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Introduction

UNRAVELING THE MYSTERIES OF INSURANCE

Among myriad products and services that a nonprofit organization purchases insurance is unique. Think about it. What other service is there for which an organization pays so much, gives little thought to and, if lucky, never has to use? It is often expensive, sometimes mandated by law, and for many managers utterly incomprehensible.

Yet insurance is often essential for the good health of a nonprofit. In fact, most businesses, governments and nonprofits would not consider operating without it. For many, insurance enables an organization to serve vital community needs while protecting critical assets. One would expect then that insurance would be high on the list of a nonprofit executive's must understand list. But on the contrary, say the word insurance to many and you may notice their eyes glazing over. But given its importance to the proper functioning of an organization, there are perhaps more appropriate responses.

By simply picking up this book, you have taken the first important step by acknowledging that insurance is something that you need to know more about and understand better. You know that having the right insurance in place protects your organization's valuable resources, allows your staff and board members to serve without uncontrolled fear and may even help you to sleep better at night. But what is the right insurance and how do you know if you have it? This book is about answering these questions. Or rather it is about giving you the tools that you need to answer them for your nonprofit.

Nonprofits purchase insurance for any number of reasons. Many nonprofit managers believe that insurance is the most effective way to finance risk and, therein, to protect the organization's financial and physical assets. Although every nonprofit has some risk control measures in place—a staff screening protocol, policies and procedures for service delivery, and internal controls—insurance provides a funding mechanism to pay for losses or to finance the risk of loss. Risk financing through insurance provides the funds to pay for the nonprofit's unexpected losses of people, property and income, while ultimately keeping the organization in operation.

For many nonprofit insurance buyers, a daunting or frustrating aspect of insurance is its complexity. With rare exceptions, nonprofit managers throughout the sector approach the handling of an insurance program for their organizations with trepidation and dread. The insurance industry is difficult to understand and, like other segments of the business world, has its

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The insurance landscape is dynamic; statements about coverage or the process involved that were true only a decade ago may no longer be so. And the various companies and organizations within the insurance industry cannot agree on policy terms, language, and the needs of nonprofits.

own language. Therefore, it is difficult for someone outside of the insurance industry to understand how it works. Your insurance agent or broker appears to speak a foreign language and you may be frustrated by a sense that your insurance professional is principally interested in selling more coverage rather than helping you understand what you are buying and why. A nonprofit manager has a seemingly unlimited number of insurance coverage options with which to finance an infinite number of risks. However, it is difficult to discern which insurance coverages the organization really needs as a part of a comprehensive and appropriate risk-financing plan.

The purpose of this book is to help nonprofit managers and board members unravel the mysteries of the insurance industry, while gaining a deeper understanding of their insurance needs, options and opportunities. This is no easy task. Even insurance professionals and attorneys cannot agree on what the various policies say. Some readers may recall the protracted debate about whether the destruction of the two World Trade Center Towers was one event or two for insurance purposes. The answer had multibillion-dollar consequences. Is it possible for a nonprofit manager to thoughtfully interpret the provisions of a policy when insurance experts cannot agree on what a policy intends to cover?

This book will provide a background for any reader interested in becoming more knowledgeable about how the insurance industry operates and the various policies and coverages available to nonprofits. The book explores the role of insurance within a nonprofit's risk management plan. It also offers guidance on managing your insurance program, including how to evaluate your organization's insurance needs. The book examines the purchasing process and basic steps in claims management and offers an overview on the dynamics of the insurance industry.

For experienced risk managers and insurance program managers, *Coverage, Claims & Consequences—2nd Edition* will serve as a helpful reference. This book also will help round out your knowledge of various coverages and approaches to insuring nonprofit risks.

Chapter 1, *Risk Management and Insurance*, offers a brief introduction to risk management and the role insurance plays in a risk management program. Most nonprofits rely upon insurance as the principal technique for financing risk. Every nonprofit has multiple risks, the key is to identify whether insurance is an appropriate financing tool, and to purchase coverage that is appropriate for the common or unique situations for which financing is required.

