



Purchasing Insurance: Don't Do It Again Until You've Read This

It's a complex subject. Here, an expert breaks it down into simple guidance.

By Pamela Davis

Observing the decision-making process some organizations use to purchase insurance is like watching a train wreck. I'm convinced that there's something about the insurance purchase that causes many otherwise smart decision makers to go off the rails. Let's look at the problems and what to do about them:

You Buy a Promise to Pay

The problems start because, with insurance, what you buy is a promise to pay if something goes wrong. What else do we purchase that's really of no value unless something goes wrong in our lives? And, with insurance, you can't just "return" it if you don't like what you get. Too late for that once that bad thing has happened.

Furthermore, insurance policies are so arcane and boring that just about the only thing that would motivate most people to read them is to cure a serious case of insomnia. Insurance policies contain all kinds of legal terminology, and huge differences in coverage can result from the clever insertion of the word "or" rather than "and."

We want to believe that there's some "regulator" out there somewhere that's going to protect us. We want to believe that "they" won't let insurance companies sell policies that are illegal. Well, to some extent that's true. However, as we found out with the financial crisis and recession caused by the housing bubble, products don't have to be illegal to be misleading or deficient, even dangerous. Products that technically meet the letter of the law can, nonetheless, be very bad for the consumer.

Insurance Responsibility Is an "Orphan" at Most Organizations

What does this have to do with the nonprofit executive? A lot. Often at nonprofit organizations, the responsibility for

the purchase of insurance is relegated to a junior clerical employee who doesn't have the clout to turn down the assignment, or it becomes a big political fight at the board level. Neither scenario is healthy.

Recognize that You Have an Expertise Problem

There are precious few nonprofit organizations that have anyone on the staff or board qualified to advise the organization about all of the types of insurance and which policies make the best sense. And, if that person does exist, he or she is probably an insurance broker on the board or maybe a friend of a board member or the executive director.

Insurance is a relationship business, no doubt about it. But just because a broker has a good personality and is a friend of a board or staff member isn't a good reason to have that broker advise you on your insurance purchase. You should have policies and procedures that prevent this situation from happening. Insurance brokers should be selected for their quality of work in service to your organization. Period.

Rule #1

Your broker shouldn't be one of your board members, nor should friendships or donations drive the broker selection decision.

SO, IS THERE A MATCH.COM TO FIND A GREAT INSURANCE BROKER?

There's no surefire way of finding the right broker for you. But, whether the selection is done by a committee of the board or by a single executive or team, using a thoughtful process can go a long way towards getting to the right result.

Start by contacting nonprofit colleagues and associations whom you respect. Ask who they use for their insurance broker and why they like them.

Throw out the recommendations that simply focus on personality (“he’s a great guy”) and pay attention to the ones that focus on the brokers’ expertise and prompt service.

Be wary of associations that refer brokers who pay them an “endorsement fee.”

Ask for examples of broker conduct that has impressed the person making the referral.

Once you’ve collected a couple of names, call these brokers and speak with them on the phone. Interview them like you would interview prospective new employees. Ask for references. Call those references.

Once you think you’ve chosen the right broker, have one more person you respect give the broker a call and see if their impressions match yours.

Ideally, you’ll then meet with the broker in person. In reality, if you’re a very small nonprofit, you might need to work with the broker over the phone most of the time. But you should expect the broker to visit your facility periodically. As with every rule, there are exceptions.

Rule #2

It’s not how much “face time” you get from a broker that matters, it’s whether the broker is skilled in the profession and committed to doing what’s best for your organization, first and foremost.

BUT ISN'T THE BEST BROKER THE ONE WHO TAKES ME TO LUNCH OR GIVES THE BIGGEST DONATION?

There’s nothing wrong with having lunch with your insurance broker, but if you take an honest look at the situation and determine that this is the broker’s greatest value, you have a problem.

Nonprofits have special insurance needs and there are certain insurance carriers that have developed policies that address those special needs. Good brokers are incredibly knowledgeable about their profession and are in a position to be extremely helpful to your organization.

Your broker should be able to discuss your various options and be versed in coverage that matches your organization’s particular risks. You want your broker to be an expert and a professional who gives you great advice that you can turn into actionable decisions. You want a broker who will return

your calls and e-mails and answer your questions in ways you can understand and trust. You need donations, but please don’t base your decision on whether the broker or the insurance company donates to your cause. That could cost you a lot of money in overpaid insurance premiums or coverage inadequacies.

Rule #3

You shouldn’t have to be the insurance expert. (You have a nonprofit organization to run!) Make sure your broker is an insurance expert with a good understanding of nonprofits’ special insurance needs.

You Have to Be into the Details

I just said you don’t have to be an insurance expert. But, that doesn’t get you off the hook.

The person responsible for purchasing the insurance for the organization should have an intimate knowledge of the nonprofit’s operations and have access to information required on the insurance application.

