A NONPROFIT'S GUIDE
TO UNDERSTANDING THE INSURANCE AND RISK MANAGEMENT PROCESS

How to Identify Your Organization's Risks and Insurance Options

INGUARD®

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INTRODUCTION

1.41 million nonprofits operate in the U.S., contributing $905.9 billion to the economy.

Nonprofits are essential to U.S. communities, providing a wide variety of critical services and support to those in need. From food banks and self-help organizations, to family social services agencies and counseling centers, these organizations uplift the communities, individuals and causes they serve.

As critical as nonprofits are to our society, so is the role of protecting these organizations from the risks and exposures inherent to their operations. As a nonprofit executive or board member, you have a deep understanding of your organization's structure, assets and the potential for loss. You know better than anyone that the unique makeup of your nonprofit and the assets held by the organization must all be taken into consideration when constructing a risk management and insurance program.

Nonprofits simply can't afford to carry inadequate insurance protection.

Twenty-five years ago, many social services organizations struggled to find good insurance coverage, but they still had to show proof of insurance to receive government funding. The lack of industry-specific solutions and expertise in the market made it difficult for organizations to mitigate risks, prevent losses from occurring and safeguard against potentially crippling financial liabilities.

Thankfully, the insurance market today is more responsive and knowledgeable regarding nonprofits. As a result, there are specialized solutions designed to address the complex needs of these organizations, helping them meet legal and regulatory requirements, as well as remain profitable and protected.

So why should you keep reading?

While advanced insurance and risk management options are more readily available than ever before, understanding and selecting the best program for an organization requires education for key stakeholders. Without experience shopping for commercial insurance or a trusted advisor to help you, this task can be difficult for an organization's leaders to navigate effectively.

The following guide will help nonprofit executives and board of directors handle risks and the insurance process in an efficient and systematic manner. It is intended to help leaders identify and weigh the combination of risk management and insurance coverages that will best serve their organization.

In this guide, we will teach you how to:

- Recognize your role in the insurance selection process.
- Understand necessary coverages and prioritizing risks associated with operating a nonprofit.
- Research and vet a trusted insurance partner.
- Gain buy-in from key stakeholders.
- Prepare for your initial insurance consultation.

With our help, together we can uncover and prioritize exposures to loss you may have overlooked or underestimated.

Our goal is to **help your organization save time and money** in the long-term so you are able to be an effective steward of the assets and revenue streams you oversee, enabling you to better help those you serve.

RECOGNIZE THE NEED FOR INSURANCE THROUGH RISK IDENTIFICATION

> Nonprofit executives have to balance a number of responsibilities and resources, keeping in mind the needs or demands of: funding sources (governments, foundations, individual and corporate donors), clients served, communities of operation, nonprofit employees and volunteers and regulatory and legal obligations.
>
> *– Larry McSpadden, INGUARD Executive Vice President*

No two nonprofits are alike. Each has a unique collection of traditional and emerging risks that expose the organization to potential loss and costly liabilities.

A nonprofit's risk and insurance strategy must cover tangible assets, such as funding, facilities and equipment, employees, volunteers and board members, as well as intangibles, like your reputation within the community, partnerships and political alliances, and so on. And as new risks form — i.e. updates to laws and regulations, cybercrime and data security, and social media — organizations must consider the insurance implications to ensure they are properly covered.

Beyond external influences, nonprofits themselves grow and change, providing new services, adding and eliminating programs. If an element contributes to your ability to carry out the organization's mission and values, then it's worth discussing with an insurance provider.

So how can you properly assess your organization's insurance needs to ensure you are protected against common and evolving risks and exposures? The answer is: risk identification and proper insurance protection.

Conducting a thorough risk identification review can involve numerous steps, so it is essential that you understand your exposures and insurance needs. When conducting a risk identification assessment for your nonprofit, consider doing the following:

- **Study financial statements, budgets and annual reports.** Every asset presents a potential for loss, every revenue stream could potentially be interrupted, and every program and activity indicates interaction with the world and its hazards.
- **Review (from a risk and insurance standpoint) contracts.** Review revenue sources, suppliers, independent contractors, landlords, tenants, leasing firms, etc. Most contracts contain language relating to insurance requirements, indemnification, and the mutual responsibilities of the parties to the contract.
- **Review the organization's history.** Past activities can still cause lawsuits today, and former entities and operating companies may still be exposed.
- **Discuss plans for the immediate future and hopes for the long-term.** This can help you identify issues best handled through strategic planning.
- **Interview executives and department heads** to uncover their knowledge of the organization, and identify their concerns, hopes and worries.

