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How Insurance for Nonprofits Has Changed for the Better

By Andrea Wells

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When Pamela Davis started in the insurance industry 26 years ago, there were few insurance markets willing to take on the unique risks of nonprofit organizations. Back then, says Davis, who is now president and CEO of the Nonprofits Insurance Alliance Group, nonprofits were seen as substandard risks.

But that was not because nonprofits were poor risks but because they were misunderstood and specialized risks, she maintains. “The premiums were far higher than they needed to be 25 years ago,” she said.

Insurance companies were refusing to offer affordable liability insurance to nonprofits, and as a result the liability insurance crisis of the mid-1980s ensued. That’s when she founded the Nonprofits Insurance Alliance Group while studying as a graduate student at the Goldman School of Public Policy, UC Berkeley.

Davis had no insurance experience at all. She worked in public policy for nonprofits and owned a small restaurant prior to launching the Nonprofits Insurance Alliance Group, which is now comprised of four distinct 501(c)(3) nonprofit organizations – the Nonprofits Insurance Alliance of California (NIAC); the Alliance of Nonprofits for Insurance, Risk Retention Group (ANI); the National Alliance of Nonprofits for Insurance (NANI); and the Alliance Member Services (AMS).

“During the hard market, nonprofits were unable to get insurance from any source,” Davis said. “It was not available for many organizations yet these organizations had to show proof of insurance to get government funding for providing essential services.”

From a public policy perspective that was a concern. If nonprofits couldn’t show proof of insurance, they couldn’t provide those needed services, she said.

“It was extremely difficult for nonprofits to get good coverage for their specialty lines, like sexual abuse and social service professional; difficult, if not impossible,” Davis said. “It was a real problem in California.”

Part of the problem back then was that the insurance market viewed nonprofits as part of the larger business community, not as a “special sector with special risks,” Davis said.

Things have changed for the better. Insurers have a different view of nonprofits today. More of them now see nonprofits as a special sector with special risks.

This sector represents more than 1.5 million organizations and accounts for almost 10 percent of all salaries and wages paid in the United States. And it's growing.

"Today there's more acknowledgement (in the market) that the one-size-fits-all for commercial business insurance is not well suited for this sector," Davis said. "I think 25 years ago we were trying to fit nonprofits into a policy that didn't describe its exposures."

For example, one of the unique exposures facing the nonprofit sector is how much they depend on volunteers to get work done.

"There were policies related to employee theft of money but in many cases those policies didn't recognize that volunteers could also be involved in theft," Davis recalls.

Volunteers might be injured during the course of their work for a nonprofit organization. Employees were addressed in coverage but volunteers were often ignored, according to Davis.

More than two decades later the nonprofit insurance world looks much different.

"We have seen some (more challenging insurance) cycles since then but nothing as dramatic as when we began 26 years ago," Davis said. "Part of that is that we now have capacity dedicated specifically to the sector."

Coverage

Gregory Chapman agrees the insurance landscape has changed for the better for nonprofits.

"There's more markets, just more competition," said Chapman, area president of Gallagher Chapman, a division of Arthur J. Gallagher & Co., based in Glendale, Calif.

In the package market – general liability, property, auto and professional – he said 10 years ago there were only about three or four markets that would consider nonprofits, whereas today there are eight markets so the competition has doubled.

For package business, Chapman says his division is seeing insurers looking for rate increases in the "single digits" on renewals. But with today's heightened competition, insurers are often "forced to be flat or down slightly" on renewals.

"There are more options than ever before and prices are stable," he said.

Chapman says he even sees some newer markets offering discount pricing at 10 percent off but he cautions that oftentimes those markets have inferior coverage forms.

Unique Populations

Another unique exposure in the nonprofit space has to do with the reality that many of the organizations are dealing with individuals in need of help, whether they are children or elderly or people with disabilities.

Thus, according to Chapman, the standard ISO forms don't always work in the nonprofit space. "You need to have sexual abuse coverage and coverage for the entity ... standard policies don't cover that," he said.

Chapman advises clients considering newer markets to do a complete analysis of coverage forms to see the differences. "There could be some people that are getting tricked if they are dealing with a broker that doesn't specialize in the space," he said.

The workers' compensation market for nonprofits is also heavily competitive for good accounts. Today there are twice as many carriers for nonprofits than there were 10 years ago.

Pickier Underwriters

While it is still competitive, Chapman says underwriters are becoming pickier.

"Before they would say, 'we will take anyone in this class' but now they are saying they only want the best," he said.

The "best of the best" continue to see rate decreases on workers' comp renewals, but the average to the highest risk clients are seeing rate increases. "On average the comp market is just a couple percentage points up but we are seeing some clients getting hammered." For example, nonprofits with an alcohol rehabilitation code, or children's residential code – more traditional higher risk codes – are going up double digits, Chapman said.

D&O Is Tough

While the situation has markedly improved, not all markets are a piece of cake for nonprofits. The directors and officers (D&O) segment is a tough one for nonprofits, according to Chapman said. "That's the hot button area right now," he said.

Unlike in the traditional D&O space, nonprofit D&O automatically bundles employment practices liability insurance (EPLI) into the product. Unfortunately, EPLI, like in many other industries, is generating a lot of claims activity, especially in the social services sector, Chapman noted.

"If you look at the claims activity, probably 1 percent of the claims activity is a true D&O claim. But the other 99 percent are EPLI related – wrongful termination, failure to promote, hostile work environment," he said.

Chapman said the industry is down to only a handful of markets that will even consider D&O for nonprofits and the required deductibles for coverage are skyrocketing. "Deductibles are going from nothing to up to \$100,000; and the premiums are doubling. It's a tight, tight market for D&O," he said.

Overall, however, there is not much else to complain about in the nonprofit P/C world.

"It's a softening and stable market. A good space overall," Chapman said.

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