



Nonprofit Risk Management: Insurance and Beyond

by Melanie L. Herman

MANY ORGANIZATIONS GIVE THE PROCESS of assessing risk and creating a plan to manage that risk short shrift. When nonprofit leaders buy insurance coverage, they may believe that doing so is equivalent to managing organizational risk. But buying insurance just finances risk exposure; it doesn't manage risk.

MELANIE L. HERMAN is executive director of the Nonprofit Risk Management Center, a nonprofit resource center based in Washington, D.C., that helps nonprofits address risk management concerns. She welcomes feedback about this article and can be reached at Melanie@nonprofitrisk.org.

While executive directors live and breathe their organizational mission, they are understandably less enthusiastic about tending to the business transactions that could introduce risk exposure, such as purchasing property and liability insurance or leasing office equipment. Indeed, pondering the numerous what-ifs and combing the lengthy documents associated with an organization's risk management activities can be mind-numbing. But a commitment to understanding and protecting an organization from risk can be the difference between surviving the incident and being destroyed by it.

That said, nonprofits also need to educate themselves about purchasing insurance and

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look beyond the details of insurance policies to understand the risks that jeopardize their survival (see “More Than Monitors: the Board’s Role in Sustainability” on page 36 for examples of such behavior). Insurance policies may provide the funds to compensate victims, replace damaged or destroyed property, and cover the cost of a legal defense. In turn, a broader risk management strategy enables a nonprofit to sidestep avoidable accidents, respond with compassion when a consumer or volunteer suffers an injury, and cope effectively with the intense media scrutiny that may follow a scandal. The risk of harm to reputation exists not only for organizations that are poorly run but also for those that are well run and pushing the boundaries in their work.

That puddle of water on the floor at headquarters is an accident waiting to happen. The practice of allowing minimally screened volunteers one-on-one access to vulnerable clients creates a gaping hole in your safety program. Nuts-and-bolts issues—such as proper training of staff and implementing accountable processes—are primary concerns for most managers, but equally important are some foundational interests, such as how an organization represents constituency interests and whether it brings intellectual rigor to its programs. While on the surface these issues don’t seem related to risk, they contribute to the reputation of the organization and program quality, which in turn can help a nonprofit weather the storm of damaging events.

Risk Management and Nonprofit Claims

At the Nonprofit Risk Management Center, we contend that risk management is a discipline for dealing with uncertainty. The discipline of risk management encompasses several perspectives and activities, including planning for contingen-

cies; minimizing carelessness, accidents, and mishaps; and examining past losses to avoid similar situations in the future.

Contrary to common perception, the kinds of claims filed against nonprofits often involve ordinary events and circumstances such as these:

- an elderly client breaks a hip after tripping on loose carpet in a nonprofit’s adult day-care lounge;
- a parent threatens legal action when his teenage son is dismissed for bringing cigarettes to an after-school recreation program;
- a member of a volunteer-run support group threatens legal action after being ousted from the group for posting unflattering comments about members on a personal blog;
- the owner of a station wagon brings a claim against a nonprofit after the organization’s van backs into her car, causing \$2,000 in property damage; and
- a former office manager of a nonprofit claims that her dismissal violated state and federal civil rights laws.

Thankfully, catastrophic claims—those alleging serious harm and seeking millions in damages—are rare in the nonprofit sector, and most nonprofits will never face them. Large and complex nonprofits are far more likely than their smaller counterparts to confront a claim alleging negligence in the delivery of professional services, a violation of civil-rights laws, or a claimant seeking six-figure damages.

Why Purchase Insurance?

No matter how well they plan for a bright future, all organizations must prepare for situations beyond their control. In these cases, an insurance policy may provide funds to defend a nonprofit and compensate an injured party. In addition to contractual and statutory insurance requirements, nonprofits purchase insurance so that they have a source of funds to compensate those who have been harmed while participating in the nonprofit’s activities and programs, to protect board members and other volunteers from personal liability, and to meet requirements and expectations of funders and other stakeholders. I disagree with the cynics who say that purchasing insurance makes a nonprofit a

target for litigation; an organization's exposure to risk doesn't increase just because it pays insurance premiums. But an organization's investment in insurance does improve its ability to recover from a loss.

Getting the Most from Your Premium

As we've discussed, understanding potential harm to a nonprofit means weighing possible risks in the context of an organization's mission and environment. Purchasing insurance is no different. In order to get insurance coverage that makes sense for your nonprofit, you need to weigh various considerations, including the agent and company in charge of your policy, your organization's sector and needs, and the conditions of the market. I have outlined some of the most important purchasing dos and don'ts below.

Insurance Buying Dos

- *Find an agent or broker who specializes in nonprofits and whose guidance you trust.* Few nonprofit boards would accept unresponsive or unprofessional service from an outside attorney or auditor, yet too many leaders accept poor service from insurance advisers. There are top-quality local, regional, and national firms. Don't settle for less-than-professional service.

- *Take the time to understand what you're buying.* Many nonprofits purchase insurance with little understanding of what they have bought. Many executive directors readily admit that they have limited understanding of key features of their organization's coverage. Seek help from your agent, broker, or insurance consultant, and insist that answers to your coverage questions be submitted in writing.

- *Ask your agent for a schedule of insurance.* Your schedule of insurance should itemize your policies, limits of insurance, premiums, special policy exclusions, and policy features. The schedule should also list recommended coverage not in force.

- *Ask about a better deal.* Unless you inquire about your premium, the cost of your insurance renewal is *not* likely to go down. Before submitting your renewal applications, ask your agent or broker about the average renewal premiums of organizations with operations similar to yours.

You should also ask your agent about how you can obtain a reduction. In many cases, the best option is to shop around. If your current agent or broker claims that only one insurer will write your account, it's time to find a new adviser—someone with better contacts in the industry. Also, keep in mind that you are looking for the best value, not the lowest premium. Changing carriers to save a few dollars may be an unwise move.

- *Stay up to date on market conditions ("hard" versus "soft" insurance markets).* Currently nonprofit insurance buyers are facing soft market conditions; that is renewal prices are generally steady or decreasing and companies that specialize in nonprofits will compete to write your account. Contact your agent a couple months ahead of your renewal date to find out what your agent expects regarding renewal premiums and whether he plans to approach more than one market or company specializing in nonprofits.

Insurance Buying Don'ts

- *Don't assume that your carrier is committed for the duration.* Unfortunately, common causes of a walkaway carrier (i.e., a nonrenewal) include filing a claim or reporting the possibility of a claim. In other instances, a carrier may lose interest in a segment of the nonprofit sector (such as foster care, for example) after facing a large claim. Even though your nonprofit wasn't the agency filing the claim, you may suffer the consequences.

- *Don't assume that your premium will go down over time just because you're claim-free.* Price reductions are often reserved for those who ask or threaten to shop elsewhere.

- *Don't be too trusting.* Nonprofit leaders who are truly committed to protecting an organization's assets and reputation take time to understand their insurance coverage. Fulfilling your duty to the organization you serve requires no less. The statement "Don't worry, you're covered" is never true 100 percent of the time. Don't wait until you have filed a claim to learn this.

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