



FAQs

# Insurance for Nonprofit Organizations

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## INSURANCE FOR NONPROFIT ORGANIZATIONS

Learning about insurance for nonprofits and finding the right coverages for your operations can be overwhelming. Nonprofits Insurance Alliance (NIA) has created this document to answer your most frequently asked questions about insurance available to nonprofits.

### Questions

#### What is insurance?

### Answers

Insurance is one way to protect your organization from financial loss. Although insurance doesn't remove the risk, insurance limits the financial impact of any insurable risk to the cost of your insurance premium and any deductibles or coinsurance. This is a way of transferring risk away from your organization.

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#### What's risk?

**Risk** is the potential for a loss to take place. Below are examples of insurable losses:

- Injuries to your staff, volunteers, the clients you serve, or to the public
- Damage to your property or the property of others
- Theft/fraud
- Monetary damages that others have caused and for which you may be wholly or partially responsible

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#### What's coverage?

**Coverage** is the extent of risk to which your insurance applies.

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#### Does my organization need insurance?

The need to carry insurance varies widely, and depends on many factors about your business. It is important to work with a qualified insurance broker or agent to review your unique exposures and determine what types of insurance you need to carry, as well as which might be a good idea to carry.

Legal requirements:

- **Workers' comp** is commonly required by law to protect employees from injury, illness, or death while on the job. However, that requirement varies state to state, so you will need to check the laws in your state to see if that applies to your nonprofit.
- **Auto insurance** is also required by law for any owned vehicles, but coverages differ greatly depending on state.
- **ERISA bonds** protect against losses caused by acts of fraud and may be required for organizations with retirement plans.

There are no laws that require nonprofits to carry general liability, property, or directors and officers coverage. However, funders, venues, and contract agreements routinely require insurance as a condition of engaging in an agreement.

It's up to each nonprofit organization to determine what coverage is necessary. An insurance broker can help with this decision.

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**What kinds of things influence nonprofits to purchase insurance?**

### Answers

**Board members.** It's not uncommon for prospective board members to request that a nonprofit is covered by a directors and officers policy.

**Events.** Some venues request that the nonprofit provide a certificate of insurance to use the space for an event.

**Vendors and funders.** Typically, parties drawing a contract with a nonprofit require a minimum of general liability insurance before entering into the agreement.

**Prior experience with claims.** Often, nonprofits think that they won't be sued because of their good work. That is simply not the case. Nonprofit executives who have been the target of a claim or a lawsuit understand the value of having an insurance policy.

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**What is commercial general liability (CGL)?**

CGL protects against general business risks:

- **Bodily injury** applies to injury or damage to others, not to you or your employees. An example of this is if your nonprofit ran a thrift store and mopped-up a spill but neglected to put the mop away, and a shopper fell over the mop and hurt themselves.
- **Property damage** protects a nonprofit against claims from other people for damage that the nonprofit may cause. An example of this is if your nonprofit or your employees were involved in a work-related project and damaged the property of a property owner who sued your organization to recover damages.
- **Personal injury** provides coverage for your nonprofit organization if you or any of your nonprofits' employees make derogatory comments in the course of your business operations about someone who then sues the organization for defamation.

Your organization, your volunteers, your employees and your directors and officers should all be included as insureds under CGL.

CGL insurance does not cover any damage for anything your nonprofit owns, or any injuries to your employees. You should contact your broker to ensure these types of injuries or damages are covered elsewhere.

**TIP:** At NIA, our Enhancement Endorsement to CGL provides additional coverages for nonprofits at no cost, including damage by a client to property you've rented, as well as coverage for property in your care, custody, and control.

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**What is Directors and Officers (D&O) Liability?**

D&O is commonly known as board of directors coverage but it covers much more. D&O protects the organization and its directors and officers, employees, and volunteers for damages and defense costs arising from claims alleging various "wrongful acts."

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#### **What's a "wrongful act"?**

A good example of a "**wrongful act**" is if any of your directors, serving in a volunteer capacity on your board, were sued for improper oversight of business operations or breach of an obligation of the officer or director. For nonprofits, this policy also typically includes coverage for employment practices liability such as allegations of harassment, discrimination, and wrongful termination.

