

**METHODIST CONNEXIONAL PROPERTY COMMITTEE**  
**Supplementary Report**  
*(Continuation from page D-13)*

**INSURANCE - FUNCTIONAL REPLACEMENT COVER**

9 September 2013

The Insurance Fund has been asked to investigate whether the Methodist Church of New Zealand (the Church) insurance arrangements can provide functional insurance replacement.

In this context functional replacement cover is defined as the planned replacement of an existing building in the event of a total loss with a building of smaller size and accordingly with a reduced replacement value.

Premium is charged on the replacement value of the intended replacement property.

The insurance cover currently held by the Church will provide for such an arrangement but there are a number of issues to be considered.

**Synod Approval**

The relevant synod must agree that, in the event of a total loss, the property would not be rebuilt but would be replaced by a smaller building considered suitable to meet the current needs of the Church in that location.

**Known Replacement**

The property which would be rebuilt in the event of a total loss of the existing structure must be identified or designed to the point that a replacement valuation can be provided to the Insurance Fund through one of the normal replacement valuation providers.

The replacement value of the current building will also be required.

**Self-Insurance in the Event of a Partial Loss**

Most frequently, property which suffers an insurance event is not lost in its entirety but rather is partially damaged.

In that case, it would be the existing building that was being repaired not the lesser valued alternative replacement building.

Where a building is not insured for its full replacement value and it suffers loss, the insurance law of average provides that the property owner is considered to be carrying their own insurance for the difference between the sum insured and the actual replacement value. Claims for the repair of the damaged portion of the property may therefore be shared between the insurers and the owners in the proportion that the sum insured bears to the total replacement value. This is the same situation where a building is insured for functional replacement or indemnity.

The Insurance Fund has arranged that so long as the functional replacement value is greater than 70% of the replacement value of the existing building then any partial loss will be settled as if the existing building was insured for its full insurable value. If the functional replacement value is below 70% then the insurance cover provides only for the percentage that the functional replacement value is of the full replacement value.

An example:

|  |                            |             |
|--|----------------------------|-------------|
| Existing Building                        | 500 square metres          |             |
| Estimated Replacement Cost               | \$2,500 per square metre = | \$1,250,000 |
| <b>Percentage of Current Replacement</b> |                            | <b>100%</b> |
| Nominated Replacement Property           | 350 square metres          |             |
| Estimated Replacement Cost               | \$2,500 per square metre = | \$ 875,000  |
| <b>Percentage of Current Replacement</b> |                            | <b>70%</b>  |

|  |                            |            |
|--|----------------------------|------------|
| Indemnity Value of Existing Building     | 500 square metres          |            |
| Estimated Depreciated Cost               | \$1,000 per square metre = | \$ 500,000 |
| <b>Percentage of Current Replacement</b> |                            | <b>40%</b> |

If the building is insured for replacement value and is completely destroyed the Insurance Fund will provide the functional replacement value \$875,000 which is the sum insured.

If the property is insured for indemnity value and is completely destroyed the Insurance Fund will provide \$500,000 being the sum insured.

If the building suffers partial damage costing \$100,000 to repair, under the full replacement and the functional replacement examples the parish would receive the full cost of the repair. Under the indemnity scenario or if the functional replacement value was less than 70% of the full replacement value the Parish would be considered to be carrying its own insurance for part of the repair. In the case of indemnity insurance, in our example the Insurance Fund would meet 40% of the cost of the repair with the parish being responsible for 60%.

The sum insured will need to include a sum for demolition and removal of the existing building which will be common over the three scenarios.

## **THE USE OF BUILDINGS KNOWN TO BE EARTHQUAKE PRONE (SUB 34% NBS)**

4 September 2013

The Methodist Connexional Property Committee (MCPC) has sought advice from the Church's insurers and the President's Legal Advisor over the use of buildings known to have a seismic rating of less than 34% new building standards (NBS).

Our insurers advise that Public Liability cover continues to be available unless an engineer or the local authority have advised that they consider the building to be unsafe to continue to occupy, and the Church continues to use the buildings.

Mr Cunliffe, acting as the President's Legal Advisor, has considered the Church's position in terms of the Health and Safety in Employment Act, the Occupiers Liability Act and the Crimes Act.

He notes that:

- churches are places of work for some people
- there is no breach of any existing regulation under the Health and Safety in Employment Act simply by continuing to occupy a building known to be earthquake prone
- employers must take all practicable steps to minimise hazards including the risk of potential building failure
- while congregations are not employees, seeking to protect their wellbeing to a similar standard is sensible
- the Occupiers Liability Act creates an obligation for those in charge of a building to ensure that the building is essentially safe for visitors to use
- under the Crimes Act, reckless disregard for the safety of others could lead to a charge of criminal nuisance.

In all cases imposition of liability will be determined on the facts and with the benefit of hindsight.

The statutory time period allowed for strengthening a building is not necessarily a defence against liability in the case of injury or damage.

The time periods allowed under the Building Act are only the timetable set for buildings to meet the standards; they do not remove the onus of the owner to keep occupiers safe during that time.

As a responsible building owner the Church is proactively moving to understand the seismic strength of its building stock.

The knowledge gained from these investigations then means that the Church has an obligation to move to protect those who use the Church's property.

Where a building is earthquake prone the Church should:

- cease using the property if there is cause for immediate concern
- undertake a review of the means of bringing the building up to the level of compliance required
- determine the viability of strengthening and plan for the future of the building.

If continuing to use the building, the Church should:

- ensure that all users are advised of the seismic rating with signage warning users the building is earthquake prone
- proactively manage existing building issues ensuring there is an approved response/evacuation plan (and clear signage) in the event of an earthquake
- undertake a review of the means of bringing the building up to the level of compliance required
- determine the viability of strengthening and plan for the future of the building.