



Hurricanes, Strikes, Terrorism—Protect Your Events from These Causes of Loss

Don't let your special events put your organization and board members at risk.

By John Toepfer

The major revenue-generators for many nonprofits are annual conferences or conventions. The consequences of losing this revenue could be catastrophic. Yet many organizations unknowingly “self-insure” this critical exposure. (When you self-insure, you simply set money aside to compensate for a possible loss.) Let's look at why self-insurance may be a mistake and why you'll be better off buying event-cancellation insurance.

What Is Event-Cancellation Insurance, & Why Do You Need It?

Event-cancellation insurance is designed to minimize the financial risks associated with sponsoring events such as meetings, conventions, seminars, and tradeshows. Such insurance protects these vital revenue generators by covering unexpected problems that are beyond the event planner's control.

Coverage extends not only to total cancellation of an event but also

to curtailment, postponement, or relocation of the event to another venue. Perils that are covered can include weather-related disasters, work stoppages and strikes, and even terrorism. (Poor planning, low attendance due to lack of interest, or losses resulting from war or nuclear, biological, and chemical attacks are excluded.)

In addition to protecting your event's revenue, the insurer may also cover extra expenses you might incur to prevent a cancellation or minimize the impact of loss. If the event must be postponed or rescheduled, the insurer often will include additional coverage for marketing expenses associated with advertising the revised event date to attendees.

What Factors Should You Consider?

Here are questions to ask when you consider purchasing insurance for a convention, show, or event:

What Catastrophes Are Covered?

Event-cancellation insurance is a “specialty” offering (tailored to specific situations), rather than an “off the shelf” product. Thus, the differences between one insurance carrier and another can be significant.

For example, when you obtain quotes from insurance agents, you'll receive several options addressing terrorism. One option may be “full terrorism” coverage. Although “full terrorism” sounds all-encom-

passing, it may not be as broad as you'd like. One insurance carrier may define “full terrorism” to mean terrorist events as determined by the Terrorism Risk Insurance Act (TRIA). Another policy, however, may not require a terrorist incident to be certified by TRIA in order for it to be covered. It's important to ask exactly how the insurance carrier defines “full terrorism.”

Be especially careful about the insurance you buy if you're holding events overseas. In recent years, for instance, there have been warnings about pandemics such as those related to avian flu. Virtually all insurance carriers exclude coverage for avian flu and endemic disease-related incidents. If you find the right insurance carrier and ask for such coverage, however, you can probably obtain it. And if your event is in Europe or Southeast Asia, coverage for such outbreaks will provide peace of mind.

Are Your Board Members Protected?

The decision whether to purchase event-cancellation insurance can have serious consequences for board members. When making this decision, review your directors' and officers' (D&O) insurance policy. Check to see if it includes a “failure to maintain insurance exclusion.” If it does, that means board members may not be protected if they fail to maintain proper insurance for the organization. In other words, if

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your D&O insurance contains such an exclusion, you're putting your organization and board members at risk.

Suppose, for example, that your board decides not to purchase insurance for an event, and then the event is canceled due to a natural disaster. If your D&O insurance contains a "failure to maintain insurance exclusion," it's likely that no coverage would be provided to defend board members for their decision. They could be held liable for the losses sustained. The good news is that it's possible to purchase a D&O policy that has no such exclusion in it.

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Is It Worth the Cost?

Minimum premiums for event-cancellation insurance can be as low as \$500. Rates for such insurance typically range from .006 (.6%) to .009 (.9%) of the policy value.

Let's look at how the leaders of one organization, the ABC nonprofit, decided whether buying event-cancellation insurance was worthwhile. They explained to their insurance agent that they planned to hold a show in Orlando, Florida, in mid-July. Based on past events, they anticipated earning \$590,000 from the show. Thus, \$590,000 would be the value of the policy. Here's the quote they received for event-cancellation insurance:

- Quote including limited terrorism coverage with a limit of \$295,000 = $.0065 \times \$590,000 = \$3,835$

- Quote including full terrorism coverage with a limit of \$590,000 = $.008 \times \$590,000 = \$4,720$

- Quote including the complete removal of the terrorism exclusion = $.0085 \times \$590,000 = \$5,015$

These rates are a bit higher than average, since the event takes place during Florida's hurricane season.

Variables such as the event's location, time of year, and risk of terrorism and natural disasters will all affect the premium charged.

Now consider that many nonprofit organizations, maybe yours, generate a large percentage of their annual revenue from shows, meetings, conferences, and conventions. It's not unusual for an organization to generate more than 50% of its revenue from its annual event. Risking the total loss of so much revenue makes little sense.

That's why the leaders of the ABC nonprofit organization made the decision to buy event-cancellation insurance. The insurance quote indicated that they could transfer their risk for less than 1% of their show's revenue. Since the risk of cancellation or postponement due to hurricanes is quite high in Florida in July, buying such insurance was well worth the cost.

Do You Need a Blanket Policy?

If your organization holds more than one event a year, you should consider purchasing a blanket policy rather than buying insurance one event at a time. For example, the XYZ nonprofit organization, which holds shows in April and October, buys coverage for both events under the same policy. There are several advantages to this option:

- Most insurers will automatically provide, for no additional charge, coverage for indoor events that earn less than \$50,000 in revenue. In the case of the XYZ nonprofit, any indoor events from April through October are automatically covered. (Outdoor events, however, still need to be reported to the insurance carrier.)

- A blanket policy can reduce the cost of insurance premiums. Suppose, for instance, that the XYZ organization holds its October event in a city that suffers a hurricane, earthquake, or terrorist act. The insurance premium it bought before the disaster will likely cost far less than if the organization purchased the insurance in the midst of a busy hurricane season.

- You can minimize administrative work by completing one application, along with a supplemental

addendum, rather than multiple applications.

- Not only can you insure coverage for many different events on the same policy, but you can often purchase coverage for events being held several years from now (normally two to three years). You can thus lock in lower rates while covering any potential event you may hold within the next few years.

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How Do You Find the Best Policy?

An insurance agent specializing in nonprofit organizations can help you find the best policy for your needs. You can complete one application, and the agent can take it to a variety of carriers, obtaining a quote from each one. Your agent can then provide a detailed coverage analysis to help you choose the right option for your organization.

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Resources

Ennevor, Harry, "Get the Best Protection for Your Insurance Dollar," *Nonprofit World*, Vol. 24, No. 4.

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

Tesdahl, Ben & Maria Spindel, "Holding Conferences in the Face of Terror & Natural Disasters," *Nonprofit World*, Vol. 23, No. 6.

These resources are available at www.snpo.org/members.