Chapter 2, *The Insurance Industry*, explains how the insurance industry works. This chapter explains the various players—insurance companies, agents, brokers, consultants, risk managers and regulatory departments. It also examines how the industry is regulated and other information important to purchasers of insurance. The chapter concludes with commentary on the cyclical nature of the insurance industry, and tips on surviving hard market conditions.

Chapter 3, *Managing Your Insurance Program*, provides a suggested approach to handling your organization's insurance program. This chapter offers suggestions for the assignment of the duties and responsibilities for the insurance program manager. It discusses the establishment of risk-financing goals and objectives for the risk management program, including the role of insurance within the program. Learn how to maintain accurate insurance records and organize your insurance policies, what to do with certificates of insurance, and the importance of reviewing contracts for insurance provisions. The chapter also briefly addresses claims management and

provides guidance on writing an annual insurance report and coverage summary.

Chapter 4, *Purchasing Insurance for Your Nonprofit*, explains the process for purchasing insurance. The chapter discusses how to select an insurance professional, the use of insurance or risk management consultants, risk identification, preparation of insurance specifications or a request for proposal, and policy review. A key component of any insurance program is to purchase and maintain the appropriate coverage as the organization changes. The insurance program manager or risk manager for a nonprofit must be involved or informed of any and all changes within the organization to ensure that the nonprofit has the proper insurance.

Chapter 5, *Understanding Your Insurance Coverage*, offers insight into how to read an insurance policy without breaking into a rash. One insurance broker estimates that insurance companies issue 65 percent of all insurance policies incorrectly. Although your insurance professional will review the policy, you need to check it for accuracy and make certain that it matches the proposal or other documentation you received prior to authorizing the binding of coverage for your nonprofit. The chapter concludes with a discussion of different categories of insurance.

Chapter 6, *Liability Insurance*, will identify the liability (formerly called casualty) policies most often purchased or needed by nonprofits. The chapter will explain the basic policy coverages and when a nonprofit might need each type of coverage.

Chapter 7, *Property Insurance*, examines the property coverages that nonprofits might purchase.

Chapter 8, *Miscellaneous Policies*, discusses a number of policies that have liability and property components, including: the business auto policy, international coverage, accident medical reimbursement, and personal liability policies.

Chapter 9, *Health, Life and Disability Insurance*, discusses various forms of health, life and disability insurance.

The *Glossary* provides a list of key insurance and other risk management terms. This Glossary can also be found on the Web at: <http://nonprofitrisk.org/library/glossary.shtml>.

The final section, *Resources*, provides a list of organizations and literature that may be helpful to a nonprofit in managing its insurance program.

We hope you will refer to *Coverage, Claims & Consequences* from time to time as you manage your nonprofit's insurance program. At times you may choose to simply flip to the appropriate chapter. However, if managing an insurance program for a nonprofit represents a significant responsibility for you, you will be well served to read the entire book. The Center's ultimate goal is to help you understand and administer your nonprofit's insurance program effectively. For many organizations, insurance is a critical risk-financing tool and integral to long-term survival and peace of mind. Use this book to gain control over your nonprofit's insurance program as a part of an overall commitment to protect assets, protect against harm, conserve resources and free up resources for your community-serving mission—the ultimate goal of a nonprofit risk management program.

Beneath the dense language of insurance policies and forms lies a simple concept: By sharing risk with others, you create a climate where you can

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accomplish more than you could by going it alone. Nonprofit organizations embrace risk in serving their communities. A successful nonprofit must trade the certain and the known for unpredictable and the entrepreneurial. As the saying goes, "A ship in the harbor is safe, but that's not what ships are built for." The right insurance program does not abolish risk altogether for your nonprofit. Rather the right insurance program enables thoughtful risk taking and expands the horizons of your organization and its mission. In an environment where risk taking is supported by sound planning and decision-making, almost anything is possible.