



Frequently Asked Questions

What is a captive?

A captive is an insurance company owned by its insureds and regulated by State Insurance Commissioners. The captive retains risk, provides insurance coverage in exchange for a premium, pays claims, and over time returns (to its owners) surplus premium dollars not needed for claims.

How is this different from what we have done before?

The United Methodist Insurance Program (UMIP) was a pooled-buying program in which all the risk of loss was transferred to a for-profit carrier in exchange for premium. The for-profit carrier provided insurance to UMIP insureds, paid claims, and retained any premium dollars not needed for claims. All the control and surplus premium stayed with the for-profit carrier. As owners of a non-profit insurance company, PACT retains control through a board of directors made up of conference and general agency leaders. As surplus accumulates, PACT uses it to stabilize/reduce premiums and to ultimately return surplus premium to ministry. PACT can also extend benefits and provide coverages for ministry for-profit carriers won't insure.

Who is the captive's reinsurer?

Zurich Insurance Group ("A" rated by A.M. Best) is PACT'S policy-issuing and primary insurance partner.

In which states does PACT offer insurance coverage?

PACT offers insurance coverage in all 50 states and the District of Columbia, which is made possible by PACT's policy-issuing partner, Zurich.

Who owns the captive?

The annual conferences, local churches, and general agencies of the United Methodist Church who contribute capital and premium dollars to PACT own PACT.

What is the cost of becoming an owner of PACT and how is the amount determined?

The amount of premium each conference pays is determined based on the collective loss experience and ministries of the conference and its local churches. And, each local church's premium charge is determined based on its individual loss experience and the size and scope of its particular ministries. The amount of capital each conference contributes as an owner is determined according to a formula set by regulators and is tied to the amount of premium for which the conference and its local churches is collectively responsible.

Who is eligible to join PACT as an owner and to obtain insurance from PACT?

Annual conferences and general agencies of the United Methodist Church located in the United States are eligible to become PACT owners and insureds. Local churches may be insured through PACT once their conference has become an owner.

How is PACT's insurance program managed?

PACT is managed by CEO Irene Howard, former General Counsel of the General Council on Finance and Administration. Irene provides strategic and operational leadership in areas like service delivery, insurance program structure and partnerships, marketing, loss-control resource and training development, and claims management. Daily activities are undertaken by contract service providers with expertise in the areas of work they are assigned and subject to supervision by the CEO and committees of the board of directors.



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What has been the experience of other religious captives?

Religious captives have proven success in building surplus. They average a surplus accumulation of \$1,000,000 a year after their first 10 years in operation. Some of the oldest religious captives have been in business over 60 years.

How many conferences and agencies have joined PACT to date?

PACT has 2 general agency and 17 conference owners, including most of their local churches. PACT's owners are:

1. General Board of Global Ministries
2. General Council on Finance & Administration
3. Alabama-West Florida Conference
4. Holston Conference
5. Louisiana Conference
6. Memphis Conference
7. Mississippi Conference
8. Missouri Conference
9. New Mexico Conference
10. New York Conference
11. North Carolina Conference
12. North Georgia Conference
13. North Indiana Conference
14. North Texas Conference
15. Northern Illinois Conference
16. Oklahoma Conference
17. Oklahoma Indian Missionary Conference
18. Oregon Idaho Conference
19. Peninsula Delaware Conference
20. Hawaii District Union

How does a young company like PACT help ensure it can financially afford to stay in business?

Like for-profit carriers, PACT uses actuaries and financial experts to help determine the amount of risk PACT can financially afford to retain. Like for-profit carriers, PACT buys excess and stop-loss insurance for potential losses that would exceed the amount of risk PACT can comfortably retain. PACT's actuaries and financial experts do this analysis every year as part of the renewal process.

When does PACT anticipate returning surplus to its owners and how will the amount be determined?

No return of surplus will be made before the year 2010. At that time, it will be possible for PACT's actuaries to determine how much of the surplus needs to be kept to pay claims as they continue to be reported and developed. Surplus not needed to meet projected claims obligations will be returned at the discretion of the board of directors according to a formula contained in PACT's governance documents.

Do all owners have the same vote no matter how big they are?

