# Five Best Practices To Manage Nonprofit Risk And Insurance

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**It's no secret that recent years have been challenging for nonprofit organizations as they struggle to balance budgets, preserve mission, and grow in a post-pandemic new normal. Some have wound up in the harsh media spotlight amid allegations of fraud and embezzlement, leadership indiscretions, sexual abuse, employment-related offenses, and other calamities ruinous to any reputation.**

**Yet, many nonprofit executives still fall into the trap of simply 'buying insurance' as their sole risk management strategy, overlooking other opportunities. While understanding that all nonprofits, their risk landscapes and cultures are different, and that most are resource-challenged with diffuse a countability for risk management – we believe these file simple, consistent practices can keep trouble away from your doorstep.**

# #1: Consider The Big Picture

### WHEN WE ASK NONPROFIT LEADERS TO DEFINE THEIR COST OF RISK, THEY INVARIABLY CITE "INSURANCE PREMIUMS" AS A SYNONYM. BUT THAT'S A PARTIAL ANSWER – THE TIP OF THE ICEBERG. OTHER DIRECT COSTS OF RISK INCLUDE:

- Deductibles and self-insured retentions funded from a nonprofit's own treasury
- Payments, settlements and judgments that exceed available insurance limits
- Uncovered claims
- Deteriorating claims experience, which drives future insurance pricing

### INDIRECT COSTS, THOUGH HARDER TO QUANTIFY, INCLUDE:

- Absenteeism and other workplace inefficiencies
- Declining morale
- Turnover
- Damage to reputation
- Loss of funder confidence

Any risk management initiative – and any insurance purchasing decision – must take this big picture into account. Bargain insurance that leaves holes or doesn't provide enough protection, or a brokerage relationship that emphasizes the transactional over best long-term qualification to drive down loss costs, isn't much of a solution.

# #2: Strategy First – Insurance Last

Commercial insurance should be the court of last resort in any holistic risk management plan. It's just a way to pay for bad things that happen.

### A TEXTBOOK APPROACH TO RISK MANAGEMENT INVOLVES A SYSTEMATIC, SEQUENTIAL PROCESS:

- IDENTIFICATION & ASSESSMENT: What hazard, operational, financial and trategic threats confront the organization? How frequent and how severe are they? What would the consequences be in a worst-case scenario?
- AVOIDANCE & REDUCTION: What measures can the entity take, through its property conservation, life safety, human resource, and travel safety/security policies, to avoid and reduce risks? As the organization considers new programming, operations and partnerships, what can it do to eliminate or lessen inherent risks?

- TRANSFER: Does the organization acquire or divest risk when it enters into contracts, and to what extent? As a purchaser of goods or services, does the nonprofit outinely ask the sellers to provide defense and indemnity – and require appropriate insurance as a financial back top? Does its own insurance properly accommodate the risk that it assumes?
- RETENTION: To what extent can the organization safely assume risk from its own treasury to achieve more efficient ommercial risk transfer and avoid 'trading dollars' with its insurers?

# #3: Look Off The Beaten Path

Everyone considers the traditional subjects of insurance: property damage, liability arising from premises, operations, and vehicles, workplace injuries, employee dishonesty, and management liability. But the state-of-the-art in insurance product design has shifted along with judicial and regulatory environments, exposing unwitting buyers to greater risk exposures that aren't addressed by plain-vanilla insurance.

### RISKS ROUTINELY EXCLUDED OR SHARPLY LIMITED BY CONVENTIONAL PROPERTY AND CASUALTY INSURANCE POLICIES, INCLUDE:

- PROFESSIONAL LIABILITY – arising from the rendering of, or failure to render, professional services. Although few insurance policies define p ecisely the term "professional services," they're generally held to be services requiring advanced credentials or licensure, such as medicine, counseling, law, accounting, and consulting. The "professional services" exclusion in a commercial general liability policy effectively shifts the exposure to a separate professional liability policy or endorsement, at additional cost.
- SEXUAL MISCONDUCT LIABILITY – arising from actual or alleged sexual abuse, molestation or exploitation. Although mainstream commercial general liability policies are generally silent on the exposure (allowing the inference of coverage unless otherwise excluded), those marketed to organizations serving vulnerable populations – youth, the elderly, sick and disabled – are frequently modified by riders, or endorsements, that bar coverage for claims arising from sexual misconduct. Protection must either be restored by extra-charge endorsement or arranged separately.
- VIRUS, BACTERIA, FUNGI, COMMUNICABLE DISEASE – causing direct damage to the policyholder's own property and ensuing business interruption, or third-party bodily injury and property claims because of alleged exposure to biohazards. Insurers have broadened their policy exclusions since the COVID-19 pandemic, forcing buyers to explore hard-to-find specialty solutions.
- INFORMATION RISK – associated with network breaches, operational error, and accidents causing loss or damage to computer networks, digital assets, and unauthorized release of personally identifiable in ormation. Traditional property, general liability, crime, and management liability insurances provide only partial, fragmented coverage for such incidents, leaving large gaps best filled by freestanding specialty insurance.
- MULTIMEDIA LIABILITY – arising from libel, slander, defamation, and infringement of intellectual property in oral, printed, broadcast, electronic or internet media, including social media. At best, traditional general liability insurance covers only personal injury (libel, slander, defamation), while copyright and trademark infringement are covered only in connection with advertising activities. Most general liability policies now also contain exclusions for electronic chat rooms, bulletin boards, and similar exposures, sharply limiting the protection they provide. The best remedy is separate multimedia liability insurance, now commonly packaged with network security & privacy liability ("cyber") coverage.

