Analyzing Your Nonprofit Insurance Program in a New Leadership Role

A Guide for New Nonprofit Executive Directors, CEOs, & CFOs

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Whether you've recently joined a nonprofit from another industry, or you've taken a leadership role in a nonprofit after working in other roles with the organization, you may find yourself responsible for the company's insurance and risk management function for the first time.

It's a role that can seem overwhelming initially. You're likely to have questions about how to analyze your current insurance program and ensure you're taking the right measures to protect your organization from risk.

If you're wondering how to get started, this guide can help.

It reviews the best steps to take when evaluating your organization's current insurance and risk management program and the most common risk exposures for nonprofit businesses. The guide also reviews the coverages most relevant for nonprofits and how to ensure your insurance broker is well equipped to guide you in protecting your nonprofit from risk.

New Leaders, New Questions

The Building Movement Project estimates as many as three-quarters of all nonprofit leaders plan to leave their current role in the next five to 10 years, so there's a good chance your organization has new leadership in place now or will soon.

Depending on your size and organizational structure, the leader most likely to be accountable for the insurance and risk management function is the executive director, CEO, or CFO.

If you're new to such a role, there's a good chance you've had little exposure to the risk and insurance function up until now. And that will likely spur a number of questions about how to best approach this aspect of your role, including how to gauge your current program.

The traditional risk management process provides a useful framework for guiding how to analyze your nonprofit's insurance program and determine the best ways to fill gaps and mitigate exposure. This framework typically focuses first on risk identification—not only to determine what could go wrong, but all the consequences that could result from that occurrence, including the stakeholders most likely to be impacted.

As you identify your greatest risk exposures, you'll begin to get a picture of what could keep you and your fellow leadership team members up at night. This crucial step will provide a baseline for establishing an ongoing risk review cycle, ensuring you always have an accurate view of your risk exposures as conditions evolve.

With that approach in mind, the following four steps should guide your initial assessment of your nonprofit's insurance program.

STEP 1:
Look Beyond the Obvious in Identifying Your Exposures

If you're newly responsible for managing your company's risk and insurance, it's important to take a deep dive into your most likely risk exposures, along with the organization's greatest exposure areas historically.

While every nonprofit operates a little differently, several risks are common across this sector.

For example:

- Your employees could face safety risks that require worker's compensation coverage, along with policies and procedures to keep workers safe and reduce losses.
- Any nonprofit that employs officers and has a board of directors needs proper directors and officers (D&O) liability coverage, which protects both your organization as an entity and your directors and officers as individuals against claims of actual or alleged wrongdoing in managing the company, through an error, omission, neglect, or breach of duty.
- Any business, regardless of the industry, needs general liability (GL) insurance to protect against property damage or bodily harm caused by an employee in the course of their work.

Beyond the risks that are prevalent for nearly all nonprofits, the nature of your operation will dictate other, organization-specific risks. The following are three of many such examples of exposures that could impact your nonprofit, depending on the type of work you do and the services you provide.

Accreditations & Standards

It might not be readily apparent, but offering accreditations and setting standards could increase your liability exposure.

Consider what would happen if a member of your association was mistakenly granted an accreditation, even though they didn't meet the qualifications or didn't complete the requirements. That could happen due to something as innocent as a glitch in your technology systems. If the member then made a professional error in the process of providing a service that requires the accreditation in question, your nonprofit could be held liable for improperly granting the accreditation.

Volunteers

Another risk that impacts some nonprofits is the use of volunteers to supplement your internal team. Let's say your nonprofit hosts a major 5K run annually, with hundreds of volunteers helping to staff the event. You might not view it this way on the surface, but every volunteer represents the face of your organization externally. If an event volunteer causes bodily injury to a participant or any other attendee, your nonprofit would be held liable for their actions.

In-House Counsel

A third example of an exposure facing some nonprofits, especially larger organizations, is the liability that comes with employing an in-house attorney. If your staff attorney provides legal advice to a member of your organization, and that advice is found to be wrong or negligent, your nonprofit could face a costly lawsuit.

STEP 2:
Review Your Claims History

One factor that greatly impacts your ability to obtain a particular coverage and the rates you'll pay is your organization's claims history. An independent broker can provide a useful snapshot of your claims history in the form of a loss run report that itemizes the number and type of claims you've filed previously and the settlement amount for each.

The two most important aspects of your nonprofit's claims history are the frequency and severity of claims, which tend to vary by organization and coverage type. Unlike retailers that tend to see a large volume of slip-and-fall incidents which become claims on their GL policy, most nonprofits don't have frequent claims. Instead, it's the severity of claims that tends to drive coverage availability and premiums for nonprofits.

Beyond providing a window into how your claims frequency and severity are trending, a claims history analysis can serve two essential purposes:

It can help you uncover systemic issues.

