

# A HEAD for Insurance... A HEART for Nonprofits

By Susan Bradshaw

**A** Head for Insurance...A Heart for Nonprofits. That's the tag line of a unique group of nonprofits — the Nonprofits Insurance Alliance Group (NIA Group). The NIA Group consists of the Nonprofits' Insurance Alliance of California (NIAC); the Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG); National Alliance of Nonprofits for Insurance (NANI); and Alliance Member Services (AMS). (See "Nonprofit Insurance Tipsheet" on page 26.)

NIAC and ANI-RRG provide

liability insurance to 501(c)(3) nonprofits. NANI provides reinsurance for NIAC and ANI-RRG, and AMS is the management support organization that provides support for all the companies. All are 501(c)(3) nonprofits. The history of these nonprofits illustrates the impact the nonprofit sector can have when it works together.

## How Did We Get Here?

Sixteen years ago, nonprofit organizations across the country had little idea that they were about to face a serious threat to their

**How has insurance for nonprofit organizations changed over the years? A group of entrepreneurial nonprofits has transformed the insurance landscape forever.**

existence. Seemingly overnight in mid-1985, obtaining liability insurance became somewhat of a lottery. Not only did nonprofits have a hard time finding coverage, but when they did, the premiums were two, three, four, even 10 times their prior year's premiums.

Why? The insurance market was going through what's called a "hard market." During hard markets, insurance capacity shrinks, prices increase, and insurance companies' leverage ratios become distorted, forcing them to give up some business. While nearly all insurance purchasers receive price increases during these times, organizations with perceived high transaction costs relative to premium size, or those whose claims are considered difficult to predict, get hit the worst. Nonprofit organizations fit into both of those categories. In the mid-'80s, in some instances, commercial insurers would cover a nonprofit only if it changed its mission to fit the insurance carrier's criteria. In other words, insurance companies were dictating what social services would be provided in our local communities.

In 1987, it became clear to some in the nonprofit sector that insurance companies were holding all the cards. Commercial insurers said that nonprofits were bad risks. Nonprofits didn't know whether they were bad risks or not, and nobody in the nonprofit sector had the data to disprove the allegations. Without good data about the cost of their own risk of operation, nonprofits were at the

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mercy of insurance models designed for pricing for-profit risks.

Commercial insurers, who were presumed to have good information about the cost of claims against nonprofits, stuck by their

## Nonprofit Insurance TIPSHEET

**Nonprofit Insurance Alliance Group (NIA Group)**

**Founder/CEO and President:** Pamela Davis

### Companies that make up the NIA Group:

#### ■ Nonprofits' Insurance Alliance of California (NIAC)

**Founded:** 1989

**Mission:** To be a stable source of liability insurance for nonprofits in California

**Member-insureds:** 4,500

**Estimated 2004 premium:** \$41 million

#### ■ Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG)

**Founded:** 2001

**Mission:** To be a stable source of liability insurance for nonprofits outside California

**Member-insureds:** 1,030

**Estimated 2004 premium:** \$13 million

**States/regions currently writing in:** CO, CT, DE, IA, KS, MD, MI, MS, NE, NV, NC, OH, OR, PA, UT, VA, VT, WA, and DC

#### ■ National Alliance of Nonprofits for Insurance (NANI)

**Founded:** 2001

**Mission:** Provides reinsurance to ANI-RRG and NIAC

#### ■ Alliance Member Service (AMS)

**Founded:** 2001

**Mission:** Provides management and staff support to ANI-RRG, NIAC, and NANI

For more information on the NIA Group of Companies, visit [www.insurancefornonprofits.org](http://www.insurancefornonprofits.org).

story that the high prices were appropriate for the risk. Because insurance company databases are proprietary, the only way to prove them wrong was for nonprofits to be in the business of insuring themselves.

In response to this crisis, the Nonprofits' Insurance Alliance of California (NIAC) was created in 1989 with the support of six visionary foundations. The idea for NIAC was proposed by Pamela Davis in her master's thesis for UC-Berkeley.

NIAC is itself a 501(c)(3) nonprofit. Its mission is to be a source of stable liability insurance for 501(c)(3) nonprofits in California. NIAC is now in its sixteenth year of operation, insures more than 4,500 nonprofits across the state, and in 2004 wrote over \$41 million in premium.

In 1999, the David and Lucile Packard Foundation funded a feasibility study to determine what it

**Nonprofits often learn of coverage gaps in their policies only after a claim occurs.**

would take to expand NIAC's concept nationwide. The study's results led to the creation of the Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG). Initial capital for ANI-RRG was provided by generous grants from the David and Lucile Packard Foundation and the Bill & Melinda Gates Foundation. Each contributed \$5 million in grants to launch this new enterprise and its affiliated reinsurer. ANI-RRG began operation in 2001. It currently provides insurance to more than 1,000 nonprofits in 18 states plus D.C. and in 2004 wrote over \$13 million in premium.

