



A **Favorable** Market

Nonprofits are trying to rebound from the recent recession and getting necessary coverages, thus opening up opportunities for producers.

by Lori Chordas

Nearly every industry felt the wrath of the recent recession, and nonprofit organizations were certainly no exception.

Charitable contributions declined as individuals and corporations had to tighten up their purse strings in order to make ends meet.

In 2012, the slightly more than \$316.2 billion gifted to charities was down 8% from \$344 billion given in 2007 when the recession began, according to the Giving USA Foundation and the Indiana University Lilly Family School of Philanthropy.

The good news, however, is that a recent rebound to more economic normalcy saw a 1.5% increase in 2012's total over the prior year.

One thing that hasn't changed is the need for insurance by nonprofits. And that, experts say, is opening up many opportunities for agents and brokers to market and sell those much-needed coverages in what some call an underserved market.

Inside the Market

The nonprofit insurance sector, says Non Profit Risk Services president Bob Golinvaux, remains very much a niche sector.

"Although there's been an acceptance by larger carriers to look at these organizations, for the most part, they have been misunderstood," he added. "Thirty years ago, no one wanted to write them because they thought nonprofits dealt with strange operations and they didn't understand the nature of the organizations."

Today, Golinvaux said, nonprofits operate more like businesses. "501(c)(3) is just a tax designation; not a business model. In order to survive, nonprofits have come up with different ways to fund themselves rather than pure reliance on state or federal funds."

Thinning operating budgets and funding remain nonprofits' greatest challenges, noted Scott Konrad, senior vice president and not-for-profit business leader at Hub International Northeast Ltd. "There's a finite pie of donor dollars and there are about 20% more nonprofits today than a decade ago. So more organizations are vying for the same pie, which hasn't grown much because of economic reasons."

That's led to what he calls "draconian actions" by organizations, including digging into their own

Key Points

- ▶ **The Backdrop:** Nonprofits and charitable giving were hard-hit by the recent economic downturn.
- ▶ **Current Happenings:** Insurance needs for nonprofits, however, continue to grow—everything from liability to abuse and molestation coverages.
- ▶ **Sneak Peak:** Agents and brokers play a vital role in educating nonprofits about the need for insurance and potential risks they face.

reserves and trimming headcount to make ends meet. "There are some risk elements to that, however. A reduction in force can have repercussions like claims of alleged wrongful termination and a spike in workers' comp claims."

The economic downturn also forced a number of smaller nonprofits to fold, merge or be acquired by larger organizations, Golinvaux said.

In addition, donor expectations have changed, Konrad added. "There's now greater emphasis on accountability, transparency, operational efficiency and measurable outcomes. Savvy donors don't just write checks to any nonprofit anymore. They want a sense of where

the money is going and what will be done with their contributions.”

Land of Opportunity

Nonprofits’ need for various coverages is opening up doors for agents and brokers. Producers have the opportunity to market and sell everything from general and professional liability to umbrella and property plans, experts say.

“Three main coverages I always discuss with my clients are accident, directors & officers and liquor liability,” said Sean Puckett, owner of Non-profit Specialty Insurance agency, a division of Frank Clarke Agency Inc.

“Nonprofits may run a bar for a couple hours at an event or host wine tastings. And even if they aren’t physically the ones serving alcohol, they can still be dragged into a claim.”

Nonprofits also have unique exposures when it comes to auto insurance. Volunteers or employees may be driving their own cars or using a firm’s vehicle to attend a fundraiser or to transport children, elderly or disabled individuals. Therefore, Puckett suggests, nonprofits should include employees and volunteers on nonowned and hired vehicle auto policies. “The



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Philadelphia Insurance Cos.

good news is that those policies are quite inexpensive.”

Agents and nonprofits also should monitor drivers’ lists for vehicles, he added. “Our agency runs motor vehicle reports in-house for all clients. It’s particularly important for nonprofits to have such a list and only let people drive who are approved to do so. Since every dollar spent on expenses takes away money that could go to the cause, the last thing a nonprofit needs is an avoidable accident to increase insurance prices or even put the whole operation at risk.”

Puckett also suggests agents highlight the need for D&O and employment practices liability to protect nonprofits against perils like reputation damage and financial disaster. Cases such as the person in Ohio who, under the guise of helping Navy veterans, bilked millions for his alleged fraudulent

charity is giving rise to that need, he said.

Konrad said the nonprofit industry sees fewer claims on the D&O side. “Most stem from EPL, especially around wrongful-termination claims.”

Aside from safeguarding against traditional management acts, errors and omissions, many nonprofit D&O policies also include protection against libel, slander and personal injury-type offenses—even plagiarism and copyright/trademark infringement, while EPL protects nonprofits and their board members from wrongful employment-related acts such as discrimination, retaliation and sexual harassment.

When it comes to liability, “there’s growing concern about professional liability for nonprofits,” said Paul Siragusa, vice president of underwriting for Philadelphia Insurance Cos. “Everyone used to carry just general

Limiting Liabilities

The fallout from misappropriated or mismanaged funds is just one of the possible liabilities nonprofits face.

