

Insurance for Nonprofits

What basic insurance coverages should a nonprofit consider?...

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An experienced, trustworthy insurance agent, broker or other advisor who understands the unique exposures of nonprofit organizations and has access to the proper insurance companies can provide professional advice tailored to your organization. Below is a general description of the types of insurance nonprofit organizations often consider.

Liability Insurance

Commercial General Liability

The first concern for most nonprofits is general liability insurance. The most commonly used policy is the **commercial general liability insurance (CGL)**, which you may occasionally see referred to as "Comprehensive General Liability". CGL covers the organization, its officers, directors, employees and volunteers (if so stated) against claims for:

- General liability - damages due to negligently caused bodily injury (the organization causes someone to be hurt) and property damage (the organization damages the property of someone else)
- Personal injury - damages due to libel, slander, defamation, malicious prosecution, etc.
- Advertising injury - damages due to libel, slander, copyright infringement due to advertising activities

CGL policies usually include a medical payments provision which reimburses medical expenses of a person injured on an insured's premises even if the injury is not due to any negligence of the insured. Medical payments are usually subject to low limits of insurance, often \$5,000 or \$10,000 per person.

The amount that an insurer will pay for a claim is subject to limits of insurance. In today's legal climate, organizations often choose limits of insurance of \$1,000,000. Larger organizations often purchase policies with higher limits, to ensure that the insurance will protect their assets from adverse judgments.

Business Automobile Insurance

Any organization that uses motor vehicles in its operations should consider a **business automobile policy (BAP)**. BAPs can include both liability coverage, for damage to others, and physical damage coverage for the organization's own vehicles. An organization that owns and operates vehicles needs both auto liability and physical damage coverages. If the organization does not own vehicles, but vehicles are operated on its business even occasionally, it should consider **hired and non-owned liability coverage**, which is often available under the CGL. **Non-owned liability coverage** protects the insured organization from liability if its employee or volunteer has an accident while driving his or her own vehicle on behalf of the organization. Non-owned liability coverage does not protect the employee/volunteer driver. His or her personal auto liability insurance pays for the claim first, and if the insurance is inadequate to

cover the amount of the loss (for example, if the owner does not have auto insurance, has very low limits of insurance, or the accident produces very large damages) the non-owned auto coverage protects the organization for any liability it may have. Without non-owned auto liability coverage, the organization has no protection. **Hired auto liability coverage** covers vehicles that the organization leases, hires or borrows (but not from employees, partners or executive officers of the organization) and protects the organization and any person using the vehicle with the organization's permission.

Directors & Officers Liability Insurance

Many organizations also have **directors' & officers' liability insurance (D&O)**. D&O insurance protects insureds against losses due to "wrongful acts" in governing and managing the organization. "Wrongful acts" include breach of duty, errors and omissions, and other acts that harm the organization or others. One of the most important liability exposures for nonprofit organization management and boards - employment practices liability - is often covered by D&O insurance or can be covered by an endorsement to the D&O policy. D&O insurance does not cover loss due to bodily injury or property damage. Those losses are covered under the general liability policy. Who is an insured under D&O insurance can vary. An organization, its directors, officers, employees and volunteers may all be protected as insureds, depending on the policy form chosen.

If the organization publishes a newsletter, marketing materials etc. it should consider a D&O policy that includes publishers' liability and personal injury. This provides broader coverage for libel, defamation, copyright or trademark infringement than the general liability policy.

The main argument for the D&O policy is that despite state and federal volunteer protection laws, a board member can be held personally liable for mismanagement of the organization. The limits of insurance should be \$1,000,000, unless the organization is very small. [Click here](#) for a link to a resource on State Liability Laws for Charitable Organizations and Volunteers.

Workers' Compensation Insurance

Also, if you have any employees (full or part-time), your nonprofit will need a **workers' compensation policy**. If you have employees, you'll also want to make certain that your D&O policy includes employment practices liability (EPLI) coverage. Employment related claims are the most common D&O claims filed against nonprofits. Another liability policy to consider is an umbrella or excess liability policy. This policy provides the organization with additional policy limits for a catastrophic liability loss. The umbrella policy provides additional limits over the general liability, business auto liability, and employers liability policies. An umbrella policy isn't mandatory but something to consider depending upon the type of activities your nonprofit offers. The umbrella policy doesn't provide excess limits for the D&O policy.

Property Insurance

A **commercial property policy** covers the property (furniture, fixtures, office equipment, stock, etc.) that the nonprofit owns. If your nonprofit owns any computers or electronic equipment, you should consider a computer or electronic data processing policy. A computer policy offers broader coverage for computer equipment such as loss due to power surges, head drive crashes, and possibly viruses.

Another coverage to consider is crime. You can purchase a **crime policy** (also called employee dishonesty) to cover theft by employees. You may be able to extend that coverage to also cover volunteers.

Package Policies

Your organization may be able to purchase a **business owners policy (BOP)** or commercial package policy that combines the general liability, property, crime and hired and non-owned auto liability coverages into one policy. These package policies are usually more economical than purchasing separate policies. Your insurance advisor (agent or broker) can help you with this.