Frequent workers' compensation claims might signal a need for better safety training or more detailed process documentation. A history of harassment or discrimination claims involving the same department might indicate a need for tighter HR policies or manager coaching. And even one cybersecurity claim should trigger a close examination of your IT security systems and controls. By spotting trends and common denominators, you can implement measures to eliminate the underlying causes of these incidents and prevent them from reoccurring.

It can help you avoid surprises at renewal time.

Most independent insurance brokers will obtain competitive packages and quotes for a given coverage every few years, preparing for the renewal process well in advance. Each time they go to market on your behalf, your claims history will impact how easily they can obtain the coverage you need, with the ideal terms, at a fair rate. While you can't change the past, you can use it to prepare for your next renewal, then plan and budget accordingly

STEP 3:

Assess Your Coverages to Identify and Fill Gaps

Once you've completed a thorough analysis of your risk exposures and claims history, it's time to review the specific coverages your organization has in place and identify any gaps—whether it's a policy with insufficient limits, the omission of an important policy endorsement, or a complete lack of coverage.

Though every nonprofit's needs will differ, the following is a checklist of the most common coverages that many nonprofit organizations require and the most important considerations for each.

Directors & Officers Liability (D&O)

If you have an external board, you're almost certain to have D&O coverage in place because most directors demand it as a condition of the role. In fact, many nonprofits include a D&O coverage requirement in their bylaws.

However, you can't assume you have the proper D&O policy limits, especially if it's been some time since your organization reviewed the coverage. And given how D&O settlement amounts are skyrocketing, it's vital to ensure your limits are sufficient. Independent advisors like B. F. Saul Insurance can provide several types of benchmarking data to help determine the right D&O policy limits for your nonprofit, including the broker's own internal client benchmarks and industry-wide data.

Professional Liability (Also Called E&O)

Some nonprofits assume they don't have sufficient exposure to a professional liability or errors and omissions (E&O) claim to warrant the insurance, but that's rarely the case. Consider these scenarios:

- If you accept donor funds and apply them toward different programs or services, you could be hit with an allegation of negligence or funds mismanagement.
- If you publish information on your website and an association member or other stakeholder alleges you've committed libel or slander, you could face a costly media liability lawsuit.
- If an employee makes an error and a member or other individual alleges the mistake caused them harm, you could find yourself in court defending a claim

Professional liability insurance is essential for any nonprofit, regardless of the nature of your operation. And given how settlement amounts and jury awards are trending, it's critical to ensure you have sufficient policy limits to avoid an heavy financial burden. If you're newly responsible for your insurance program, ask your independent broker to help assess your E&O exposure and identify the right coverage and policy limits.

Reputational Harm

Various endorsements are available to tailor a professional liability policy to each organization's needs. For nonprofits, one of the most important endorsements is reputational harm coverage.

In today's "cancel culture", it wouldn't take much for your nonprofit's reputation to be damaged as a result of information or comments posted online. A reputational harm endorsement covers the costs of removing those comments and hiring a media relations expert to manage the crisis and restore your organization's good name. The policy also covers any loss of revenue associated with the incident (which is necessary to demonstrate to collect on a claim). Since goodwill is one of your greatest assets—and you serve a finite group of constituents that would be difficult to replace—it's critical to evaluate your professional liability policy and confirm whether you have proper reputational harm coverage.

Event Cancellation

If your nonprofit derives a substantial portion of revenue from a single event—such as a member convention or trade show—your budget would suffer greatly if the event was cancelled due to circumstances beyond your control, like catastrophic weather. Every associated source of revenue would be in jeopardy, including fees from attendees, exhibitors, sponsors, and speakers. Meanwhile, depending on how far in advance the cancellation occurs and the details in your contracts, it's likely you'd still be responsible for a portion of the event-related costs, such as venue rentals, entertainment, and catering.

If event revenue accounts for a meaningful portion of your budget, then event cancellation coverage should be part of your risk management program. It's complicated coverage, with many endorsements to consider and exclusions to watch out for, and every contract you sign has the potential to impact your exposure. An independent insurance advisor can assess the nature of your upcoming events, evaluate your contractual obligations, and provide guidance on how to limit your financial risk. Your accounting team should also help develop a cost-benefit analysis of each event to determine if it warrants coverage.

Employment Practices

One of the biggest exposures for nonprofits is the liability associated with your employment-related practices. Issues like employment discrimination, unlawful termination, and sexual harassment have always proved problematic, but the more litigious our society grows, the more common these allegations become. The pandemic brought on additional employment-related challenges, especially return-to-work policies that can trigger discrimination claims.

As you review your current insurance and risk management program, take a close look at both your employment practices coverage and the company procedures and policies that can help you head off damaging claims. For example, you might find your employee handbook isn't specific or comprehensive enough in outlining the behaviors your staff should and should not engage in to reduce employment-related risks.

