

How to Build an Insurance Company—or Any Business—with Community at the Center

Written by Lori Widmer // Originally Published on August 28, 2020 on [InsuranceJournal.com](https://www.insurancejournal.com)

It's a common corporate practice to use philanthropic pursuits to improve both their communities and public images. Some organizations donate both funding and manpower through formal philanthropy programs. Others choose to give regularly to selected charities. But for Pamela Davis, that wasn't enough. Davis decided to build an organization with the community at the center.

Davis is founder and CEO of Nonprofits Insurance Alliance (NIA), a social enterprise and insurance carrier that serves the nonprofit sector exclusively. Built on the premise that business can be a force for good, and nonprofits can join together to build mutually beneficial capabilities, NIA was designed to serve the needs of the community from the start.

At the time of NIA's inception in the 1980s, the nonprofit community faced tremendous challenges securing insurance. There was a liability insurance crisis, and nonprofits struggled to find insurance at any price. Insurers, unwilling to take on what they deemed as high-risk nonprofits, levied untenable rates. GL insurance premiums for nonprofits increased 200 percent or more for one out of every four nonprofits in the state of California. Without affordable coverage, many nonprofits could not stay open.

In her master's thesis at the University of California, Berkeley, Davis presented a solution to the nonprofit insurance crisis: a self-funded insurance pool that could offer nonprofits specialized protection. When established insurance experts heard about the idea, most of

them dismissed it immediately, saying that it would put all of the "bad" risks together and that the pool would fail within a year. Her economics professor was equally dismissive of her solution. "He said if nonprofits were insurable, there would be insurance for them," Davis says. "He added that

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market supply would increase to cover the demand and prices could not be kept artificially high because insurance is a 'competitive' market."

Yet Davis was convinced of the viability of the nonprof-



it insurance solution. So, in 1989, Davis opened the doors to NIA's first office. That same day, the Loma Prieta earthquake hit. Fortunately, the location suffered no physical damage, but the quake had knocked out utilities to the NIA's newly acquired offices. Davis managed to convince the utility company to restore NIA's power first so she could provide leased space to the many small business forced out of damaged buildings. Business went on.

So did the obstacles. The managing general agency (MGA) hired by NIA to handle NIA's underwriting signed a three-year contract, but after just one year, it breached the contract without notice – via fax.

However, Davis was able to pivot quickly. Despite the

MGA exiting unexpectedly, she had built and maintained solid business relationships with insurance brokers. Because Davis had worked hard with the brokers that first year in demonstrating that even little nonprofits deserved great service and affordable prices, those brokers continued working directly with NIA.

Today, as insurance carriers are once again exiting the non-profit market, NIA is expanding. The organization has an impressive membership: over 20,000 nonprofits in 32 states and the District of Columbia.

Community-Centered Business

What that means to NIA's member companies is stability and continuity. That's as it was designed, Davis says. By stabilizing an underserved

market, NIA is proof of how a community-facing approach to business can reap multiple rewards, she says.

NIA's proof of concept lies in the fact that the organization reported \$575 million in assets for the combined group in the most recent fiscal year. NIA has distributed to member orga-

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nizations over \$47 million in dividends. Its virtuous business model delivers a financial service and generates funds that are returned to policyholders.

Why that's critical: the healthier the community, the

healthier the businesses serving that community are, and the better the market for all. “It’s about sustainability. When your orientation is to the community first, your priorities are aligned in that direction,” says Davis. “There is no conflict – as some investor-driven companies experience – between what is right for the organization and what is right for the community.”

Right now what’s right for the community is getting assistance in addressing COVID-19 concerns. Most recently NIA gave more than \$500,000 in grants to help nonprofits meet urgent needs brought on by the COVID-19 outbreak. More importantly, NIA provided stable pricing and coverage for tens of thousands of nonprofits when commercial insurers were dropping nonprofits and dramatically increasing prices. Particularly now, that focus outward is critical. However, Davis says a long-term approach to addressing the COVID-19 pandemic is what’s needed to successfully address it closer to home. “We can get through it if we help local communities—and organizations that care for them—survive.”

(The Federal Reserve announced on July 17th that they are expanding their lending program to cover nonprofits as few as 10 employees.)

And she says local communities need that support as they are forced to respond to rapid changes on multiple fronts: economic shocks, business cycles, and environmental devastation to name a few. How the organization responds is easier when consideration for impact on community is an inherent part of the organization’s mission. Davis believes being community-focused is a better business approach because it takes into consideration all stakeholders.

That means every organization should be operating with a dual purpose in mind, she says: doing what’s right for the business while also doing what’s right for the community. “We need to change our business thinking to get out of the problems we are now facing.”

While it’s easier to have sustainability and a stakeholder mindset from the outset, Davis says any organization can learn to pivot. She suggests understanding first what the organization’s financial drivers

are. “Are you trying to maximize profit every year? Do you need to grow rapidly to satisfy investors? What impact does focus on short-term financial results have on the long-term health of the business?” She says successful businesses that are connected to their communities, and the needs of their customers, have a long-term vision. “I hope others see the

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Expanding the Economic Pie

Part of that long-term vision should include expanding the customer base. Davis says, “There is a lot of value in expanding who gets access to products and services, which is what, presumably, the orga-

nization is good at. Can your products and services offer value beyond your current customers? How can you create offerings that will appeal to others? How can you promote your products to nontraditional audiences?”

Such a forward-looking examination of the business can help an organization tap into a more community-focused mindset while capitalizing on new revenue streams. “Businesses leave a lot of opportunity unharnessed because they think the appeal is limited or not everyone can pay full freight,” Davis says.

It’s erroneous thinking, she says, because in a market economy there are multiple product levels that can be created and made available. By thinking about how business can create broader economic value—and opportunity—and not defaulting to short-term thinking, she says business can expand the economic pie which is at the heart of creating value for communities.

Likewise, building a business model that can respond to external forces unlocks an organization’s ability to adapt. “Existing business models may

not be able to respond quickly to external upheaval, but a more flexible thought process can help an organization pivot quickly and remain both true to the community and true to its own bottom line,” says Davis.

It’s a move NIA is having to make currently. “Nonprofits are facing the worst insurance market in 35-plus years. Because we’re willing to insure nonprofits at a time when commercial carriers are fleeing the market, our members are able to manage disruption and continue operations with one less crisis to worry about.”

Her message to social entrepreneurs: if NIA can do it in the insurance industry for the nonprofit sector, it can be done in much the same way in every business. “NIA was designed to be a nonprofit just like the nonprofits it insures,” Davis says. “But that decision-making process actually works equally well for all businesses. Long-term thinking garners customer support and loyalty, and it improves the bottom line overall. It does not matter whether you are creating ‘profits’ for nonprofit owners or for individual shareholders. By doing the right thing for the

customer and thinking long term, everyone benefits.”

The proof is in the numbers – NIA grew by 44 percent outside of California in Q1 2020, and is seeing double-digit growth during a pandemic. Davis says, “If this year continues on the same track, NIA will write more new business this year than it wrote in its first 10 years of existence.” She adds, “That

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wouldn’t happen if there was a vibrant insurance market serving nonprofits. Imagine how many other underserved segments could benefit from more community-minded business models.”

Davis sees NIA not as an exemplary business, but as a model for what business can be. “I hope others see the power of our example and create new businesses that are not stuck in old paradigms of investor-driven capital that has not served our world or all communities well or fairly.” ■