- **Walk around the premises.** A physical inspection of owned and leased premises can reveal a lot to an experienced eye. This can also identify areas that are pertinent to hazards and risks of loss.
- **Browse social media, past and present.** Sift through websites, Facebook, Twitter, Instagram, YouTube, LinkedIn, Pinterest, Tumblr, Google Plus+, as well as traditional press reports and press releases (not to mention a Google search of the organization's name). This activity can reveal a lot of information and often uncovers some surprises you may have overlooked.
- **Review IT and cyber loss control and data protection policies and procedures.**
- **Analyze insurance company loss runs and OSHA logs.** This can help identify claims patterns and claims that might need risk control.
- **Study current insurance policies.** Identify what types of insurance were considered important to the organization's previous leaders and insurance brokers.
- **Complete insurance checklists.** This step can help refresh your memory and bring up sometimes obscure, yet important, insurance coverages that should be considered.
- **Read formal risk literature.** This will consist of your organization's safety programs, disaster and crisis planning documents, and loss and safety engineering reports. These documents can be informative and prevent duplicative efforts in these areas and, if missing or outdated, point to areas of need).
- **"Appetite-for-risk" discussions with executives and trustees/directors.** This activity can lead into the subsequent steps of evaluating and prioritizing risks and can point to the preferred solutions to be implemented.

Tip: Having a seasoned nonprofit insurance specialist work with you on the above steps will help assure that major and important exposures to loss have been identified.

UNDERSTAND AND PRIORITIZE COMMON RISKS FOR THE NONPROFIT INDUSTRY

Ninety-percent of claims reported by nonprofits include accidents and injuries related to automobiles or slips, trips and falls at nonprofit locations and special events. The other 10% result from improper employment practices.

The biggest mistake nonprofits make is considering only the 'before loss costs' (premiums) when comparing proposals and not giving due weight to 'after loss costs,' or how well the insurance and the risk management program overall will respond when something big and bad does happen.

– Larry McSpadden, INGUARD Executive Vice President

Before you can move forward with the insurance selection process, you must truly understand and prioritize common risks within the nonprofit industry. When doing so, follow these four steps:

Step One: Even if your organization has yet to experience a loss, it's a good exercise to consider the potential that you'll experience them in the future. Recognize the common risks nonprofits face on a daily basis and determine how these could affect your organization.

Many risks identified for nonprofits will fall into the following general areas:

- **Automobile liability and physical damage losses.**
- **Breach of contract, misuse of intellectual property, invasion of privacy.**
- **Claims against your organization and/or its directors and officers** alleging mismanagement or other wrongful acts (including employment practices claims).
- **Data breaches and other liabilities** arising out of loss of client or employee records and misuse or misappropriation of your IT assets.
- **Defense costs and judgments from liability claims,** including general liability (bodily injury and property damage), social services professional liability, medical malpractice, physical or sexual molestation or abuse liability and employee benefits administration liability.
- **Loss to, or destruction of, real or business personal property.**
- **Losses arising out of travel** by employees, directors or others outside the country.
- **Loss of assets from various criminal acts,** including those committed by employees or outsiders.
- **Loss of income or extra expenses** arising out of property losses.
- **Regulatory fines, penalties and sanctions.**
- **Reputational damage and public relations costs** following a disastrous situation.
- **Work-related injuries and occupational hazards** to volunteers, employees, and directors.

Step Two: Evaluate your organization's unique exposures and/or future setbacks related to common nonprofit risks. Once these have been identified, it's time to quantify and prioritize them. Considerations helpful in this step include:

- **Property risks:** Review or order professional appraisals, obtain current schedules and lists of locations and inventories. Tally up the value of assets that might be affected by a single event or area-wide catastrophe.
- **Liability risks:** Work with legal counsel, industry peers and associations and study the trade press to estimate what typical legal claim costs are. Also consider what likely maximum losses could be in a worst-case scenario.
- **Operational risks (regulatory, legal, contractual, reputational):** Engage in "what if?" analysis and estimate potential costs, time burdens and other impacts.
- **Other identified risks:** Estimate both their likelihood and their potential impact on your organization.