Even when you feel your organization has done nothing wrong, a suit filed against you by a disgruntled former employee can be expensive to defend. An employment practices liability policy as part of your D&O policy should pay for both the defense costs and any indemnity payment relative to these types of allegations. Make sure to ask whether there is a deductible or a self-insured retention (since that's the amount that your organization will be required to contribute). Be sure your broker explains the difference!

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#### **What is improper sexual conduct and physical abuse (ISCPA) coverage?**

ISCPA is also known as sexual/physical abuse/molestation coverage and covers **allegations of sexual or physical abuse**.

#### **Who's covered?**

This policy covers the organization and its directors and officers, employees, and volunteers for allegations of sexual or physical abuse against third parties (for example, children in a school or daycare and vulnerable adults).

It is important coverage for nonprofits if there is any opportunity for staff, management, board members, or volunteers to be in unsupervised contact with clients or members of the public, particularly vulnerable populations such as children, people with disabilities, or the elderly.

This policy should also pay for the cost of defense and any indemnity payment relative to these types of allegations.

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#### **What is social service professional (SSP) coverage?**

SSP is also known as errors & omissions (E&O) or professional liability coverage. It covers **vicarious liability** and **direct liability** where the nonprofit is responsible for damages.

- **Vicarious liability** is liability that a supervisory party, such as an employer, has for the actionable conduct of a subordinate or associate, such as an employee, based on the relationship between the parties.
- **Direct liability** is liability that an individual or entity has because of their own acts or omissions resulting in legal liability.

SSP applies to the organization and the directors and officers, employees and volunteers for damages due to the direct or vicarious liability (negligence and errors and omissions) arising out of the work or service provided by your organization. Under some policies, independent contractors may also be covered.

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For purposes of this coverage, the range of professionals covered can vary, and it is important to disclose to the insurance company what type of professional services you provide and what the credentials are, if any, of professionals providing those services. Depending on the insurer, coverage for professionals such as nurses, daycare providers, counselors, veterinarians, and other certified professionals may be found under a professional liability policy.

#### ***Check with your broker.***

Anyone who is credentialed or licensed and provides professional services for your nonprofit may not be covered under a general liability policy. Be sure to discuss with your broker what and whom your policy covers and if you need SSP insurance.

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### What is business auto coverage?

Also known as commercial auto coverage, this includes coverage for auto liability and/or auto physical damage for autos the organization owns or leases. Commercial auto coverage should cover drivers acting in their capacities as employees or volunteers.

- **Auto liability** covers **bodily injury and property damage to others** caused by autos owned or leased by the nonprofit or used in the business of the nonprofit. Property damage in the Commercial General Liability policy should not be confused with auto physical damage.
- **Auto physical damage** covers **damage to vehicles owned or leased by the nonprofit**. If your employee hits a fire hydrant while driving a company vehicle, the insurance should cover the damage to the fire hydrant, but you will not have coverage for the damage to your owned auto unless you purchase auto physical damage coverage. You should also check to see what the deductible is for this policy.

#### ***Check with your state.***

Depending on your state, you must have coverage for auto liability, no-fault, uninsured, under-insured, and/or auto physical damage coverage. Be sure to check with your broker to see what coverages are appropriate for your organization. Coverages and limit requirements vary from state to state.

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### What is non-owned/hired auto liability?

This is liability insurance in addition to the owner or operator's personal auto policy for bodily injury and property damage caused by a hired vehicle (including rented or borrowed vehicles) or by vehicles owned by others providing services on behalf of the nonprofit (including your employees' or volunteers' vehicles).

This is not protection for the individual driver. It is coverage for the organization should the organization be sued for damage.

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#### What is property coverage?

Property covers **loss of physical property** that your nonprofit owns or leases, including its building and contents. This would also include **Business Income Loss and Extra Expense Coverage** in the event of a covered peril. Typical covered causes of loss are fire and windstorm.

- **Business Income Loss** or business interruption coverage provides coverage for lost income when a business closes due to property damage.
- **Extra Expense Coverage** provides coverage to help your organization stay in business through property repairs or replacement, applying during a temporary close until you resume normal operations.

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#### What is the primary role of an insurance broker?

