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# Congress Must Help In Community Nonprofit Insurance Crisis

By **Eric Beck, John DeFazio, Kurt de Grosz, Jim Johnson, Richard Knudson Jr. and Peter Persuitti**
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Eric Beck

Even before the outbreak of COVID-19, the rising cost of property and casualty insurance in the U.S. had the potential for far-reaching economic consequences. Now, as we cope with a national health emergency, one sector on the frontlines is facing severe impact: 501(c)(3) nonprofits — especially small to midsize organizations.

Legislation being considered in Congress could fix the problem. It's time for opponents to stop standing in the way of important insurance innovation and do the right thing for the organizations that do so much for our communities.

John DeFazio

The Children's Shelter is a well-established 501(c)(3) with a long tradition of caring for foster children as well as children who have experienced abuse. For the past several years, the nonprofit has been growing, so the CEO was prepared to see some increase in her insurance premiums. The quote she received of $750,000, however, a fourfold increase in just one year, was another matter. "My mouth hit the ground," CEO Annette Rodriguez told the Wall Street Journal.[1]

Recent statements by the National Association of Insurance Commissioners before Congress on the availability of insurance for nonprofits[2] do not paint the full picture of what we are seeing. The Children's Shelter is not alone. Nonprofits across the country are facing a very challenging insurance market. The crisis for nonprofits insurance is now.

Kurt de Grosz

There are 1.3 million 501(c)(3) charitable nonprofits according to the National Council of Nonprofits. Of those, 97% have budgets of less than $5 million annually and 88% spend less than $500,000 annually. These nonprofits are community-based and work on issues ranging from essential human services and community improvement to arts and culture. Many are now receiving or will soon receive nonrenewal notices from their insurance companies. Others will be offered renewals with tightened terms and conditions at skyrocketing premiums.

There are many factors contributing to rising premiums. After years of no increases, property and casualty carriers are raising rates and tightening their appetite for businesses they want to insure.

Especially hard-hit are nonprofits who work with animals, children and senior citizens, and disabled individuals. Also impacted are nonprofits with camps, residential facilities such as domestic violence shelters, and addiction treatment programs.


Jim Johnson

Another factor contributing to the insurance crisis is social inflation: high dollar-value jury awards in cases of sexual and physical abuse. Yet another is changes in statutes of limitations with respect to child sex-abuse victims, which creates lookback windows allowing now-adult victims to sue perpetrators and institutions years after the alleged crimes took place. These developments add uncertainty to insurance carrier liability, and the inability of carriers to accommodate for these developments creates a perfect storm for nonprofits.


Richard Knudson Jr.

Our firms help many tens of thousands of nonprofits find insurance that meets their specific operating needs. We represent some of the largest insurance brokerages in the country. Our clients serve the most vulnerable populations in our communities, alleviating dire situations. Property and casualty insurance that is consistently available and affordable is essential for these nonprofits to operate. Animal rescue facilities, foster family agencies, transportation providers of medically fragile people, and emergency housing nonprofits, to name a few, all need adequate and affordable insurance. Insurance is like electricity — even short disruptions in continuous service can cause chaos.


Peter Persuitti

It is not easy to find carriers willing to insure nonprofits. One of us works for a firm that has access to more than 150 insurance carriers, yet only 3% of them offer the specialized coverage nonprofits need. Thankfully, the insurance marketplace has evolved significantly and is no longer a monolithic marketplace made up solely of one type of carrier. The alternative risk transfer market, as differentiated from traditional for-profit commercial insurance companies, is made up of insurers and insurance options that are very good at addressing risks that traditional insurers disfavor. According to AM Best, the leading rating agency for the insurance industry, alternative types of insurance have been outperforming the commercial sector on many important financial measures.[3]

One type of insurance carrier alternative that is vital to nonprofits and other specialized business sectors is a risk retention group. During the insurance crisis decades ago, Congress recognized the need for new methods of insuring risk and enacted the Liability Risk Retention Act of 1986. The LRRA allows the formation of risk retention groups by organizations or individuals engaged in a similar business or activity such as nonprofits, doctors, dentists, acupuncturists, educational institutions, and many other types of organizations. Risk retention groups are a market-driven solutions, enabled by informed legislation, but sustained by fundamental business principles and financial oversight.

According to the Vermont Department of Financial Regulation, a leading regulator of these alternatives, risk retention groups have the same financial requirements as traditional carriers in meeting risk-based capital standards and use the same formula to calculate and report their risk-based capital. Risk retention groups are also required to use the same standard as traditional insurance companies regarding valuing investments, final audit requirements, actuarial opinion requirements, and annual and quarterly financial filings with the NAIC.

Today, nonprofits face an insurance crisis reminiscent of the availability and affordability crisis that occurred in the mid-1980s. To address this, Congress in January held a hearing titled "Examining the Availability of Insurance for Nonprofits." Legislation pending before the House Financial Services Committee, H.R. 4523, Nonprofit Property Protection Act, would allow well-established risk retention groups to provide their members with additional types of insurance that traditional insurance companies are unwilling or unable to provide.

Market-driven innovation is as important today as it was 35 years ago. We applaud the effort of U.S. Reps. Lacy Clay, D-Mo., and Al Green, D-Texas, to champion solutions that will alleviate the insurance crisis for nonprofits and encourage Congress to act before it's too late to protect community-based nonprofits.

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[1] "Insurers Drive Up Prices for U.S. Businesses," February 11, 2020, Wall Street Journal.

[2] Testimony of Director Chlora Lindley-Myers before U.S. House Subcommittee on Housing, Community Development, and Insurance, January 29. 2020, https://content.naic.org/sites/default/files/inline-files/Written%20Testimony%20Director%20Lindley-Myers%201.29.20%20Examining%20Availability%20of%20Insurance%20for%20Nonprofits.pdf

[3] "Rated Captives Build Surplus, Outperform Commercial Sector," AM Best, http://www.ambest.com/video/video.aspx?s=1&rc=captivereport819