### What Have We Learned?

After 16 years of handling 10,000 claims against nonprofits, the NIA Group has found that nonprofits are no greater risk than other mainstream commercial enterprises, and the sector now

**Nonprofits aren't the undesirable, unprofitable, high-risk businesses that so many believed.**

has the data to prove it. Members of the NIA Group are no longer vulnerable to the wild swings of the commercial marketplace.

The NIA Group also has demonstrated to the commercial insurance industry that nonprofits really are good business. The NIA Group's financial statements show that nonprofits aren't the undesirable, unprofitable, high-risk businesses that so many believed. While not all carriers see the value in nonprofit business, several carriers have identified charitable nonprofits as a target market.

### How Far Have We Come?

In terms of market position for the sector and overall clout for the future, nonprofits are in a much better position than ever before. For example:

**Broader availability of coverages.** Insurance policies written for for-profit organizations are often "patched" with endorsements that are longer than the body of the policy itself. These policies are extremely complex and difficult to understand. Nonprofits often learn of coverage gaps in their policies only after a claim occurs. One example of the type of coverage most nonprofits need, which is commonly omitted on commercial insurance policies, is coverage for sexual abuse.

The NIA Group has demonstrated that it's possible to provide broad coverages to all types of 501(c)(3) nonprofits without excluding large portions of the sector. For example, many carriers, even those specializing in nonprofits, shun those with premium sizes under \$2,000. Roughly 38% of ANI-RRG's and NIAC's members fall into this category.

**Greater market presence and better pricing.** Because ANI-RRG and NIAC are in the marketplace,

the NIA Group acts as a stabilizing force to moderate commercial prices.

**Control of data, including claims and underwriting information.** Sixteen years of collecting underwriting and claims information about nonprofits represents an important step in learning about nonprofits' true claims experience and refining the rates for different types of exposures. Developing a robust database controlled by the nonprofit sector is essential to ensuring that nonprofits are never again at the mercy of the commercial market.

**Risk management.** Loss control and risk management tools available from the insurance industry are designed for for-profits. Before the NIA Group arrived, there were virtually no resources for nonprofits about the nature of claims against them or tools to help them reduce those claims and the associated cost and injury to others.

The NIA Group goes out of its way to take the mystery out of "risk management." Risk management is just good management. And to this end the NIA Group believes that a pro-active approach to loss control and risk management is a key business strategy.

The NIA Group collaborates with the Nonprofit Risk Management Center and the National Safety Council to deliver risk management and loss control tools for nonprofits. Before it could develop such tools, the NIA Group needed to capture and analyze data about claims specific to nonprofit organizations. Now that it has such data, the NIA Group can design resources for the special risks attached to nonprofit services.

For example, many nonprofits have vans or other vehicles. In most cases, drivers aren't familiar with the vehicle size or type. To assist nonprofits, the NIA Group provides free driver training for organizations with auto liability insurance.

Another example is the list of educational booklets available to the sector through the NIA Group, covering topics such as risk-free special events, collaboration, and volunteer management. These resources are critical in helping

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nonprofits operate more safely and avoid claims against them.

### Where Are We Now?

In 1989, creating a source of affordable liability insurance for the nonprofit sector was the immediate challenge. That problem was solved and more. The sector now has a potent tool to manage an important financial resource. As nonprofits continue to serve our communities, the NIA Group will be there to provide protection for their operations.

The founding vision of the NIA Group remains its mission: "to provide a stable source of reasonably priced liability insurance tailored to the specialized needs of the nonprofit sector and assist these organizations to develop and implement successful loss control and risk management programs."

The tag line of the NIA Group is even more true today — A Head for Insurance...A Heart for Nonprofits.

### Resources

Curry, Timothy, "What Is the Board's Role in Managing Risk?", *Nonprofit World*, Vol. 15, No. 5.

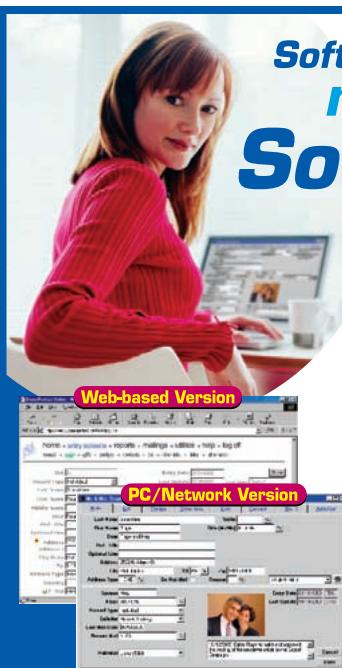
Herman, Melanie, "How Risky Is Your Special Event?", *Nonprofit World*, Vol. 20, No. 1.

Grunewald, Donald & Barbara S. Frees, "Does Your Board Need Liability Insurance?", *Nonprofit World*, Vol. 12, No. 6.

Sills, Stephen & Scott H. Smith, "The Emperor's New Clothes, Or How to Protect Against Lawsuits and Other Chilling Surprises," *Nonprofit World*, Vol. 13, No. 6.

These resources are available at [www.snpo.org/members](http://www.snpo.org/members).

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