Through Market Cycles and Decades, ANI and NIAC See Continued Success

In the wake of the liability crisis of the 1980s, nonprofits were having trouble obtaining liability coverage. In addition to overall market conditions, a few cases of sexual abuse had pushed insurers even further away from insuring nonprofits.

In 1987 Nonprofits Insurance Alliance—which includes Nonprofits Insurance Alliance of California (NIAC) and Alliance of Nonprofits for Insurance, Risk Retention Group (ANI)—Founder, President, and CEO Pamela Davis gave testimony at the California Assembly on the challenges nonprofits were facing obtaining liability coverage. According to the testimony, between 1984 and 1986 25% of California nonprofits saw a premium increase of 200% or more and 20% of California nonprofits had their policies nonrenewed or canceled.

Davis wrote her 1987 master’s thesis on the potential of forming a risk pool for nonprofits that would allow the nonprofits to self-insure. Two years later Nonprofits Insurance Alliance of California launched.

“The first day NIAC opened its doors we had $40,000 in the bank. We had a million in loans for capital that we couldn’t touch for operations,” said Davis. “We also didn’t have any committed nonprofits, we just had people that had expressed interest.”

By the end of its first year of operation, NIAC had added 300 nonprofits and wrote $1 million in premium. “There was a lot of desperation at the time. Many of the nonprofits that we were working with were tiny and couldn’t obtain coverage,” said Davis.

NIAC now includes 11,195 nonprofits in California and wrote over $100 million in premium in 2021. As NIAC saw success throughout the 1990s other state nonprofit associations inquired if they could join.

“We investigated and found that we could not expand NIAC due to California law,” said Davis. “We decided if we were going to expand outside of California, we would need to create a whole new organization. I settled on Vermont, because while I did interview with a number of states that domicile risk retention groups, I was impressed with the infrastructure in Vermont. We wanted to go to the best regulator, because wanted to have credibility.”

Alliance of Nonprofits for Insurance, Risk Retention Group (ANI) was formed at the end of 2000 and wrote its first policy in March of 2001. ANI currently provides coverage to 12,045 nonprofits in states across the country. Both NIAC and ANI have a core membership of smaller community nonprofits that include foster family agencies, group homes, and child service organizations. However, both ANI and NIAC insure a number of large community nonprofits as well.

Since its formation, ANI has established itself as a leading insurer for nonprofits. Now ANI is seeing the strongest premium growth in its history due to an insurance market that is “scarily similar” to the market in the 1980s that led to the formation of NIAC.

“[In the 1980s], there were carriers that were spooked by a few sexual abuse cases. Insurers began to view any organization that works with a vulnerable population as a difficult risk. It was a very broad brush,” said Davis. “I never thought it would get that dramatic again, but these last few years have seen carriers step back from providing sexual abuse coverage if there is any risk at all.”

Despite these fears, Davis notes that risk profile for community nonprofits regarding sexual abuse has not changed significantly over the past decade.

“The risk for sexual abuse has always existed. We were the first insurer to offer an affirmative sexual abuse policy 30 years ago. The other carriers were silent on it,” said Davis. “We’ve always recognized that risk. We’ve charged for it. We’ve reserved for it.”
Davis said that many other carriers are concerned about recent extensions in the statutes of limitations for sexual abuse claims and “reviver statutes” that have been enacted in over 30 states. Davis published an article on the ANI website that argued that blaming increases in claims and verdicts, particularly about sexual abuse, on social inflation negatively affects nonprofits.

“I don’t call it social inflation; I call it crisis in cover-up. These abuses went on and were then covered up by large institutions,” said Davis.

According to Davis, this is not as big of an issue for members of ANI, who are community-based nonprofits. “In general, community-based nonprofits don’t have bureaucracies that are able to suppress reporting of claims and protect abusers. As such, they don’t have the ability to cover up wrongdoing—at least not for long. When something bad happens, it typically rises to the surface soon after it happens,” wrote Davis in the article “Myths About Social Inflation Harm Community Based Nonprofits” on the Nonprofits for Insurance blog. “Certainly, there are some latent claims that emerge years after they occur in community-based nonprofits, but those are the exception, not the rule.”

Davis argues that traditional carriers don’t differentiate between large institutional nonprofits like universities and the community nonprofits that make up the core of ANI and NIAC’s membership. The painting of the nonprofit industry with a “broad brush” when it comes to liability coupled with the theory of social inflation make it difficult for community-based nonprofits to obtain the coverage they need.

Despite these reservations, Davis said that social inflation has had an impact on the few “egregious claims” that come through ANI and NIAC, making reaching a reasonable settlement on those claims more challenging. Even so, Davis said those claims are few and far between and have been manageable for nonprofits.

Just as conditions in the insurance market drove growth after NIAC formation in 1989, the current hard market and traditional carriers excluding sexual misconduct liability has led to growth at both NIAC and ANI.

ANI in particular has seen remarkable premium growth over the past two years, with premium increasing to $87.6 million in 2020 from $60.0 million in 2019—an increase of 46%. ANI’s premium further increased to $107 million in 2021—an increase of 22%.

Davis notes that NIAC and ANI rarely raise rates and the premium growth can be attributed to new members joining, largely through brokers that work with nonprofits.

“When the carriers those brokers worked with said they were no longer writing nonprofits, those brokers then had to look around for another carrier and they came to realize what a great option we are,” said Davis.

Not only do ANI and NIAC write lines of business that traditional carriers are shying away from—they are profitable as well. As ANI saw record premium growth in 2020 it also reported net income of $6.3 million.

“In 2021, we’re projecting another $8 million in net income. Consistency in rate and form is underestimated in this industry, both in terms of serving the consumer and in the contribution to the company’s bottom line,” said Davis. “The churn that commercial carriers go through as they compete on price, get bit claims they didn’t expect, and then roll over the business to go into something new takes a lot of time and energy. It’s expensive.”

Davis also noted that the high retention of members at NIAC and ANI plays a vital role. “We have a track record with our members. That makes the members feel supported. It makes the brokers feel supported. We’re all pulling in the same direction,” said Davis.

Davis that when NIAC was formed experts in the insurance industry told her that the company would fail and “hurt a lot of nonprofits” and that “an insurer couldn’t put all those terrible risks together and succeed.”

“Nonprofits have always felt like second class citizens when it comes to insurance. The exciting thing [about NIAC and ANI] is that nonprofits have demonstrated that they can do the hard work and they do that work all over the country, but they’re also well managed. The risk is tolerable,” said Davis.

Looking forward, Davis feels that the country is going through an “interesting time” and those changes will lead to more power at the community level.

“Nonprofits drive power at the community level. An important piece of the puzzle is having an insurer that is willing to bear the risk that nonprofits have and support the dreams and initiatives of the community,” said Davis.

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