



REST INSURED: THE ROLE OF INSURANCE IN RISK MANAGEMENT

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If you're not paying attention to insurance, you could be putting your organization's mission at risk.

Let's face it: The world of commercial insurance is of little interest to the vast majority of nonprofit board members. A desire to advance the nonprofit's mission — not a concern about the details of coverage and policy wording — draws talented leaders to board service. Yet a board that pays scant attention to its organization's insurance needs and arrangements unwittingly puts the mission of the organization at risk. To avoid that, board members should have a basic understanding of the role of insurance in their organization's overall risk management program and their leadership responsibilities in this area.

Understand the difference between insurance and risk management.

Many nonprofit leaders believe that they are managing risk when they buy insurance coverage for their organizations. Unfortunately, having an insurance policy in place— even one that is written with the exposures of a nonprofit in mind—does nothing to alter a nonprofit's vulnerability to harm. The puddle of water on the slick floor in your office remains an accident waiting to happen. The practice of allowing minimally screened volunteers one-on-one access to vulnerable clients remains a gaping hole in your safety program. Insurance is a form of risk-financing. It ensures that funds will be available to compensate victims of the organization's negligent or accidental conduct.

Recognize the reasons why your organization needs insurance.

Sometimes contracts (e.g., government contracts and leases) and regulations (e.g., workers' compensation requirements) impose insurance requirements on nonprofits.

Nonprofits also buy coverage to

- ensure that a source of recovery is available to pay for harm caused by the nonprofit's operations
- protect board members, employees, and volunteers from personal liability
- fund corporate bylaw indemnification agreements
- attract new board members and retain existing members who would otherwise be unwilling to serve
- comply with board members' fiduciary duty to preserve the organization's assets

Select an insurance agent or broker with nonprofit expertise. Few nonprofit boards would engage the services of an accountant or attorney who knows little about the work of nonprofit organizations, yet many boards retain the services of insurance advisors who do not have the expertise the organization requires. There are dozens of highly competent agents and brokers who specialize in the nonprofit sector. In the mix of the best advisors are local, regional, and national firms with expertise in subsets of the sector (e.g., churches, athletic groups, or social services agencies). Don't settle for less than professional service, and keep in mind that "specialization, specialization, specialization" trumps "location, location, location" when it comes to selecting an insurance advisor.

Also view your insurance advisor as a partner in mission fulfillment. He or she should be an invaluable resource, providing sage counsel to guide your risk financing decisions. Remember, however, that the ultimate responsibility for wise decision making rests with the leaders of the organization.

Take the time needed to understand what you're buying.

Insurance is something many nonprofit leaders purchase without understanding what they are buying. Few of us would purchase a car without knowing how it operates; yet many leaders readily admit to a limited understanding of key features of their coverage, including claims filing instructions, policy conditions, and the meaning of the policy endorsements and exclusions.

Insist that answers to your coverage questions be submitted in writing, and require that your agent provide an annual Schedule of Insurance—an itemized listing of your policies, limits, deductibles, expiration dates, key policy features and exclusions, annual premium, and carrier. The statement, "Don't worry, you're covered," can't be true 100 percent of the time. There are risks that are considered uninsurable, for example.

Also ask about a better deal. The cost of your insurance renewal is not likely to go down unless you inquire about that possibility. Ask what steps, if any, you can take to obtain a reduction. In many cases, the best option is to shop around for coverage. If your current agent or broker claims that only one insurer will write your account, it's time to find a new advisor — someone with better contacts. While there are

categories of nonprofits that have experienced greater than average losses and are therefore viewed as less desirable, the overall sector remains attractive to insurers. It's often a good idea to contact your agent a couple months ahead of renewal to ask what the agent is expecting in regard to renewal premiums. Does the agent expect the current 'soft' insurance market to result in lower premiums this year? Is the agent planning to approach more than one insurer?

Nonprofit leaders that are truly committed to protecting the assets (including reputation) of their organizations take time to understand the coverage they have purchased for their organizations. Fulfilling your duty to the organization you serve requires no less.

Editor's note: BoardSource members are eligible for discounted rates on D&O insurance provided by AON Affinity. [Learn more.](#)

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Why is Directors' and Officers' insurance important?

Even the most proactive risk management policies and procedures cannot ensure that a board member will not be implicated in a lawsuit while acting on behalf of the organization. Indemnification clauses in the organization's bylaws and state and federal laws may provide some protection for some causes of action, but purchasing Directors' and Officers' (D&O) liability insurance is highly recommended.

Directors' and Officers' insurance safeguards board members and the organization against causes of action not covered by a general liability policy. An important benefit of D&O insurance is broad coverage for employment-related claims, such as wrongful termination of employees and discrimination.

Typically, a D&O insurance policy will provide both defense and indemnification for the individual directors and officers and the organization. Since each insurance company offers a different policy form with distinctions that could dramatically alter coverage, it is important to check the specific language of your policy.