

4 Tips for a More Rewarding Nonprofit/Broker Relationship

Brian Johnson

Nonprofits Insurance Alliance Group

In an earlier [blog](#), we explained the difference between an insurance broker and an insurance company. As discussed in that article, the broker is someone who specializes in insurance and risk management, whose role is to help the nonprofit put together an insurance program of one or more policies to mitigate the potential for financial loss from a variety of risks. Essentially, they act as a consultant to the nonprofit to understand the risks associated with the nonprofit's mission and the types of insurance needed to cover those risks. Part of that discussion would include if there are risks that cannot be insured against.

As you begin (or continue) a relationship with your broker, here are some key considerations to ensure you are getting the best coverage for your nonprofit at the best price.

1. Ask your broker to walk you through your policies

Part of your broker's job is to help you understand the insurance coverages you are purchasing. That includes understanding not only what is covered, but also what may not be covered. The last thing you want is to have a loss and find out it is not covered or that the limits available are not adequate. Here are a few sections included in most insurance policies to which you want to pay close attention:

Limits Section (aka Declarations or "Dec" Page) – This part of the policy shows what limits you have available to you for each accident (occurrence limit), and also for the whole policy year (aggregate). You and your agent should review this section to make sure you have adequate limits, especially if any of your contracts require you to carry specific insurance limits.

Insuring agreement (aka Coverage Agreement) – These paragraphs will summarize when your policy will be triggered, and who is covered. It may also discuss when the insurance company starts and stops defending a claim.

Exclusions – This is a very important section as it details what things are specifically excluded from coverage in your policy. You and your broker should look through this section and confirm that there are no exclusions for activities critical to your nonprofits mission or activities.

Definitions – This section defines all the key terms used in the rest of your policy. As an example, your policy may say that it pays "Damages" for claims which occur in the "Coverage Territory." You need to understand how the insurer is defining Damage and exactly what the Coverage Territory is, to ensure it meets your needs. For the most part, any term in quotes or capitalized will be in the Definitions section.

Lastly, review the schedule of properties and vehicles listed in the policy to make sure everything is there that should be and nothing is missing. More about that in the next tip.

2. Tell your broker ASAP about any changes to your operation

This can't be emphasized enough. In order to ensure you have the necessary coverages in place you should, as soon as possible, tell your broker about any changes to your operations. This includes buying or selling properties, buying or selling (or leasing) vehicles, changes in location, change to employees and adding or changing programs or operations.

Some policies give a grace period for reporting new vehicles and buildings, but not all. You don't want to have a claim only to realize it won't be covered because the vehicle or property was not listed on your policy. On the flip side, if you sell a vehicle or a property, you don't want to pay insurance for something you no longer own.

Also, if you change operations (i.e. add a new program) you want to make sure these new operations are covered. As an example, maybe just a general liability (GL) and a directors and officers (D&O) policy were adequate for your operations when you first started. Subsequently you added a program with children, and now you want to consider adding an improper sexual contact and physical abuse (ISC) policy in addition to the other policies you have.

3. Don't sign a contract without first reviewing it with your broker

Part of the broker's job is to assist the nonprofit with risk management. This includes helping the nonprofit review those parts of any contract they sign (as part of work they perform) that may affect their exposure to loss.

Recently, the indemnification and insurance requirements in contracts that nonprofits are required to sign have become draconian. Specifically, municipalities all over the country have begun to push as much liability as possible off to the nonprofits performing services and work. Quite often, the liability that the nonprofits are being asked to accept are outside of the control of the nonprofits.

As an example, many contracts have wording which require the nonprofits to accept liability for all claims "arising out of this contract from any cause whatsoever, including the acts, errors, or omissions of any person." The argument can be made that every claim "arises out of" the contract. This means the nonprofit may be forced to defend and possibly indemnify another party for claims caused through the negligence of that other party. In other words, the nonprofit may be forced to pay for a loss that was not their fault and out of their control.

Your broker can help you review the insurance sections of your contract to make sure the liability flows in the correct direction.

4. What to ask when comparing quotes from different insurance companies

Comparing quotes from different insurance companies can be a very daunting task, even for those familiar with insurance. You must look at limits, price, exclusions, sublimits, endorsements, etc. For those who don't do this on a regular basis, it can make your head spin!

The first thing your broker should explain is variance in price between different quotes. As Warren Buffett once said, "Price is what you pay. Value is what you get." One quote for insurance may look more attractive than another quote because it is less expensive but quite often, it is less expensive because it provides less coverage or there are hidden costs. As an example, sometimes insurance companies use deductibles and self-insured retentions (SIR) as a way to lower their own costs and shift risk to the nonprofit.

When the nonprofit accepts a deductible or SIR, they are responsible for that portion of a claim. For example, if there is a \$10,000 loss and the policy has a \$1,000 deductible (or SIR), the nonprofit is responsible for that deductible and will only receive a net claims payment of \$9,000. When comparing two policies, make sure any deductibles or SIRs are the same. A policy with a higher deductible may have a lower up front cost, but may be a bigger overall “insurance spend” on the back-end. Also make sure your broker explains the difference between a deductible and a SIR. The latter is an “upfront” out-of-pocket cost. The former is billed back to the nonprofit once the claim is settled.

Another question to ask the broker about is claims settling philosophies between companies. Some companies have the reputation of denying claims often and with wild abandon. They can afford to charge less premium because they are more likely to deny claims. Their policies are craftily worded to exclude certain coverages and losses, or are silent on certain issues. Other carriers, like the carriers in the Nonprofits Insurance Alliance Group, try to *find* coverage for their nonprofit members.

Lastly, you should ask your broker about the difference in commission they will receive from the different insurance companies. Your broker is compensated by the insurance company via a commission which is part of the premium you pay. Most brokers will advise their clients based on what is best for the nonprofit. They want to make sure the nonprofit understands the differences discussed above and makes an informed decision. There are a few brokers, however, who may be tempted to recommend an insurance policy from the company that will give them the biggest commission, regardless of what is in the best interest of the nonprofit. Asking for transparency of the commission arrangements will help you understand the decision making process.

If your nonprofit is not a member of the Nonprofits Insurance Alliance Group and you’d like to learn more about joining our community, please check out our list of coverages as well as the benefits of membership, or simply send an email to info@insurancefornonprofits.org.