This is just a very quick overview of some of the insurance coverage you should consider. As a reminder, your first step should be to find an insurance agent that has experience working with nonprofits. For more information on the process of purchasing insurance for your nonprofit as well as details on the range of coverages many nonprofits buy, consult the Center's publication: *Coverage, Claims & Consequences: An Insurance Handbook for Nonprofits* (see www.nonprofitrisk.org.)

Excess and Umbrella Liability

Excess and umbrella liability insurance both provide additional protection for insureds that already have primary liability insurance, such as commercial general liability and auto liability. The operation of umbrella and excess liability differs somewhat, but both offer additional limits of insurance, which protect insureds whose assets exceed the limits of insurance available through the primary coverage.

Glossary of Insurance Terms

✘ **Directors' & officers' liability insurance (D&O insurance)** — Insurance that provides coverage against wrongful acts which might include actual or alleged errors, omissions, misleading statements, and neglect or breach of duty on the part of the board of directors and other insured persons and entities. Many D&O policies include employment practices liability coverage, and liability for wrongful acts related to hiring, firing or the employment relationship, such as wrongful discrimination and sexual harassment.

✘ **Commercial general liability insurance** — Covers liability exposures that are common to all organizations; a combination of three separate coverages, each with its own insuring agreement and exclusions:

- Coverage A = general liability;
- Coverage B = personal injury and advertising injury liability; and
- Coverage C = medical payments.

✘ **Umbrella liability insurance** — Provides excess coverage over several primary policies, such as CGL, auto liability and employers liability. Increases the amount of liability insurance beyond that of the basic policies carried by the nonprofit and *reaches out* to cover areas of unknown exposures lacking in the basic insurance policy.

- ✘ **Limits of Insurance** — The most that an insurer will pay for a loss under an insurance policy.
- ✘ **Liability insurance** — Insurance covering the financial risk of civil lawsuits.
- ✘ **Property insurance** — Insurance that covers direct damage to the nonprofit’s property and equipment including consequential losses (business income, loss of rents, extra expense) caused by an insured peril.
- ✘ **Personally liable** — Liability that an individual assumes when he/she is directly involved in the occurrence and cannot defer the liability to another person or entity.
- ✘ **Package Policy** - An insurance policy that bundles several lines of coverage together, often at a lower premium as compared to buying the coverages separately. Package policies do not all offer the same coverages, but often include general liability, property, crime and hired and non-owned auto liability.
- ✘ **Auto insurance** — Business automobile policy (BAP) — A standard business automobile policy that is designed to cover the liability and physical damage of motor vehicles. Liability coverage can be provided for the organization, regardless of whether a nonprofit, a staff member, volunteer or other party owns the vehicle.
- ✘ **Crime coverage** — A package of policies that protect an organization against intentional theft by insiders, as well as theft of assets by third parties. Crime coverage generally includes a fidelity bond plus a basic menu of other coverages.
- ✘ **Endorsement** — Part of most insurance policies; policy forms that modify the main coverage form; changes to the policy language.
- ✘ **Negligence** — Failure to use the standard of care that a reasonably prudent person would exercise in a similar circumstance.
- ✘ **Liability** — Any enforceable legal obligation. For example, the failure to meet the duty of care of a reasonable person under similar circumstances.
- ✘ **Insurance** — Traditional risk-financing tool used to transfer the financial hazard of risk. An insurance policy spells out what is or is not covered caused by *all* or specific perils (causes of damage or injury). Insurance is also a contract whereby an organization agrees to indemnify another and/or to pay a specified amount for covered losses in exchange for a premium. For many nonprofits, insurance provides the funds to pay for the nonprofit’s unexpected losses of people, property and income, while ultimately keeping the organization in operation.
- ✘ **Accident** — Unexpected or chance event. This term is frequently defined in older commercial general liability (CGL) policies.
- ✘ **Property** — Category of nonprofit assets at risk that includes real property (buildings, improvements and betterments), personal property (furniture, fixtures, valuable papers and records, equipment, and supplies) and intangible property (copyrights, business goodwill and trademarks).

- ✘ **Umbrella liability insurance** — Provides excess coverage over several primary policies, such as CGL, auto liability and employers liability. Increases the amount of liability insurance beyond that of the basic policies carried by the nonprofit and *reaches out* to cover areas of unknown exposures lacking in the basic insurance policy.

- ✘ **Directors' & officers' liability insurance (D&O insurance)** — Insurance that provides coverage against wrongful acts which might include actual or alleged errors, omissions, misleading statements, and neglect or breach of duty on the part of the board of directors and other insured persons and entities. Many D&O policies include employment practices liability coverage.

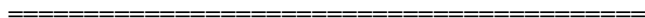
- ✘ **Broker** — An insurance professional/intermediary who markets and explains insurance products to insureds and prospective insureds. Brokers are typically licensed by a state to place insurance on behalf of clients (individuals and organizations) with any number of companies, while others represent a single insurer. A broker technically represents the client.

