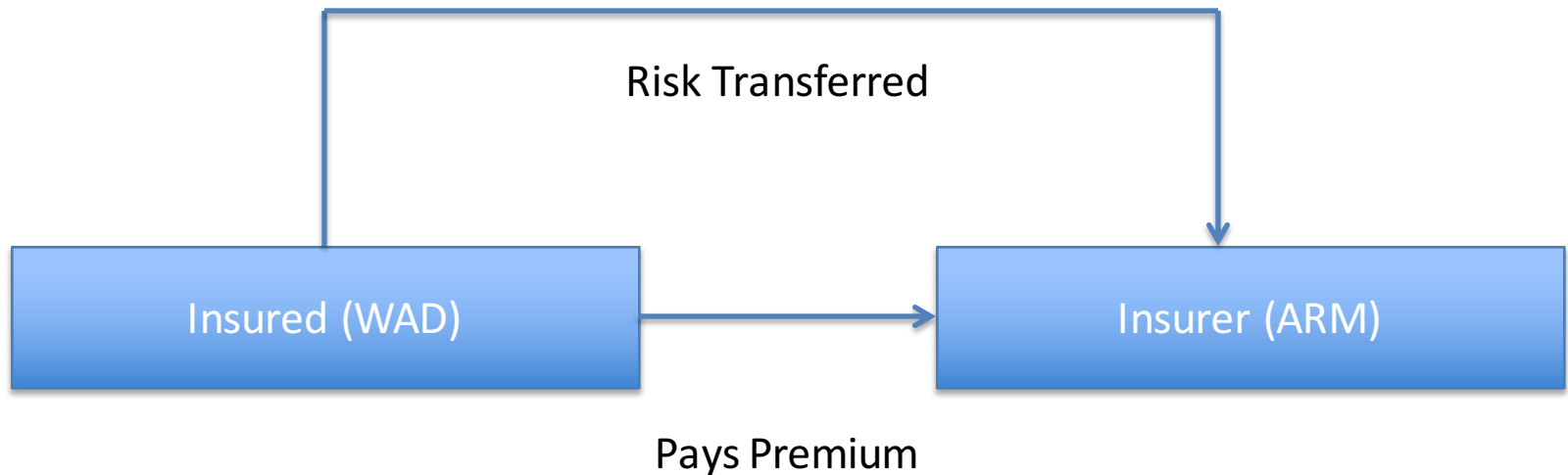
- Risk is the exposure of a subject to elements of **uncertainty** or **unpredictability** to a favourable or unfavourable eventuality which sometimes includes danger.
 - E.g. Risk car will be stolen
 - Risk of car accident
 - Risk of injuring others as result of car accident
 - Risk of damage to car caused by another driver

What is insurance?



- A mechanism for the *Transfer* of the said risk from the insured to a third party insurance company.
- The insured is able to transfer the uncertainty of a future unknown potential risk/cost in exchange for the certainty of a fixed premium cost.

Link between risk and insurance



As a result of this relationship, insurer agrees to pay for loss, damage or liability as defined by the policy terms

EXAMPLES OF RISK OUR CHURCH IN WAD FACES

- 1) Reputational
- 2) Donations
- 3) Life
- 4) Physical Assets

Building Values

Vehicles

- 5) Catastrophic



Does WAD need insurance though?

5 Year property analysis to 10th June 2017

“We don’t make claims!”

TOP PERILS	TOTAL AMOUNT INCURRED	NUMBER of CLAIMS
Wind	\$171,203	10
Fire	\$146,938	6
Collapse	\$11,903	1
Robbery	\$11,800	2
Lightning	\$11,103	3
Water	\$10,000	1
Money & Securities	\$6,732	3
Theft	\$6,308	2
Other	\$5,929	3
Burglary	\$4,846	2
Total Top 10 Perils	\$386,761	33
TOTAL ALL PERILS	\$386,761	36

Principles of insurance

- In order to be insurable, a risk:
 - Must be a **fortuitous** event
 - Must have an **insurable interest** from the insured
 - Must not be against **public policy**



Principles of insurance



- Provides **peace of mind** depending on risk appetite
- **Pooling of risks** – Losses of few who suffer misfortune are met by many who are exposed to similar potential loss
- **Equitable pools** – a number of pools set up, one for each main group of risks

What is Self Insurance?

- Involves formal decision to retain risk rather than insure it
- Self insurance is the act of not having insurance at all.
- The principles of self insurance are that you would create a reserve fund and pay the bills that the insurance company would usually cover from the said reserve fund.

What is Self Insurance?

- Requires careful planning
- Allocation of specific resources e.g. pools of funds
- Allocated fund with cash reserves to back it up
- Self Insurance plan document
- Protocols for acceptance/denial of claims

Self Insurance - Things to consider:

- Big claims
- Claim fluctuations
- Which Lines of business?
- Expertise/knowledge
- Staffing costs
- Currency exchange issues
- Where funds are held (Country)
- Rates to be charged
- Objective/impartial claims handlers i.e. dangers of nepotism
- Long term commitment
 - Plans typically “require a three to five-year implementation period before your company truly reaps any rewards”
<https://theolsgroup.com/pros-cons-self-insurance/>
 - Expensive and time consuming



What does policy state?