- INTERNATIONAL RISKS – associated with overseas travel, operations, or commerce. Domestic property and casualty insurance policies generally respond only for claims brought in the US, its territories or possessions, leaving any global business exposed for claims brought abroad. The remedy is an international package policy, which can be built to address a variety of risks occurring off US soil. An organization with locally-incorporated subsidiaries or affilites on foreign soil must also comply with country insurance regulations, which may specify compulsory coverages and prohibit nonadmitted, or alien, insurance.

  A skilled risk advisor can help you identify risks and insurance needs that lie off the beaten path.

# #4: Sweat the Details

No two insurance policies are created alike. Competing offerings may purport to cover the same risks but, as the adage goes, “the devil’s in the details” – that is, in the fine print of each contract’s declarations, insuring agreement, conditions, and exclusions. At a moment of need, the specific policy language will help or hang you, without allowance for inference beyond the four corners of the contract or earlier gentlemen’s agreements about what was supposed to be covered.

Make it your business to know exactly what you’re buying. Take time to review each of your insurance policies – if not every word, at least the key sections and provisions – to ensure that it’s consistent with what you ordered. Pay close attention to endorsements that modify the basic boilerplate policy by eliminating, restricting, or qualifying coverage.

**COMMON PITFALLS INCLUDE:**

- Coinsurance
- Exclusions or limitations for water damage
- Umbrella/Excess Liability terms that are narrower than the policies they follow
- Liability for individuals driving rented or personal cars for entity business
- Policy definitions of an “insured”
- Professional services exclusions
- Policy definitions of “insured contracts”
- Requirements to secure an insurer’s consent before retaining counsel
- Inadequate crime protection, especially against employee dishonesty and computer fraud
- Exclusions or limitations for multimedia content and activities

Insurance is only useful when it’s collectible, so don’t overlook the importance of insurer solvency in your buying decisions. The insurance landscape is littered with the names of once-formidable insurers that became extinct through financial and ope ational failures: Kemper, Reliance, Home, and Mission, to mention a handful from recent decades. A. M. Best & Company is a respected industry rating source that grades insurers based on financial  trength and size. We recommend only placing business with insurers Best-rated at least “A-“(Excellent) and ranked in financial si e category VII ($50M to $100M of adjusted policyholder surplus) or larger. Request rating details for every participating insurer if your insurance advisor doesn’t routinely volunteer them.

Agents and brokers have a professional responsibility to highlight material coverage changes when renewing insurance placements. Insist that your intermediary provide a thorough comparative summary of expiring-to-proposed placements – and don’t hesitate to ask for specimen policy language if you have any doubts about the accuracy of the comparison.

# #5: AVOID “BIDDING INSURANCE”

Some buyers fall into the trap of commoditizing insurance, shopping it relentlessly through multiple agents and brokers as if they’re buying a new car. While prudent stewardship demands that any business operator – especially one accountable to government, foundation, corporate and individual donors -- look for ways to trim cost and maximize value, “bidding” generally isn’t a successful strategy when arranging insurance services. Whether in law, accounting, architecture, consulting or insurance, the fair measure of value in a professional service is seldom lowest unit cost, but quality of intellectual capital and service at moment of need.

Experience proves time and again that a buyer’s interests are best served by empowering a single intermediary to canvas the marketplace. A multi-broker quoting competition, by contrast, (1) risks fragmenting a limited nonprofit insu ance marketplace and sending mixed messages; (2) tends to emphasize going-in price over best qualific tion to manage the long-term cost of risk; (3) demands meticulous process management and thorough post-marketing analysis; and (4) marginalizes the broker’s role to that of a transactional go-between rather than a strategic risk advisor.

### WHETHER THROUGH WORD-OF-MOUTH, INFORMAL DISCERNMENT, OR ELABORATE REQUEST-FOR-PROPOSAL (RFP), ASTUTE BUYERS TEND TO SELECT THEIR INSURANCE BROKERS FOR SUCH QUALITIES AS:

- Insurance expertise
- Understanding of the buyer’s business
- Integrity
- Credentials and experience of front-line service personnel
- Scope and quality of market relationships
- Availability of services to reduce cost of risk
- Value

With the right strategic partner as your counselor and advocate, it’s important to re-examine your operational risk profile at least annually, while we suggest canvassing the insurer marketplace every three to five years to ensure best-in-class protection and value. Avoid going to the well too often to avoid being branded as a casual shopper, but act strategically when changes in underwriting appetite, service quality, or major cost increases trigger genuine need for alternatives.

# Conclusion

A thoughtful nonprofit insurance portfolio complements other measures including risk avoidance and reduction, transfer, and retention, all employed in combination to reduce the organization’s total cost of risk. Commercial insurance is a dynamic industry and the state-of-the-art in product design is continually advancing, creating both pitfalls and remedies. When insurance fits outside the nonprofit executive’s comfort zone, the right strategic risk advisor can be a valuable resource: as counselor, defacto risk manager, and advocate to drive value in every element of the risk financing mechanism

**For more information, please contact:**

Full name and title Steve Primiani, Account Executive

Phone number 647-469-7242

Email address steve.primiani@hubinternational.com