

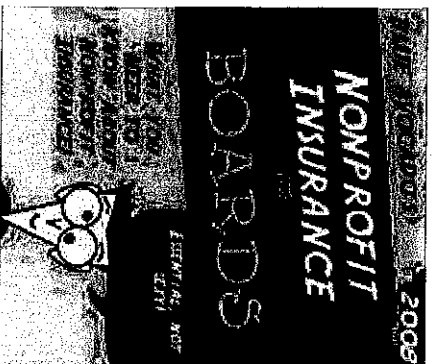
Published on *Blue Avocado* (<http://www.blueavocado.org>)

[Home](#) > [Content](#) > A Board Member's Guide to Nonprofit Insurance

A Board Member's Guide to Nonprofit Insurance

A Board Member's Guide to Nonprofit Insurance

[Board Cafe](#) ^[1] • By Pamela Davis • October 1, 2008 • [Email](#) ^[2] [Print](#) ^[3]



Many board members don't think about the organization's insurance until something adverse happens. As one *Blue Avocado* reader commented: "Insurance isn't sexy, but it's as essential as a roof over your head." In these tight times, it's tempting to make insurance a low priority, but this strategy can be penny wise and pound foolish. *Blue Avocado* asked Pamela Davis, president and CEO of the [Nonprofits Insurance Alliance Group](#) ^[4] (and a *Blue Avocado* Steering Committee member) to give us the low-down on liability.

Q: Pamela, what are the most common insurance claims against nonprofits? How much do they end up costing?

Pamela: Almost all of the claims -- 90 percent-- reported by nonprofit organizations are accidents and injuries related to automobiles or slips, trips and falls at nonprofit locations and special events.

Interestingly, though, these 90 percent of incidents actually result in only 65 percent of dollars paid out in claims because while auto claims and slip-and-falls tend to be fairly common, they are usually not large claims involving prolonged litigation. The other 10 percent of claims result from allegations of improper employment practices (such as [wrongful termination](#) ^[5]), professional errors and omissions, and sexual abuse. While less frequent, these tend to be more difficult and expensive claims to resolve and account for 35 percent of claims dollars paid.

Q: So given that, what types of insurance do we need?

Pamela: There are just a couple of types that every organization needs, and other types that depend on the kind of work you do. All organizations should purchase general liability, typically thought of as "slip and fall" insurance, which comes into play when someone is hurt or their property is damaged in your office, theatre, clinic or other area. Even organizations that don't

have offices are subject to claims for damages such as a slip and fall at a program, or damage to an antique rug at a home where a fundraiser was held.

You should also purchase "non-owned/hired" auto insurance, in case an employee or volunteer is involved in an auto accident and their personal insurance is inadequate. Organizations that have any employees, even just one, need to be fully covered with directors and officers liability insurance (see below).

Other types to consider include:

- Property insurance for damage to property (including computer and other records) owned or leased by the nonprofit
- Fidelity insurance for possible embezzlement
- Social services professional coverage for errors and omissions that could arise in the course of carrying out the missions, providing counseling, advice in support groups, and so forth
- Accident insurance in case a volunteer, program participant, or gallery patron is injured on the premises
- Improper sexual conduct insurance, particularly if the organization works with vulnerable clients.

If you want to purchase limits of more than \$1 million in coverage, consider an umbrella policy that would provide extra limits over many different coverages at the same time. The above list is not exhaustive of insurances purchased by nonprofits, but it does represent the most common types.

Q: One thing that confuses a lot of us is how much insurance to get. Some people say \$1 million, some say \$5 million, some say we don't need most of it. How much insurance does a nonprofit really need?

Pamela: I wish there were an easy answer to this question. If an organization could tell me what accidents or injuries will occur in their future, I could say how much insurance that organization should buy. For most nonprofits, the amount of insurance they buy relates to their specific situation, their insurance broker's assessment of their risk and the risk tolerance of their board of directors.

In practice, the majority of community-based nonprofits purchase \$1 million in coverage, and that has been sufficient to cover 99 percent of the claims we have seen in our 20 years.

