

THE GOOD

THE BAD &

THE UGLY

What a Non-Profit Organization Needs to Know About Insurance

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ABOUT BEEHIVE INSURANCE

Since 1991, Beehive Insurance Agency has specialized in providing insurance for nonprofit organizations.

Beehive is licensed in all 50 states, and works with premier nonprofit carriers such as Alliance of Nonprofits for Insurance, Philadelphia Insurance Company, Great American Insurance and several others.

Whether you run a small organization or a large nationwide association, Beehive Insurance has the experience and resources needed to tailor an insurance program to meet any organization's unique needs. We also work with six nationwide associations, including the National Association of RC&D, National Federation of Community Broadcasters and River Network, to provide discounted Directors & Officers Liability coverage for their members.

Our experience and dedication to the nonprofit sector provides a valuable service to nonprofits across the country.

Susan has been working in the insurance industry since 1979 in various capacities as an insurance agent. For the past 16 years, she has specialized in Nonprofit Insurance, and currently writes nonprofit coverage in all 50 states. She enjoys working with Nonprofit organizations in all capacities.

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01

INTRODUCTION

Given the shoestring budget on which many nonprofits operate, a single large and unexpected expense could lead to financial ruin. It is important for nonprofit organizations to understand how the right insurance coverage can prevent such a collapse from happening.

Having insured many nonprofit organizations over the years, I have heard various reasons why nonprofit organizations choose not to purchase insurance coverage, including:

- Insurance is too expensive.
- One policy won't cover all exposures.
- We're protected under the Volunteer Immunity Act.
- We don't need to insure our office contents, they were donated.
- We don't have any assets, so why would anyone sue us?

I'd like to clear up many of the misconceptions of nonprofit insurance coverage. This booklet outlines the reasons a nonprofit organization would want to acquire insurance, as well as the types of insurance coverages that are available to best fit the needs of your organization. With more carriers than ever before specializing in insuring nonprofit organizations, now is a great time to find a fairly priced policy that adequately covers your organization.

GENERAL LIABILITY

General liability provides protection for your organization against allegations of bodily injury, property damage or various kinds of personal injury arising from your premises, your operations or your products, if applicable.

Every organization needs a general liability policy. Everyone makes mistakes; and that means anyone who comes in contact with you or your employees can potentially file a claim or lawsuit against you for any number of reasons.

Unintentional accidents in your organization may lead to physical, financial or psychological distress. The general liability policy - typically thought of as "slip and fall" insurance- provides coverage to your organization when someone other than an employee or volunteer is injured on your premises.

Even if your organization does not operate within a permanent facility, this insurance can offer coverage for allegations arising from your organization's event or a fundraiser location. When planning activities or fundraisers, we recommend being mindful of safety and protection to third parties - as the cost of insurance for events rises with the risk of the event.

Also keep in mind, that any vendor or contractor you hire should carry their own general liability coverage. Request a certificate of insurance from them, requiring that your organization be named as an "additional insured" on the vendor's or contractor's general liability policy. This protects your organization in the event your organization is named in a suit as a result of the other party's negligence.





PROFESSIONAL LIABILITY

If your organization engages in professional services, including but not limited to: counseling, vocational training, medical services and more, you will want to strongly consider acquiring professional liability coverage. A professional liability policy provides protection against allegations of an error or omission in your delivery of professional services – something a general liability policy will not.



Over the years, the definition of “professional” has expanded greatly, as have the options available for professional liability coverage. If you are unsure if your organization’s services require this type of coverage, contact your agent for assistance.

UMBRELLA

An umbrella policy provides additional limits above those of your underlying policies – usually your general liability, the employers’ liability section of your workers compensation policy, and your business automobile policy. Umbrella policies are typically written in incremental limits of one million dollars. While an optional type of coverage, this is generally one of the least expensive insurance coverages to add to your policy.



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PROPERTY COVERAGE

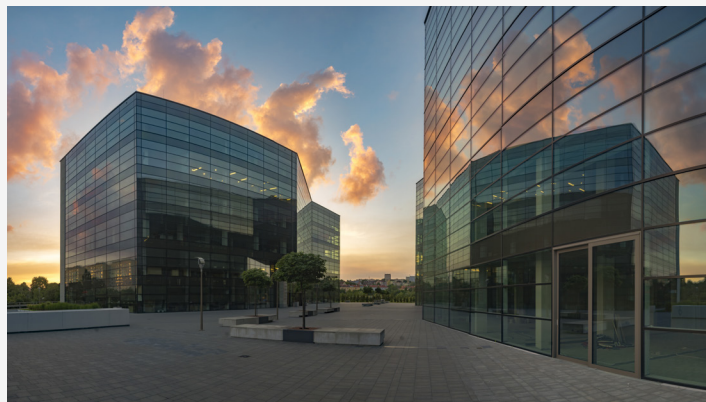
Property coverage offers protection for “real” property, such as buildings and office equipment.