Brokers, also referred to as independent agents, are licensed, independent insurance professionals.

Insurance for nonprofits is a very specialized niche of the marketplace and brokers working with nonprofits must be able to assist nonprofits in the following:

- Understanding and evaluating these specialty coverages
- Advocating to insurance carriers on your behalf with an understanding of your operations
- Obtaining insurance quotes for appropriate amounts of coverage for your organization

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#### What else can a broker do for my nonprofit organization?

- Assist your organization with loss control and risk management
- Review contracts and advise on insurance needs on a regular basis
- Quickly report claims and potential claims to the appropriate insurance carrier
- Notify insurance carriers of any changes to your operations that would impact the insurance coverage
- Issue certificates of insurance

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#### What are some qualities my broker should have?

- Knowledge about commercial lines insurance (insurance for corporations and nonprofit organizations) and the insurance carriers that offer it
- Experience with the special risks facing nonprofits and the insurance products best suited to finance those risks
- Freedom from conflicts of interest: A broker should not use a history of donations, a promise of donation, or a friendship with a board member or board membership itself as enticement for the organization to hire them as their insurance broker
- Willingness to take the time to learn about your nonprofit's operations and to provide thoughtful advice and counsel about the nonprofit's exposures and insurance needs
- Assertiveness in advocating your interests to insurance companies
- Knowledge about the free risk management services provided by various insurance carriers and willingness and ability to help you get the best use of these services to keep your costs down
- Responsiveness to your requests, calls, emails, and to deadlines
- Transparency about the commission paid to them from each insurance carrier

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**Why do I need to work with through an insurance broker?**

### Answers

Typically, insurance companies offering coverage to nonprofits work through insurance brokers to provide their coverages. Brokers have the insurance expertise to help you find appropriate coverages. Even small nonprofits can have unique and complex operations.

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**How do insurance brokers get paid?**

Most brokers receive a commission from the insurance carrier to service their nonprofit clients' accounts throughout the year.

Insurance carriers pay different amounts of commission and some offer bonuses through incentive programs.

Though not common, in addition to receiving a commission, some brokers charge a fee to service the insurance policy for your nonprofit organization.

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**Can I get a better deal by having two brokers get a quote from the same insurance carrier?**

One broker can provide you with quotes from multiple insurance carriers, but insurance companies typically do not provide quotes to different insurance brokers for the same nonprofit.

Presented with the same information on the application for insurance, the price of insurance should not vary depending on which broker requested the quote.

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**Does it matter where my broker is located?**

For small nonprofits that don't need regular onsite safety and risk management inspections, location doesn't matter as much.

More important than location is a broker who is knowledgeable about nonprofit insurance, has attention to detail, and responds in a timely manner to emails and phone calls.

Small nonprofits are often better served by small or mid-sized brokers. Very large brokers may not be as well-suited to provide the sort of service often required by small nonprofits.

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**What can I do to expedite getting a quote?**

The best thing you can do to assure you get a quote as quickly as possible is to fill out the application that your broker provides as thoroughly and clearly as possible.

Small organizations can expect to receive a quote in two or three days, sometimes sooner.

Larger, more complex organizations should allow at least two weeks to get a quote, although this often can be expedited if the application is complete and the broker makes a special request.

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**What are my payment options?**

Insurance carriers make different payment options available to allow for payment over the course of the annual policy term.

It's always good to ask your broker to find out if the insurance carrier has premium financing options before you consider using a more expensive premium finance company.

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### We hope this Q&A has been helpful to you and your organization.

Nonprofits Insurance Alliance (NIA) is the nation's leading property and casualty insurer exclusively serving nonprofit organizations. The NIA group brand is comprised of three AM Best A VIII (Excellent) rated insurers: Nonprofits Insurance Alliance of California (NIAC), Alliance of Nonprofits for Insurance, RRG (ANI), and National Alliance of Nonprofits for Insurance (NANI). All organizations under the NIA brand are 501(c)(3) nonprofits. Our members enjoy stably-priced insurance, specialized insurance, dividends, and innovative risk management and member services. NIA has one of the best customer retention rates in the industry.

To get a quote for insurance with us, either ask your insurance broker or [visit us online and complete a short form.](#)



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