“**Funded** self-insurance programs to cover expected losses **are** acceptable risk financing techniques. However, the expected loss projections should be **based on an actuary study** and should have excess insurance covering the catastrophic exposure”

GC Working Policy 2015-2016, S 60 05, p493

What is an actuary study?

- *“The science of applying mathematical and statistical methods to assess risk in insurance, finance and other professions.”*
- In the USA, these services can typically cost \$10,000-\$15,000 per annum based on complexity of analysis and line of business quantity.
- As a result of the study, client can be advised how much contribution each business unit should make to the pooled fund.

What is Excess insurance?

- Act of enlisting third party insurance company for higher levels of coverage in the event of a wholesale loss.
- E.g. Third party insurance policy taken out for all losses in excess of \$150,000.
Effect is:
 - Lower Premium
 - Third party insurer covers any loss in excess of \$150,000

Principle of excess coverage

- The insured (WAD) is therefore responsible for administration of claims, charging and receiving premiums from territory and producing guidelines and policy documents for all claims up to the value of \$150,000.
- The Excess Insurer would support the insured with any catastrophic claims
- e.g. a whole university campus burns down which cost \$1.2 million to replace. The insured would pay \$150,000 as per their policy terms and the insurer would pay the remaining \$1.05 million

ARM or another insurance provider provides cover for portion of losses in excess of \$150,000

WAD retains any claims up to say \$150,000

Pros and Cons of self insurance

Benefits

- Customised Plans
- Improved Data
- Potential lower costs
- Potential Lower premiums



Drawbacks

- Provision of services
- Increased Risk
- Recession/Weak economic cycle/claim fluctuation
- Much capital tied up unproductively should claims need to be paid
- Cash reserves take time to build up

How to set up a self insurance plan

- Consider which lines of business i.e. Property, car, householders, etc.
- Create Self insurance plan document
- Engage with actuary with loss history and fact find information they require
- Actuary will advise on value of contribution from participants (premium).
- Administrators of the fund will need to establish markup to cover admin
- Set aside human resource to manage fund

How to set up a self insurance plan (2)

- Create complex policy documents and wording clearly indicating perils covered/not covered
- Collect contributions from various entities
- Those with greater risks (e.g. more buildings/greater building values) equate to greater contribution

How to set up a self insurance plan (3)

- Contributions must be placed as an allocated fund/s on financial statements and must **NEVER** be touched for any other purpose
- Potentially open up a separate bank account for each line of business (pools)
- Any excess in pool at year end transferred to reserves
- Claims dealt with by trained employees strictly adhering to policy guidelines

**THE CULTURE OF SAFETY AND RISK
MANAGEMENT STARTS WITH THE
LEADERSHIP OF ANY ORGANIZATION**



**RISK MANAGEMENT SHOULD BE
PART OF MINISTRY, IT IS NOT IN
CONFLICT WITH MINISTRY.**

Is ARM a self-insurance company?

- Adventist Risk Management is, for all intents and purposes, a self insurance program.
- This indicates that transacting with ARM and making contributions is in harmony with statutory legislation in various countries stating insurance should not be purchased outside the country borders.

Based on U.S. federal tax law and state insurance legal authorities, it is reasonable for the Seventh-day Adventist Church (the “Church”) to take a position that the activities of GENCON Insurance Company of Vermont (“GICV”) **do not constitute the business of insurance.** Applying these general principles, **this position can be extended to the Church’s thirteen international divisions.**

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This result derives from fundamental economic principles, the two most important of which are (i) that “self-insurance” is “self-funding” which is not “insurance” but rather in the nature of a deposit and (ii) that “insurance” requires **distributing risk exposures among a sufficient number of separate unrelated parties to invoke the actuarial “law of large numbers”** so that no one member of an affiliated group is substantially paying for its own losses. **GICV functions as a self-funding vehicle for the Church and its tax-exempt affiliates.** Because GICV funds no loss exposures of any outside parties, it does not operate as a traditional risk-bearing insurer. Case law and legislative history-supplied definitions of “commercial type insurance” would not include GICV’s activities because all the funded risks are attributable to the Church and its controlled affiliates.

ARM self-insurance Summary

- Adventist Risk Management will ONLY insure church owned organisations, employees and members on church business.
- As losses are only settled through church funded premiums the ministry of ARM is self-insuring Seventh-day Adventist church risks.

Options Available

1. Attempt to self insure (**not policy endorsed**)
2. Self insure with excess insurance support (**policy endorsed**)
3. Self Insure with outsourced administration function (**policy endorsed**)
4. Insure through ARM (**policy endorsed**)
5. Insure through a provider other than ARM “which is given a superior rating by a well-known insurance brokerage house approved by Adventist Risk Management, Incorporated” (**policy endorsed**)

Everything belongs to God

- “LORD our God, all this abundance that we have provided for building you a temple for your Holy Name comes from your hand, and all of it belongs to you.” *1 Chronicles 29:16*
 - We are stewards / faithful and responsible servants
 - We should be wise and caring (*Matt 10:16*)

QUESTIONS?

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