For any building with a mortgage, the mortgagee will require the organization to carry adequate limits for the replacement value of the building. Insurance carriers also require property be insured to replacement value. Purposely under-insuring a building would be detrimental to the owner, and many carriers will penalize payments in a situation of loss, including a partial loss, if the limits are less than replacement cost.

Many nonprofit organizations have their office contents donated to them. This includes furniture, computers, office supplies and more. If contents were destroyed in a loss situation, it is likely that operations would be unable to continue without the replacement of those office contents. If property insurance were acquired to cover these “donated” contents, an organization would be reimbursed for the full replacement value of the items, and would not have to rely on having new property donated.

There are limitations on a property policy when it comes to contents that leave the premises. With mobile equipment, such as laptop computers, many insurance carriers will provide small enhancement limits as part of their policy for this purpose. It is important to make your insurance agent aware of mobile equipment, to make sure that there are no gaps in coverage.

It is also important to note that standard insurance policies will exclude coverage for flood, earthquake and mold. These coverages can be purchased as separate policies, at extra cost.



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HIRED/NON-OWNED AUTO LIABILITY

Most nonprofit organizations do not own automobiles. In these organizations, if travel is required, employees and volunteers often use their personal automobiles for organization or company business.

Any time an employee or volunteer operating his or her own vehicle on agency business is involved in an accident, the agency will almost certainly be sued. Whether it's a volunteer "running an errand" to pick up office supplies, or a staffer transporting a client in their personal vehicle, the organization is ultimately liable for the consequences of their driving.

Here are two hypothetical examples of losses involving personal vehicles operated on company business:

- While on a service outing, several volunteers were riding in an SUV owned and driven by an employee of the organization. The vehicle was overloaded and top heavy and during the drive the employee lost control of the vehicle and crashed. One passenger was fatally injured and the other five required various degrees of medical attention. The accident resulted in a \$1,300,000 claim.
- An employee of a nonprofit organization was driving his personal vehicle to pick up office supplies for the organization and hit a cyclist. The resulting claim exposed the organization to a lawsuit and damages of \$1,000,000.



There are steps an organization can take to limit the risks associated with automobile use. Here are just a few ideas:

- Screen all drivers.
- Check motor vehicle records annually.
- Require employees/volunteers to provide proof of insurance coverage.
- Develop and establish a policy requiring employees and volunteers to maintain adequate liability limits of their personal auto policies. The preferred limits should be at least \$300,000.
- Restrict and limit personal auto use where possible.

Hired and non-owned auto coverage protects the organization against third-party claims when employees or volunteers are at fault in accidents while driving their personal vehicles on behalf of the organization. It also provides protection if the organization rents or leases vehicles. The employee's or volunteer's personal auto liability policy is primary, but won't provide you coverage if your organization is sued.¹

¹ "Insurance basics for nonprofit organizations," VolunteerAlive.org, 2012, <http://www.volunteeralive.org/docs/Insurance%20basics%20for%20nonprofit%20organizations.pdf> (accessed May 20, 2014)

EMPLOYEE/VOLUNTEER DISHONESTY COVERAGE OR CRIME

Unfortunately, every organization faces risks brought on by dishonesty and crime, including employee or volunteer embezzlement, forgery and/or theft. Insurance companies have found that often, crimes are committed by volunteers or employees that were never suspected. In addition, the deception or crime carried on for years and are usually only found by accident. Don't let your organization get caught in a

mess by assuming that this could never happen to you.

Employee/volunteer dishonesty coverage provides reparation for losses caused by the dishonest acts of individuals within the organization. Optional coverage is also available for losses due to theft by a third party (as in robbery and disappearance or destruction of funds).



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CYBER LIABILITY

Every nonprofit organization with a website or electronic data reserve has a cyber-risk exposure. A typical general liability policy is not intended to provide coverage for cyber risks.