- ✘ **Agent** — An insurance professional/intermediary who markets and explains insurance products to insureds and prospective insureds. Agents, like brokers, are licensed by state regulatory agencies. However, they are restricted in the marketing and placement of coverage to those carriers with whom they have a contractual relationship. Some agents have relationships with a number of companies, while others represent a single insurer. An agent, therefore, represents the company or companies with whom she or he has a relationship.

- ✘ **Auto insurance** — Business automobile policy (BAP) — A standard business automobile policy that is designed to cover the liability and physical damage of motor vehicles. Liability coverage can be provided for the organization, regardless of whether a nonprofit, a staff member, volunteer or other party owns the vehicle.

- ✘ **Employment practices liability insurance (EPLI or EPL)** — Insurance that provides coverage for claims arising out of employment practices. EPLI policies generally cover the organization, its directors, officers, and employees.

Sponsor



What You Need to Know About

Insurance for Non-Profits

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Wondering if your nonprofit business is protected by the right insurance?

Protecting your nonprofit company's financial wellbeing is essential to the causes you serve. As a nonprofit organization, you have many of the same insurance needs as other companies, but you also face a host of industry-specific exposures. Here are a few examples why a customized nonprofit insurance program is essential:

- Your refrigeration equipment for your food bank warehouse breaks down.
- You incur extra expenses serving your clients after a fire damages your building.
- A volunteer worker is severely injured in an on-the-job accident and it's uncertain if he is covered by workers' compensation.
- You unknowingly serve contaminated food to clients in your soup kitchen that result in hospitalization due to E. coli.
- An employee is accused of molesting a disabled client.
- A client slips and falls on your premises.
- A board member is personally sued for a decision that disadvantaged your organization. (See our nonprofit D&O for more about this exposure.)
- You are sued for fiduciary liability for allegedly mismanaging donated funds.
- An employee is in a car accident, driving her own vehicle for work-related purposes.

As you can see, insurance protects your operation from a vast array of exposures. But, it can also be expensive - especially for nonprofits in these tough economic times. Fortunately, with the right partner, you can find rock solid protection at an affordable price. RJ Ahmann is honored to serve the nonprofit sector. We help nonprofit clients build customized insurance programs that address their exposures and meet their budgetary requirements. We're skilled at sorting through the complex coverage issues inherent to nonprofit organizations.

A Smart Solution

If you need nonprofit insurance, or if you just want to learn more, RJ Ahmann can help. With more than 50 years in the industry, we've helped many nonprofits grow and thrive with the right protection in place. Our experienced nonprofit insurance experts will help you obtain comprehensive, cost-effective insurance coverage - tailored for your organization's unique needs. We offer a vast array of coverages, including property, liability, workers' compensation, business interruption, employee benefits, professional liability, errors and omissions, directors and officers coverage and more, so you can get all the protection you need in one convenient place.

What You Need to Know About **Excess Umbrella Insurance**

RJ Ahmann Company is a premier provider of excess insurance. Since 1956, RJA has served businesses in Minnesota, Iowa, North Dakota, South Dakota and Wisconsin.

What is excess insurance?

Excess insurance provides protection for catastrophic liability losses. It helps protect your company from major claims that would ordinarily put you out of business. A common type of excess liability insurance is the umbrella policy. It sits on top of your general liability, auto liability, and employers liability coverages. Umbrella coverage starts paying when a covered loss depletes the primary policy's per occurrence or aggregate limit.

For example, with many businesses, the most significant liability exposure is driving on work related business. If you or an employee are negligent and cause bodily injury or property damage, the cost could be in the millions. This policy provides for defense costs and pays damages when at fault accidents reach that magnitude.

Who needs excess coverage?

All businesses should have excess liability insurance. Unfortunately, most small businesses are underinsured. Some businesses carry small umbrellas of one or two million, but it really isn't enough. Serious claims can easily go beyond \$10 million. Fortunately, excess insurance coverage is relatively inexpensive for the limits of coverage provided. The umbrella liability policy represents an efficient use of premium dollars.

The cost of a [commercial automobile insurance](#) claim is rising to a new level whenever bodily injury is modest or severe.

- Gen Re, FacWorld

Important Excess Liability Insurance Considerations:

- Follow form: Your umbrella policy should follow the same policy design as the underlying coverage so the policies complement one another. They should fit together like a hand in a glove. You don't want the excess insurance policy to contain coverage that is less broad than the underlying policies.
- Maintain underlying limits: If you allow your underlying coverage to lapse, you could experience a serious coverage gap. Umbrellas will not drop down to cover a gap left by cancelled underlying coverage.

A Real World Example

A company was hosting an event when a drunken patron stole the truck an employee was unloading. The patron then collided with a vehicle full of teenagers. One surviving teenager had severe permanent injuries. Unfortunately, the business owner's commercial umbrella policy wasn't sufficient and he was faced with a serious shortfall of liability protection. As this case illustrates, the importance of a well-structured commercial umbrella insurance policy can't be overemphasized.

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