Make no mistake. A broker who encourages you to leave a bunch of blanks on the insurance application and doesn’t take the time to get the information requested by the insurance company isn’t doing you any favors. You wouldn’t turn in a half-completed application to a foundation from which you’re requesting a grant, would you? But, you can’t be bothered to give some basic detail about your organization to an insurance company who is putting out at least a \$1 million promise to pay? If the insurance company is going to “fill in the blanks” for you, it’s going to estimate high. You won’t get the best offer.

Rule #4

Take the insurance application process as seriously as you would a grant application.

Your Website Is Your “Facebook” to the World

Prospective employers now check out social media sites to see what future employees are telling the world about themselves. Insurance companies use websites in much the same way to learn about prospective insureds.

Rule #5

Make sure your insurance application reflects the same information that’s on your website.

You might want the world to be amazed by all the wonderful things you’re doing by embellishing the truth a bit on your website (230 clients served rounds to 700, right?), but be aware that insurance companies use this information for rating purposes.

If you say on your website that you have six programs, but three of them are kinda, sorta, in the works, a good insurance underwriter will wonder why you list three on

“Beware! Insurance companies will use your website to rate your organization.”

your insurance application and six on your website. By extension, the underwriter will then question the truth of the rest of your insurance application.

Turn into the Inquisitor when Your Broker Presents the Options

One of the most common and surprising questions I get is, “Can I ask my broker how much he (or she) is being compensated?” My response is, “What other professional consultant would you hire without asking about compensation?”

The fact that brokers are paid by insurance companies makes the question even more important. When reviewing your options with the broker, ask how much compensation he or she is receiving from each insurance company for which a quote is presented.

You should also ask whether the broker is receiving any “contingent commissions” or any other compensation from any of these insurance carriers. If the broker refuses to disclose this, find another broker.

Rule #6

There are no “dumb” insurance questions.

When the broker is going over quotes for the different coverages with you, pay close attention. Remember that it’s the broker’s job to translate what you’ve told the broker about your nonprofit to get you the right insurance coverage for your exposures. If you’re concerned that the broker might have failed to understand something about your operation, now is the time to ask questions about coverage.

Insurance is an arcane and complex subject. If you’re uncertain about anything, ask!

Insurance Isn’t a Substitute for Good Management

Insurance is a necessary cost of doing business. It’s the safety net you’re glad you have when, despite your best efforts, something goes wrong and someone is hurt or property is damaged.

Risk management isn’t a mystery. Risk management is simply good management.

Many of the books published on the topic make risk management about as appealing as trigonometry is to most high schoolers. Good risk management doesn’t have to be daunting. It’s a state of mind. It’s a keen awareness of your organization’s workings and how you interact with your clients, your staff, your volunteers, and members of the public. Good nonprofit leaders put policies into place to anticipate what might go wrong with these interactions. They train staff and volunteers how to conduct themselves so that injury will be avoided whenever possible and properly handled when it does occur.

Follow This Simple Guide

Next time the responsibility for purchasing insurance falls on your lap, see it as an opportunity to work with an engaged professional to protect your organization if something goes wrong, as well as a resource who will work with you to make sure the odds of accidents and injuries are low. Expect this person to have a broad and deep understanding of insurance and to learn enough about your operations to help you purchase just the right coverage. Ideally, that person should be someone with whom you would enjoy having lunch, but that should be really low on your list of selection criteria. With insurance, it’s best to go for expertise and great service, even if you have to buy your own lunch!

A few basics to remember:

- **Remove even the appearance** of a conflict of interest from your insurance purchase.
- **Hire a broker for insurance expertise**, market access, and service, period.
- **As with any consultant, ask** about compensation.
- **Take your broker’s request for information** as seriously as you would a funder’s.
- **Expect your broker to be able to translate “insurance-eze”** in a way that works for you.
- **Expect your broker and insurer to assist** with risk management needs. 

Pamela Davis (pdavis@insurancefornonprofits.org) is the founder, president, and CEO of the member companies of the Nonprofit Insurance Alliance Group (insurancefornonprofits.org). Together these 501(c)(3) tax-exempt insurers provide property/casualty insurance for more than 10,000 nonprofits in 26 states and DC. This article is adapted from You and Your Nonprofit: Practical Advice & Tips from the CharityChannel Professional Community, courtesy of CharityChannel Press, available at CharityChannel.com, Amazon.com, and barnesandnoble.com.

Don’t Put Your Organization at Risk

For more, see these articles at NonprofitWorld.org:

What Is the Board’s Role in Managing Risk? (Vol. 15, No. 5)

Get the Best Protection for Your Insurance Dollar (Vol. 24, No. 4)

Will You Be Ready When Disaster Strikes? (Vol. 18, No. 3)

Foreseeable Harm (Vol. 20, No. 3)

Does Your Board Need Liability Insurance? (Vol. 12, No. 6)