However, organizations with significant assets should consider purchasing higher limits. For example, an organization with assets of \$500,000 may consider purchasing an umbrella policy with \$1 million or \$2 million in limits to go over their basic \$1 million policy. Those with fleets of vehicles or many-passenger vehicles should definitely consider higher limits. Some organizations are required by a government funder to have higher limits as part of contract requirements. But, absent a contract requirement, there is no rule of thumb for the right amount.

Q: What is Directors and Officers (D&) insurance, and do we need it?

Pamela: With the predominance of wrongful termination lawsuits, if the organization has even one employee, D&O insurance with employment practices coverage is probably essential.

Typically, lawsuits are filed when someone is hurt by some sort of accident and that person believes that someone, or some organization, is responsible for that accident. For example, a person tripped because the stairs were not properly lit or a person was injured in a car accident because someone else ran a red light.

In contrast, a different type of claim is one made not because of the accident itself, but because someone believes that the board took an intentional and improper action. The most common lawsuit of this type would be one alleging that the board of directors allowed an improper termination of an employee. Insurance for these types of claims against nonprofits is typically found in the D&O policy.

In terms of D&O insurance, almost 95 percent of claims against D&O policies are employment-related, including harassment, discrimination, and wrongful termination [9]. According to our data at the Nonprofits Insurance Alliance Group, in any given year approximately one in 25 nonprofits will have a D&O claim against them, nearly all of them employment-related. The average D&O claim will cost \$35,000 to resolve -- a combination of legal defense costs and in a few cases, settlement payments. However, one out of ten claims will cost more than \$100,000 to resolve.

If an organization has no employees, its risk of claims against board members is low, but so is the premium for such coverage. It makes sense to buy it, if for no other reason than to give board members peace of mind.

D&O insurance typically protects individual board members as well as employees, volunteers and the organization itself in the instance of a civil suit. But since each policy is different, sometimes with different features even at the same insurance company, it is important to confirm with your broker that both individuals and the organization are covered, and that coverage for employment practices is included.

Q: How much does D&O insurance typically cost?

Pamela: Organizations with no employees can purchase \$1 million in D&O limits for around \$600 per year. Organizations with employees can expect to pay anywhere from about \$1,200 for those with just a few employees, to around \$4,000 to \$5,000 for 50 employees. The cost of D&O insurance varies widely depending on the insurer, the breadth of coverage provided, prior claims, and the quality of employment practices at your organization. Remember that D&O insurance covers both the legal costs of defending your nonprofit, as well as any settlements that might arise. Remember, too, that D&O cannot cover board members for responsibility for payroll taxes and retirement payments that were withheld from employee paychecks but not

submitted to the proper institutions. (If insurance could cover us for not paying taxes, we might all buy insurance and then not pay taxes!)

Q: I don't understand the difference between a broker and the insurance company. Do we need both?

Pamela: Brokers are professional advisors/consultants who are intermediaries between nonprofits and insurance carriers. This is somewhat similar to how a financial advisor might work with you to help you understand what type of savings strategy or retirement program might be best for you, and who would then purchase the stocks or bonds on your behalf. In most cases, organizations must go through a broker to obtain insurance from an insurance company. [For more on choosing a broker, see [previous Blue Avocado article here](#).^[6]]

Brokers work with nonprofits to determine:

- Types of coverage needed (do we need social services professional insurance? sexual abuse coverage?)
- Coverage limits (should our vehicle liability be at \$1 million? \$3 million?)
- Services needed (assistance with personnel policies? training for volunteer drivers?)

Based on these guidelines, the broker approaches various insurance companies for price quotes, from the all-purpose firms such as Aetna or Hartford, to insurance companies that specialize in nonprofits such as NIAC and ANI-RRG.A The insurance companies determine the premium (cost) at which they will offer a certain policy, and if selected by the nonprofit, then issue the insurance policy and become responsible for adjusting and paying covered claims. In addition to the above criteria, nonprofits will want to know about an insurance company's track record in prompt, hassle-free, and fair payment of claims.