With this step complete, you're ready to decide which threats to handle first, address later and/or ignore for the time being. Usually, risks with a big potential impact, such as catastrophic risks, are addressed first, followed by risks that might occur more frequently, but cost less.

Step Three: Now, you'll want to consider options for handling and managing risks, starting with the top priority and working your way down. Options for handling risks include:

- **Avoidance:** Divest, sell, pull out, or close down the offending asset or activity.
- **Contractually transfer:** Transfer to other parties, through revision of current contracts or thoughtful construction of new contracts.
- **Transfer risk:** Risk is passed along to an insurance company.
- **Risk control, loss control engineering, safety programs:** Reduce the frequency and potential severity of risks.
- **Formally retain the risk:** Accomplished through a savings program, dedicated line of credit, formal self-insurance or a captive insurer.
- **Informally retain:** "We'll pay for it somehow if it happens."

Step Four: An ongoing step in managing risk is to then formally and regularly review the program from top to bottom. Ask yourself critical questions, such as:

- Are there new risks or risks that have changed in severity?
- Have implemented programs been working as expected, or has the relative cost of different solutions changed recently?
- Are there new or more efficient solutions being offered?
- Have our priorities (e.g. services, offerings, individuals we serve) changed?

Tip: As you go through this process, keep an eye on considerations, such as:

- ✓ What setbacks are keeping my organization and management team up at night?
- ✓ What is the worst setback that could happen? Are we prepared for it?
- ✓ If a catastrophic event should occur and someone knowledgeable were to review our decision-making process, would they agree we exercised due diligence?
- ✓ How can I more deeply ingrain awareness and consideration of risk into our organizational culture?

Now that we've begun to dig into where your organization's exposures to loss lie, let's focus on a few of the insurance-related mechanisms for handling risk.

HOW TO RESEARCH AND VET INSURANCE PARTNERS

> The average cost to defend an organization and its executives, employees and volunteers in a D&O claim is between $35,000 and $100,000. The same survey reported that typical indemnity payments from an adverse judgment average $457,000.

Note that depending on the circumstances, defense costs and ultimate judgments could be much higher.

If you've worked internally or with an experienced insurance expert to decide how to handle your organization's major risks, you're likely to have determined which insurance is a necessity for your nonprofit. Below are some organizing principles and guidelines for interacting with the insurance industry. Use these to help guide you in finding the best partner and product for your organization's needs and budget.

Carefully review how you define "best value" in your major business relationships and purchases. In selecting an agency or broker, considerations might include:

- **Analytical skills and attention to detail.** Are they likely to help you "catch" the important risks and exposures, and provide knowledge of the current environment you operate in? Are you confident they can advise you on the insurance implications of proposed new contracts or business agreements?
- **Familiarity with your industry.** How many nonprofit and healthcare organizations do they work with? What is the extent of their specific industry experience?
- **Interest level in your operations and mission.** In initial interviews, do potential partners listen closely, provide useful feedback and exhibit excitement about helping you carry out the mission and vision of your nonprofit?
- **Knowledge of, and access to, the insurance marketplace** for organizations like yours.
- **Response time and communication skills.** During initial discussions, does it appear that they have a corporate culture of responding very quickly? Are those responses thorough and articulated well?

Tip: When vetting potential insurance vendors, consider the following questions:

- ✓ How familiar are you with organizations like ours?
- ✓ How many similar organizations are you working with?
- ✓ How are you staffed to support and service our needs?
- ✓ Do you have one-on-one consultation?
- ✓ How often is your staff available to meet our needs?

In addition, consider the following ideas to weigh when you work on purchasing various lines of insurance:

- **General Liability:** This coverage can also be referred to as commercial general liability (CGL) and can cover areas, such as visitors, customers, suppliers, or associates. A CGL policy also will provide some "personal injury" liability protection, for claims involving allegations of libel, slander, and invasion of privacy.

- **Automobile Insurance:** Many of the largest losses suffered by nonprofits involve the operation of automobiles, so having a properly-designed automobile liability program is critical.
- **Executive Liability (Directors & Officers, Employment Practices, Fiduciary):** EPLI can protect your organization, the board of directors, and officers in the event of an administrative action or a lawsuit alleging wrongful termination, sexual harassment, discrimination and unfair hiring/firing practices. These are by far the most common type of executive liability lawsuits against nonprofits.
- **Data Breach, HIPAA & Cyber Liability Insurance:** Nonprofits (and especially those in health-related fields) are a preferred target for the "bad guys", and attacks are large and growing. There are no "standard" policies in this area, so be cautious when making comparisons and work with knowledgeable advisors to get the best protection at the right price.