Some votes (including votes for some directors) are tied to the size of the owner's capital contribution. Other votes (including votes for some directors) are based on one-owner-one-vote. PACT's bylaws identify which votes are tied to capital and which votes are not.

Will all conferences and local churches have the same coverage?

PACT recommends the minimum amount of property and liability coverage and limits each conference and local church needs to be good stewards of their resources and ministries. These minimum coverages and limits are summarized on a template of coverages, which is available on request. Although these minimums are appropriate for most, PACT can provide more coverage and higher limits than the recommended minimums where a conference or local church determines more is needed based on their size and the complexity of their ministry.

***For other questions or for a copy of the coverage template, contact —
PACT Service Center at (877) UMC-PACT (862-7228)***

Questions and Answers from an Insurance Agent about PACT

1. Has anyone explained the potential liability that is undertaken by each church in the event the PACT becomes insolvent with outstanding claims?

A – The policy insuring your local church is issued by Zurich. That means if PACT became insolvent and unable to pay your claims as a result, Zurich would be required to pay those claims.

2. Are the members (each church) individually and severally liable for PACT? If so, has "Individually and Several Liability" been explained?

A – There is no individual or joint and severable liability on the part of yours or any other local church as a result of being insured by PACT. PACT operates no differently from any commercial insurance company with which ABC UMC or any other local church does business today.

3. Now, ABC Methodist is insured with Zurich like many other Methodist Churches and our claims affect no other church when we have a loss. Our needs are much different and should be individualized like every church in the Conference.

A – The losses for ABC UMC are treated no differently inside PACT than they are treated by Zurich Small Business today. PACT, like Zurich Small Business, can provide the additional coverages or higher limits that ABC UMC's unique ministry requires.

4. We do not need flood insurance but a lot of exposures do that are on the coast! Has anyone discussed how diverse the needs are throughout the Conference for each church?

A – PACT understands there are diverse property exposures throughout the conference. That is why we will undertake an exposure data collection effort if the Annual Conference adopts the Conference Trustees' recommendation. The premium for each local church will be based on that church's unique exposure. If a local church like ABC UMC doesn't have flood exposure, the church's premium won't reflect it.

5. Why would ABC Methodist now insured with Zurich, like many other Methodist Church that is insured with Zurich, want to change to the PACT which is reinsured with Zurich?

A – Zurich Small Business does not offer the same coverages and limits that are available through PACT. For example, beginning with your 2007 renewal, Zurich Small Business will only offer \$100,000 of sexual abuse and misconduct coverage. Based on our church lawyers' experience litigating these kinds of claims, PACT believes that a \$100,000 limit is too low. Therefore, we provide limits of \$1,000,000 per occurrence /\$2,000,000 aggregate per policy year, per church.

6. Zurich is much more financially stable than the PACT plus Zurich is a member of the State of Alabama Guarantee Fund as an admitted carrier. A captive can't be a member of the guarantee fund in Alabama.

A – You are correct that PACT is not today an admitted carrier or member of the guaranty fund. However, as indicated in response to your Question No. 1, because Zurich issues our policies, Zurich and the Alabama Guarantee Fund stand behind PACT and are available to pay any claims PACT couldn't.

7. How are the claims going to be handled? No independent agent should provide any assistance for the church when the church is insured with PACT because their Errors and Omissions coverage will not cover them.

A – All claims are handled by Zurich's in-house adjusters, who hire local independent adjusters to do on-site investigations. Based on reports of independent adjusters, Zurich in-house adjusters settle the claims. All independent adjusters working on PACT claims are required to have errors and omissions coverage.

8. Frank, I could keep going with questions and would appreciate answers to the questions I have asked but the bottom line is someone better know what they are doing! As I previously stated I have been in the insurance business going on 27 years and I would not endorse the PACT.

A – I agree that operating PACT successfully requires a great deal of subject matter knowledge. PACT's board of directors has worked to ensure that the expertise required to succeed is in place. PACT was able in its first year of operation to adjust and pay all covered claims, including those arising from Hurricane Katrina. This stands as a testament to the skill and expertise that went into designing PACT's financial and operational structure for success.