NONPROFITS: BOARD GOVERNANCE

Nonprofit Insurance Needs: Common Risks

08.22.18 | Linda J. Rosenthal, JD

The board of directors of a 501(c)(3), tax-exempt organization plays a critical role in guiding it along the path to achieving its mission. Good governance, including sound fiscal planning and oversight, is a key to success, as is prudent risk management – with adequate insurance coverage custom tailored to the organization's circumstances.

For many boards, the first mistake is neglecting the matter entirely. The second mistake is assuming that any insurance agent can take care of it. Certainly, a 501(c)(3) may have some insurance needs in common with individuals and regular businesses; property insurance coverage, for example. But the range of possible insurable risks for nonprofits is a specialty matter which is best handled by an agency with expertise in it.

Understanding Insurance Needs

There are many resources online that give useful lists of recommended types of policies for a nonprofit. See, for example, here and here.

But dry lists like these may not have the impact of a different type of description; that is, horror-story examples. We took a crack at this a while ago in a post which attempted a humorous illustration of several ways that a nonprofit could incur liability to, or on account of, a new volunteer at her first day at the office, most of it before 1 pm.

Gateway Speciality Insurance, a nationwide firm with extensive experience in covering 501(c)(3) organizations, has a section on its website with "insurance claim examples." It's a list of eight, one-paragraph, calamity summaries that should jolt any nonprofit board into realizing that danger may lurk even in their usual activities.

With embellishments, tweaks, and some added commentary, they include:

A Fire Incident

An organization runs a battered women's shelter in the downtown area of a mid-size city. There is a common kitchen area. Overnight, a fire breaks out in that room (from an as-yet-undetermined cause) that causes serious damage to the entire building and its contents. When a resident discovers the fire, she tries to find the fire extinguisher she remembers seeing near the stove and also attempts to alert others; she is injured and transported to a hospital. The facility must close for several months; the group must seek an alternate location and set up operations there until the original building is fixed. It suffers significant losses and added expenses in temporarily moving operations.

Injuries at an Animal Shelter

A young couple set out with their 5-year-old son to a local animal rescue organization that offers pets for adoption. There is a special room where a family and a prospective adoptee dog or cat can get acquainted and spend some time before making a final decision. The child is so excited running into the lounge that he trips and falls on some items inadvertently left out by staff. The boy starts crying. The puppy waiting inside is so upset by the confusion that he lunges at the boy and bites him. The child needs medical treatment; his parents file a lawsuit for pain & suffering along with emotional trauma.

Hospice Medication Mixup

A nonprofit organization in a small town runs a well-respected hospice. A long-time employee, a registered nurse on her regular rounds, administers an intravenous drug for pain relief to a new patient with advanced stage cancer. The medication apparently causes a severe allergic reaction; the panicked family files a negligence lawsuit.

Auto Accident Incident

A nonprofit outreach organization sponsored by a religious denomination provides services to local senior citizens including home companionship and assistance with daily errands. A volunteer, using her own automobile, is taking a client for a doctor visit when she runs a yellow light and collides with another vehicle. The elderly passenger suffers serious injury and there is damage to the other car. Both victims sue the volunteer personally (who has only a bare-bones insurance policy) and add the nonprofit organization to the lawsuit to cover excess damages.

Faulty Rocker Injuries

A nonprofit thrift store sells a rocking chair to a customer. The buyer takes

the rocker home and, the first time he sits in it, the chair collapses, causing the person serious injury. He sues the organization.

Sexual Harassment Claim
A nonprofit healthcare clinic employs full-time medical professionals and also has part-time licensed volunteers perform medical services. A volunteer nurse reports a series of unwanted sexual advances by a volunteer doctor and sues for sexual harassment.

Disappointed Donor
A wealthy donor makes a large contribution to a local community center to repair and renovate certain facilities used by children. The donor later learns that the board spent the money for an entirely different purpose. He files suit alleging misappropriation of funds.

Molestation Incident
A youth organization organizes and sponsors an overnight camping trip. An adult volunteer asks permission from the group to take along a child he has been mentoring; he also gets approval from the boy's parents. During the event, the adult sexually molests the minor. The family sues the organization as well as the male volunteer.

Conclusion

Insurance coverage is an important element in a comprehensive risk-management plan that, of course, also includes prevention strategies. The coverage, though, must be specifically selected to protect against the particular risks each organization may face.