- **Workers' Compensation:** Worker's compensation provides protection for your employees should they experience job-related illnesses or injuries. The policy itself insures the employer's statutory obligations for workers' compensation in the jurisdictions where you operate.
- **Liability Insurance Program Architecture:** For organizations that require very high liability program limits, a "layered" approach can be most effective. Be sure that every legal entity you are responsible for is properly named on the appropriate insurance policies.
- **Social Services Professional Liability:** Many nonprofits provide clients with professional services, such as counseling, social work, referrals, occupational therapy, education and training, program design and client needs assessments. This will not, however, guarantee protection against claims alleging medical malpractice.
- **Medical Malpractice Liability:** If an organization employs or contracts medical professionals (including physicians, nurses, dentists, laboratories, etc.), it can be liable for their misdeeds.

"Today, the biggest omission is in overlooking Data Breach and Cyber Liability exposures."

– Ruth DeGroot, INGUARD Account Executive

- **Sexual or Physical Abuse and Molestation Liability**: If your employees or contractors interact directly with clients, there is always the possibility that physical or sexual misconduct can occur (or be alleged to have occurred). General liability and various forms of professional liability typically will not provide protection against such claims, which involve the alleged commission of intentional acts.
- **Crime Insurance:** If your employees interact with clients at their homes or work with clients' financial affairs, consider obtaining "third-party fidelity" coverage. Other crime coverages typically bundled include money and securities (theft), money order and counterfeit currency fraud, electronic funds transfer fraud (or a broader computer crime endorsement), and credit card fraud.
- **Property Insurance:** If your organization has significant assets in real estate, business or personal property, you should find an insurance advisor in whom you have a high level of confidence to provide and maintain the property insurance program. In addition to protecting your property against "special perils" (including theft), consider your exposures to the perils of earthquake, flood and mechanical breakdown.

TIPS TO GET BUY-IN FROM KEY STAKEHOLDERS

Now that you have more knowledge on the different types of coverages you can consider for your nonprofit, let's take a look at how you can gain buy-in from your key stakeholders.

After you assess the organization's risks and brush up on potential coverages, it's almost time to sit down with your insurance advisor. Before you can do this though, you must **gain buy-in from your key stakeholders** to get them on board with the necessary coverage you'll need.

Follow this checklist when pulling together main points to bring to your stakeholders:

- **Why** you recommend a review of the organization's insurance and risk management program.
- Have **budget** numbers in mind, but consider both before-loss (premium) costs and after-loss (uninsured) costs.
- **Evaluate** your current business partners and providers. Are you getting their full attention? Are they adequately responsive? Or have they gotten slightly off-task?
- Look for **consensus** on a timeline to review the overall risk management program, evaluate successes and identify areas for improvement.
- Work toward developing a consensus on the organization's **"appetite for risk"** so that uninsured losses are not a surprise to anyone.

Emphasize to your key stakeholders that your organization should always work to focus on safety and loss prevention. Even insured losses take up a lot of an organization's resources and perhaps reputation, before they are resolved.

Need help preparing for an internal discussion?

Contact INGUARD for a free consultation to prep you for gaining internal buy-in.

SCHEDULE CONSULTATION

HOW TO PREPARE FOR YOUR INSURANCE CONSULTATION

> "Do some research to assure you are focusing your efforts in talking only to organizations that have a substantial practice handling insurance for nonprofits. Have a brief outline handy that lists the broker(s) involved, insurance policies in force (including company names, anniversary dates and limits), organization plans for the next 2-3 years, and any questions or concerns that are 'front burner issues."
>
> *– Larry McSpadden, INGUARD Executive Vice President*

Coupling your knowledge with our expertise will help you create the best possible protection plan. Your trusted insurance partner will ensure your nonprofit has the right amount of insurance coverage that dovetails with the rest of your overall plan for managing risk.

Your initial consultation with your insurance agent/broker is a vital piece to the insurance process, and requires strategic preparation and planning.