Cybersecurity

While cybercriminals target organizations across all industries, nonprofits often emerge on their radar for reasons like these:

- You're likely to store data on donors, which criminals would find lucrative.
- If you solicit donations, criminals could easily engage in a social engineering scam in which they spoof your organization and divert donations to their own accounts.
- Given your budget constraints, you might lack the financial resources to invest in the most sophisticated cybersecurity measures, making you more vulnerable to an attack.

Even if you have a solid cybersecurity policy in place, it will only cover the costs you incur after a breach occurs. Ideally, you want to prevent such a breach from occurring, as these incidents have far-reaching and lingering consequences.

As you analyze your insurance program, be sure to assess your cybersecurity preparedness, including IT procedures and controls, staff training, and preventive technologies like endpoint threat detection. If your organization hasn't conducted a vulnerability assessment recently, plan to perform one soon to get a better read on your exposure. Aside from the fact that any insurer will require you to have stringent cybersecurity measures in place, steps like these will reduce your odds of a costly and damaging cyberbreach.

Auto

Even if you don't have a fleet of company-owned vehicles, your nonprofit likely has exposure to auto-related liability claims. Let's say an employee drives his own car to pick up lunch for the monthly staff meeting. Temporarily blinded by sun glare, he doesn't see a pedestrian in a crosswalk and strikes the person, causing serious injuries. Because the employee was operating on the company's behalf at the time, your nonprofit could face an expensive liability lawsuit.

When you evaluate your insurance program, consider your potential auto liability and whether you have the right type of coverage to close this often-overlooked gap.

General Liability (GL)

GL insurance is a policy that most nonprofits purchase because it covers the organization from claims alleging that bodily injury or property damage resulted from the organization's operations or products/services. But if you're new to handling the insurance function, you might not realize the many ways a nonprofit can run into trouble that could trigger a GL claim.

For instance:

- If an employee or vendor causes damage at a venue you've rented, the venue will hold you liable for the property damage costs under the terms of their contract.
- If a speaker at your conference is seriously injured while on site, they could sue you for both the medical costs and punitive damages.

When evaluating your current insurance program, be sure to confirm you have a robust GL policy that specifically addresses the nature of your operations and the type of claims you could face as a result. Pay close attention to the policy limits and work with an experienced advisor to confirm they align with your exposure and current industry trends in settlements and awards.

Business Travel Accident (BTA)

Does your nonprofit host board meetings at locations that require directors and officers to travel? That scenario creates a very real risk exposure. During their travels and once on site, your directors and officers might be driving unfamiliar rental cars, traveling in areas they've never been before, or venturing out late at night—all of which increases their odds of being involved in an accident.

Review your insurance program to ensure you have sufficient BTA insurance, and check that it extends to your directors, not just your employees. It's a relatively inexpensive coverage that typically provides high limits, making it a cost-effective addition to a nonprofit insurance program.

STEP 4:

Assess Your Broker Relationship

For any nonprofit leader accountable for the risk and insurance function, navigating the volatile waters of today's insurance market can prove a formidable challenge. For executives who are new to this role, it's even more difficult.

Most nonprofits rely on an independent insurance broker to guide them through the complex task of identifying their risk exposures, assessing their current coverages, determining where there are gaps, and finding the best solutions. As a leader who is newly responsible for insurance and risk management, you'll find your broker's guidance to be even more important.

So what should you expect from the relationship with your independent broker?

- They should take your business to market every few years, evaluating coverage options and obtaining competitive quotes. By going to market periodically on your behalf, your broker ensures you always have the most appropriate coverage at the right price.
- They should bring deep experience with nonprofit organizations and knowledge of how the nonprofit world differs from a risk perspective.
- Their team should include staff with a long tenure with the company and relevant credentials, including Certified Risk Managers and Certified Insurance Counselors.
- They should serve as your claims advocate—going beyond just administering the claims process by negotiating with carriers fiercely to achieve the best outcome.
- They should commit to exceptional service in terms that are most relevant to your organization, whether that's a fast response to questions or proactive strategies for managing difficult risks.

How B. F. Saul Insurance Can Help

The independent advisors at B. F. Saul work with nonprofits of all types and sizes, including some of the largest national associations. We have a deep understanding of the unique risk exposures that nonprofits face, and we've spent decades helping nonprofits protect their assets and reputations. With a strong team of commercial insurance specialists, including in-house Certified Risk Managers, Certified Insurance Counselors, and an attorney on staff in our claims group, we bring the expertise and knowledge to help protect your nonprofit against the most likely exposures.

If you're newly responsible for your nonprofit's risk and insurance role, contact the nonprofit experts at B. F. Saul Insurance. We can help you navigate the complexities and analyze your insurance program effectively.

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