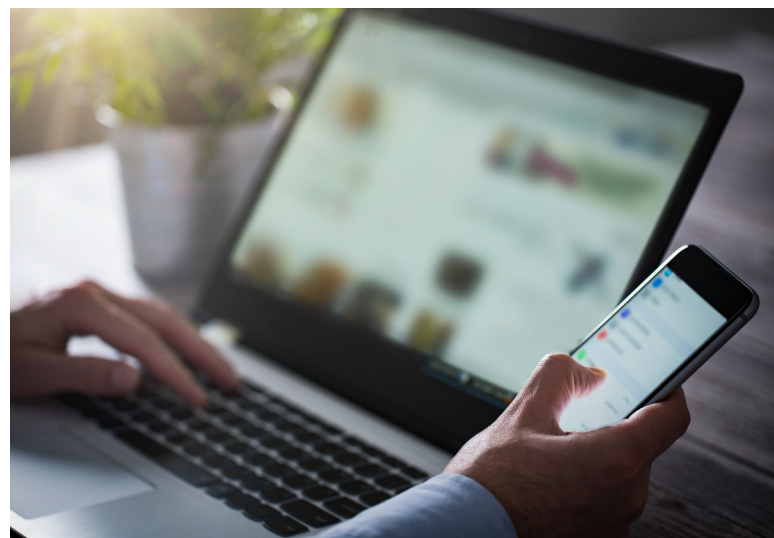
Nonprofits face exposure to the following losses arising from a data breach: 1) loss of needed data and sensitive records, 2) consequential loss of customers, 3) damage to the nonprofit's reputation and 4) cost of data breach notification.

Data breach notification laws are now in effect in most states. These laws require notification of customers in the event of data breach. According to a recent Ponemon Institute study, the consolidated average cost incurred for each lost or stolen record is \$145.2. Lost business now accounts for approximately 69% of data breach costs.

Cyber liability insurance is a good idea for your organization, if your organization:

- Stores sensitive employee or client information (social security, driver's license, bank account, etc.).
- Has access to patient medical records.
- Provides online access to sensitive data.
- Allows laptops or access to their network from a remote location.
- Relies on their computer network on a daily basis.

2 "Study: Company Data Breach Now Costs \$3.5M on Average" Insurance Journal, May 19, 2014, <http://www.insurancejournal.com/magazines/features/2014/05/19/329047.htm> (accessed May 20, 2014)





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WORKERS COMPENSATION

Workers compensation coverage provides protection for your employees in the event of injuries or illnesses that are sustained or brought on as a result of their employment in your organization. The policy will cover the injured employee's medical costs and lost wages if they miss time from work while they recover. In many states, this coverage is required by law.

The employer's liability section of the workers compensation policy protects you as the employer if the employee sues your organization, claiming negligence, rather than taking the benefits provided to them under the state's workers compensation laws.



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VOLUNTEER ACCIDENT LIABILITY

It is common practice for an organization to have their volunteers sign a waiver and hold harmless agreement, with the understanding that the volunteer is responsible for using their own medical insurance in the event of an injury. In certain cases, the volunteer may not have means to pay for their own injuries, and the organization can purchase a “medical” payment policy to provide for their volunteer’s injuries.

These types of policies differ from Workers Compensation coverage, in that they do not provide coverage for wages that the volunteer might lose, due to the injury. They will only respond to the medical payments, up to the limit purchased.

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DIRECTORS & OFFICERS LIABILITY

Directors and officers of nonprofit organizations face virtually the same exposures to lawsuits as do corporate directors and officers. This includes being sued for wrongful acts or mismanagement of the organization or its resources. These wrongful acts result in financial damages, not bodily injury or property damage, so they aren't covered by general liability insurance.

The most frequent allegation among nonprofits involving board liability relates to employment practices – wrongful termination, discrimination in hiring or unethical promotion practices, or sexual harassment.

Some of the other risk exposures that could be covered under employment practices liability include:

- Claims alleging mental anguish and emotional distress
- Libel, slander or defamation
- Invasion of privacy
- Wrongful entry or eviction
- False Arrest
- False Imprisonment
- Malicious Prosecution

Typical exclusions, under a directors & officers liability policy would include damages arising from criminal or fraudulent behavior.



The average directors & officers claim will cost approximately \$35,000 to resolve. However, one out of ten claims will cost more than \$100,000 to resolve.

Defense coverage is one of the most significant reasons to purchase directors & officers coverage, as paying for your own defense, even in a lawsuit that has no merit, could bankrupt some organizations.

3"Insurance basics for nonprofit organizations," VolunteerAlive.org, 2012, <http://www.volunteeralive.org/docs/Insurance%20basics%20for%20nonprofit%20organizations.pdf> (accessed May 20, 2014)



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