Insurance companies pay commissions to brokers. This can lead to a situation where brokers might be tempted to recommend an insurance company or a type of insurance that gives them a larger commission rather than the company that is best for the nonprofit. For instance, some companies give brokers extra commissions at the end of the year if they establish and then meet a commitment to a level of premiums sold from that insurance company.

Q: What simple steps can the board take on risk management and insurance oversight?

Pamela: Every member of a board of directors needs to realize that there are risks to operating any nonprofit, and that through appropriate policies and procedures and staff training, these risks can be reduced. Insurance is there to cover those things that happen when the risk mitigation strategies are not completely successful. I suggest some [board steps for insurance oversight](#)^[7]. These steps include close monitoring of any accidents and suits; keeping up with organizational risks and regular review of your group's relationship with its insurance broker.

Q: Just one more question: What's different, if anything, about insurance for nonprofits compared to for-profits?

Pamela: It pays to work with insurance brokers and insurance carriers who understand how to make sure that the insurance policies purchased are sufficient to cover a nonprofit's risk exposure, which can be more complex than a for-profit's risks.

It is not necessarily being nonprofit that makes our sector's insurance needs so different, but rather the fact that we work so intensively with clients and provide services to some of the most vulnerable and the most troubled in our communities. A nonprofit daycare, for example, may not have risk exposures all that different from a for-profit daycare, but a nonprofit residential program for troubled teens certainly is a much different risk than an assisted living center for seniors. Nevertheless, the standard insurance industry rates classify both of these living arrangements simply as residential risks.

Nonprofits -- and but not for-profits -- need to have insurance for injury caused by and to volunteers. And because nonprofits often serve as the hubs of their communities, they frequently conduct many different programs while for-profits tend to have more of a single focus. For example, a nonprofit may run a school, a daycare, a senior residential center, and a food bank all under the umbrella of one organization. A for-profit firm would typically operate just one of those.

Key differences also include medical malpractice risk and social service professional risks such as counseling and providing other professional and quasi-professional services to vulnerable populations. And most nonprofits who work with children, the developmentally disabled, and fragile seniors, need to have protection for allegations of sexual or other abuse.

Pamela Davis is president and CEO of two nonprofit insurance companies: Nonprofits' Insurance Alliance of California (NIAC) [9] and Alliance for Nonprofit Insurance, Risk Retention Group (ANI-RRG) [9]. She is passionate about nonprofit insurance "because I'm passionate about the work that nonprofits do."

See also in Blue Avocado:



Three Steps to More Effective Insurance Oversight [7]

What Should Boards Know About Insurance Brokers [10]?

- The Nonprofit Board's Role in HR [10]
- Board Insurance: Do You Really Need It? [11]

We are pleased that *A Board Member's Guide to Nonprofit Insurance* is being simultaneously published by Charity Channel [12], an online resource for nonprofits.

[Share / Save](#) [13] > [Read more](#) [14]

Source URL (retrieved on 03/19/2015 - 13:10): <http://www.blueavocado.org/node/237>

Links:

- [1] <http://www.blueavocado.org/category/topic/board-cafe>
- [2] <http://www.blueavocado.org/printmail/237>
- [3] <http://www.blueavocado.org/print/237>
- [4] <http://www.insurancefor nonprofits.org>
- [5] http://en.wikipedia.org/wiki/Wrongful_termination
- [6] <http://www.blueavocado.org/content/what-should-boards-know-about-insurance-brokers>
- [7] <http://www.blueavocado.org/content/three-steps-effective-board-oversight-insurance>
- [8] <http://www.niac.org>
- [9] <http://www.ani-rrg.org>
- [10] <http://www.blueavocado.org/content/nonprofit-boards-role-hr>
- [11] <http://www.blueavocado.org/content/board-insurance-do-you-really-need-it>
- [12] <http://charitychannel.com/>
- [13] http://www.addtoany.com/share_save?linkurl=http%3A%2F%2Fwww.blueavocado.org%2Fcontent%2Fboard-members-guide-nonprofit-insurance&linkname=A%20Board%20Member%26%23039%3Bs%20Guide%20to%20Nonprofit%20Insurance%20%7C%20Blue%20Avocado
- [14] <http://www.blueavocado.org/node/237>