Along with that, bad publicity can also shine a spotlight on the need for those organizations to protect against reputation damage. For instance, Susan G. Komen for the Cure received much backlash in 2012 after it limited \$680,000 in grants to Planned Parenthood for breast cancer screenings and education programs. “Komen’s revenue dwindled dramatically and registration at walk-a-thons and other events significantly declined,” said Scott Konrad, senior vice president and not-for-profit business leader at Hub International Northeast Ltd.

Nonprofits also run the risk of other potential perils such as a client slipping or falling on a firm’s premises, contaminated food being served at an event

or volunteers being injured in a car accident.

One of the newer, unique exposures is information risk and media liability, Konrad said. “Many nonprofits have embraced online giving, which opens up potential risks if donors’ personal or financial information is exposed or compromised.”

Social media is adding to the mix. “Nonprofits are building brand awareness and reaching donors through social networking sites. Those organizations have more robust Web content, along with Facebook and LinkedIn pages, and they’re engaging people via multimedia

campaigns to get the word out,” he said. “Therefore, general liability insurance has had to adapt to this electronic age, and we’re seeing new exclusions for activities such as electronic bulletin boards and chat rooms creeping into those policies.”



Scott Konrad

liability coverage in hopes that it covered all of their operations. But not so much anymore, especially because many social services organizations have employed professionals like doctors and psychiatrists on staff. They really need to focus on whether or not they have true professional liability coverage on their current policy and how that coverage stacks up to some of the offerings from other carriers in the industry.” Philadelphia Insurance, which has been insuring nonprofits and human services organizations for nearly 25 years, offers separate coverage forms and limits for general liability, professional liability and abuse and molestation.

The latter is increasingly gaining the attention of many nonprofits. Situations like what the Second Mile charity experienced in the wake of the 2011 allegations against Penn State’s former assistant football coach Jerry Sandusky showcase the value of abuse and molestation policies.

One of the coverages challenging nonprofits today is workers’ compensation, Golinvaux said.

But, he added, it’s something they can’t live without, especially given possible perils such as employee or volunteer injuries caused by lifting heavy objects, combative residents of a group home or animal bites at a shelter.

“The industry is struggling to find a singular good answer to workers’ comp for these organizations. Volunteers complicate the issue, along with lower compensation found in most nonprofits,” he said.

Stepping In to Help

Producers play a vital role when it comes to educating nonprofits, according to Puckett.

For instance, they can debunk myths like the misperception that the organizations are protected from litigation by charitable immunity, he said. “Many think because they are a nonprofit, no one will sue or come after them. But charitable immunity has not been upheld in recent cases.”

Agents and brokers also can highlight the need for insurance, Puckett added. “We insure the Ohio Association for Nonprofit Organizations, and a statistic they really stress is that there are about 13,000 nonprofits in the state, but only about 3,500 have insurance. So there’s a big gap in understanding the need for it, and we’re hoping as time goes by that we can educate nonprofits and help close that gap.

“It’s important to have those conversations with nonprofits,” he added. “I try to make sure my insureds—both nonprofits and for-profits—know that I want to be part of their team. If you are straightforward with them, they’ll trust you. When things come up, explain to them what’s happening. If an event holder requests a \$1 million umbrella or to be listed as an additional insured, explain why they’re making that request and why it is important.”

Golinvaux suggests agencies follow the motto he lives by: Proper coverage first, then excellent service followed by stable prices.

“Once you write someone with those criteria, unless claims or services go awry, those accounts won’t move away,” he said. “Nonprofits are very loyal.”

There’s also an emotional reward that comes with serving the sector, Puckett added. “You just feel good when you’re helping them.”

In addition, agencies’ local ties can also come into play. Scott Grieco, the president of middle market for Hanover Insurance Co., said independent agents know local nonprofits and the geography and landscape of how things work. “They will know more about matching up the right coverages and exposures with the products we sell.”

More to Come

For years, Konrad said, nonprofits have “generally been underserved by the brokerage community.

“[Brokers] tend to equate ‘nonprofits’ with ‘no money.’ But, with most nonprofits, that’s not the case. In

fact, as a financial proposition, they’re no different than any Main Street business that a broker would take on,” he said. “The rising number of those organizations over the past decade shows that it’s a growing segment.

“The government is cutting back on things it’s doing for society, so the nonprofit sector steps in to help improve the human condition,” Konrad added. “There’s a real calling for specialists who understand how the nonprofit business operates, who speak its language and appreciate the buying temperament of the marketplace.”

However, a few things may have to change before more players enter the sector.

There’s a continued hardening of the market, Puckett said, “and I don’t see nonprofit insurance getting easier or cheaper in the near future.

“But eventually, as the market hardens, it will get more expensive and then we’ll hopefully see more insurers get into this space,” Puckett added. “Today, specialty companies are primarily writing nonprofit insurance. But I think as other carriers wade the waters, more will come in. Nonprofits aren’t as scary and hard to underwrite as standard carriers make them out to be.”

There’s also a silver lining for producers: a gold mine of untapped customers, said Konrad. According to the National Center for Charitable Statistics, more than 1.5 million nonprofits are currently registered in the United States. “So there are many more customers we can reach in this market,” he added. **BR**

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