

# Insurance for Nonprofits: A Primer

11.28.16 | Linda J. Rosenthal, JD



Insurance is an essential component of a nonprofit organization's comprehensive risk management plan; that is, the strategic review of the potential exposure “to unexpected losses, and then develop[ment][of] strategies either to prevent losses from happening, or to reduce damage and expense when they do.” It protects the “the people and assets that help the nonprofit fulfill its mission.”

## *Basic Recommended Coverage*

Nonprofits need “at least minimal levels of insurance to protect themselves against some ... risks to which all corporations are ... vulnerable” as well as coverage for the special situations and needs of philanthropic organizations. The exact types and amounts of insurance vary dramatically, depending on the corporation’s activities, revenues, size of workforce, risk experience, and other factors.”

Most organizations need, at a minimum, commercial general liability insurance. They are well advised, also, to secure directors’ and officers’ liability insurance.

### *Director and Officers (D&O); Employment Practices*

This insurance coverage is the one that nonprofits generally ask about first, but which is most misunderstood. The common misconception is that a D&O policy is “catch-all coverage to protect the leadership against any and every lawsuit.”

D&O coverage is more aptly described as “management liability coverage. It protects the board and leaders and organization against lawsuits brought for ‘wrongful acts.’”

What is the meaning of “wrongful acts” under a D&O policy? It’s not defined consistently, but it is, “in essence, a leadership team’s breach or neglect of fiduciary obligations.”

For nonprofit coverage, most policies include “employment practices liability” coverage, which protects against claims involving the Equal Employment Opportunity Commission or other claims involving sexual harassment and discriminatory practices.”

- **General Liability Insurance:**

Because D&O coverage excludes claims involving bodily injury and property damage, the nonprofit organization needs separate general liability coverage.

Most insurers offer and include several types of coverage in a general liability package for nonprofit organizations:

*General liability:* Covers bodily injury or property damage claims, and includes defense for personal and advertising injury claims like copyright infringement. “If you want to rent space, gain a contract, get funding, have a special event, or work in partnership with another organization, you will most likely be asked to provide proof of general liability insurance.”

*Professional liability:* Covers the nonprofit for “services that could be considered professional in nature, whether you employ licensed professionals or not. If you have a mentoring, educational, life skills, counseling, or case management exposure at all, then professional liability is a necessary consideration.” Generally, for nonprofits, it’s bundled with the general liability coverage, so there are no gaps in coverage.

## *Additional Coverage*

- **Workers Compensation or Accident Insurance:**

This coverage is generally required by law even if there is just a single employee. General liability insurance does not cover injuries to employees.

“Volunteer injuries can be addressed by a standard general liability policy (unless there’s an additional volunteer exclusion added). Still, the volunteer accident policy can help protect your general liability bad claims experience by picking up minor volunteer mishaps.” Check with your insurance agent about this issue.

- **Property Insurance:**

Even if a small nonprofit doesn’t own much in the way of business property, there can still be unexpected and costly losses, e.g., “pipes bursting in an office, windstorm, fire, hail damage, theft, and vandalism.”

- **Auto Insurance**

Coverage is needed for any vehicles owned by the organization. Even if an organization does not own a vehicle, there may be a need for “hired/non-owned auto coverage” for protection when someone uses a personal vehicle “for activities related to the nonprofit: running errands, transporting clients, etc.”

- **Cyber Liability**

Coverage for security breaches of data.

- **Employee Dishonesty**

Also called “crime coverage” or “crime bonds”; municipal contracts or foundation grants often require this type of coverage.

- **Abuse and Molestation Liability**

Coverage that is usually excluded on general and professional liability policies, but needed if the nonprofit serves “youth, seniors, developmentally disabled, or otherwise are charged with helping a disadvantaged population.”

## *Conclusion*

Risks can be mitigated, but never entirely eliminated. There is insurance coverage for many, though not all, risks.

Because of the specialized nature of the nonprofit sector, and the particular circumstances of each situation, it’s important to work with an experienced, knowledgeable, insurance professional who specializes in this type of insurance coverage.