Prior to your meeting, ask yourself the following questions:

- What are my organization's most valuable assets?
- What percentage of my organization are we covering against liabilities?
- What risks are unique to my organization?
- How do we currently protect our employees, volunteers and boards, if at all?
- How big (or small) is my organization?
- What types of services does my nonprofit offer?
- How much funding does my organization have coming and going?

Asking yourself these questions will help you determine what you should be asking your insurance provider during your consultation. A few additional questions to consider discussing with your insurance professional include:

- How much coverage will my organization need?
- How often should the organization assess its liabilities?
- Can I create a custom package that encompasses all coverages I need?
- What payment options are available?
- What do you think I should be looking for in today's insurance market?
- Is any of your staff paid on commission or incented by revenues earned from our account?
- How often will my account manager be available for consultation should I have questions or need to make policy adjustments?
- What are my policy limits?
- How would I go about submitting a claim?
- Are there any coverages I am overlooking that may beneficial to my organization?
- How can I properly ensure I keep my grants and funding?
- Are you able to discuss alternatives to traditional insurance with us if we're interested?
- Are you willing to work on a fee-only basis?

Take the time to provide proper preparation prior to your consultation. This will help ensure all your bases are covered and no risks or vulnerabilities are left unaddressed.

CONCLUSION

As you have learned in this guide, before nonprofits can begin to develop their very own custom insurance and risk management plan, they must truly understand the ins and outs of their organization.

By doing so, they will be able to determine what their most critical activities are and how much coverage is needed. This information coupled with your insurance provider's expertise, will help your nonprofit continue to live out its mission and serve those in your community and beyond.

With the help of our guide, you can develop a step-by-step process to effectively:

- Understand your critical role in selecting proper coverage.
- Prioritize risks associated with operating your nonprofit.
- Conduct thorough research to vet various insurance partners.
- Gain support from your team and stakeholders.
- Properly prepare for your insurance consultation.

We encourage you to take this critical information and apply it to your nonprofit's process of assessing coverage and risk management needs. These guidelines will help you and others involved at your nonprofit to continue to fuel your mission, values, beliefs and mission.

Contact **INGUARD** today to schedule a consultation with a nonprofit insurance and risk specialist. **Call (866) 563-8821**

VISIT US ONLINE

ABOUT THE AUTHORS

Larry McSpadden
Executive Vice President at INGUARD, has four decades of experience in the insurance industry and nonprofit sector. He specializes in a wide variety of areas specific to nonprofit work, including: property-casualty insurance for non-profit organizations, social services agencies, educational institutions and healthcare facilities. In addition, he has expertise in alternatives to traditional insurance, including insurance captives and self-insurance programs, executive liability insurance, employment practices liability insurance, directors and officers (D&O) liability insurance, professional liability insurance, workers compensation insurance, and structured and layered property insurance programs.

McSpadden is passionate about insurance and the opportunity it offers him to provide clients with assistance they need to live out a nonprofit's mission in servicing others.

McSpadden produces results conducting insurance program reviews, developing risk management policies and audits. With access to extensive resources and contacts across the country, he can identify and employ top-of-the-line expertise and procedures to help his clients meet their goals.

Ruth DeGroot
Account Executive at INGUARD, has nearly 30 years of experience in the insurance industry and nonprofit sector. At INGUARD, she specializes in property/casualty, risk management and insurance consulting for nonprofits and social service agencies, educational institutions and healthcare organizations, including exposure analysis and guidance in the development and implementation of customized risk management programs to maximize clients' financial results.

Prior to her work at INGUARD, Ruth spent nearly two decades underwriting coverage programs for 501c3 nonprofit, religious and social services accounts with a carrier that specialized in the nonprofit sector. Ruth enjoys working with nonprofits and believes that by helping clients identify exposures and uncovering ways to minimize their risk, she can enable them to put funds to use by investing in essential programs versus paying premiums to an insurer. In turn, this allows nonprofits to continue their mission to improve the lives of their clients and future generations.

About INGUARD

INGUARD is an insurance and risk management firm headquartered in Wabash, Indiana, providing holistic insurance and risk management consulting services to individuals, families and businesses. INGUARD specializes in niche markets and portfolios with complex needs. INGUARD provides personalized financial and insurance consulting services to illuminate areas of risk. Learn more about INGUARD at www.INGUARD.com.