

FINDING PROFIT IN NONPROFITS

Funding cutbacks accentuate the need for closer ties to clients

By Dave Willis

Joe Kennedy Sr. said, “When the going gets tough, the tough get going.” Nonprofits take this to heart. “They go through a lot of pain in recessionary times,” says John Sullivan, president of Great American’s Specialty Human Services Division, “but they have been survivors for the 17 years I’ve known them. They’re very resilient.”

Their tough going is real. “Because of the economic downturn, funding has been affected drastically,” notes Sheila Harris, director and branch manager for Markel, a specialty P-C insurance provider. “Not only are grant amounts down from governmental agencies, or even gone altogether, but donations from the private sector are also at an all-time low.”

Shelley Levine, who runs the School Insurance Group division for Bollinger, Inc., sees this, too. “Private schools count on large donations from alumni, but they’re down,” she says. “Also, some people can no longer afford tuition in this economy, so revenue is off there, too. It’s a double-whammy. It’s even tough to attract people to fundraisers, because organizations are coming at them from all angles.”

The tide may be turning. “Individual and corporate donors are starting to loosen the purse strings a little more,” says Riley Binford, executive vice president at Charity First, a program manager specializing in insuring nonprofit organizations. “We are hopeful that government funding will pick up, as well.”

Regardless of income, resiliency keeps nonprofits going. And that’s good. “Even while revenue streams are down, the need for their service continues,” notes Harris.



“Agents that demonstrate commitment and expertise become great solution providers. Over time, they’re sought out.”

John Sullivan
President
Specialty Human Services Division
Great American

Management concerns

Eric Johnson has plenty of opportunity to observe nonprofit operations. As assistant vice president and D&O business co-manager at Aon Affinity, a managing general agent that writes some 14,000 nonprofit D&O policies, he's particularly attuned to management issues and risks.

According to Johnson, risks vary even within niches. Take trade and professional associations, for instance. "You could have a very small association that holds an annual meeting and, perhaps, disseminates information to members," he explains. "At the other end of the spectrum, huge associations do those things but also endorse or sponsor products and services, engage in peer review activities, and provide social networking opportunities and legal guidance for members." Risks and coverage needs differ.

One common issue, however, is antitrust. "A lot of policies are unclear when it comes to coverage for antitrust," Johnson says. "I advise agents to determine the carrier's stance on antitrust. Are they silent? Is it excluded? Is there specified coverage? Is it defense only? That makes a huge difference."

Another issue is the use of association management companies (AMC)—for-profits that manage associations. Some carriers extend D&O coverage to include such firms acting on behalf of associations, he adds. Sometimes the association wants that coverage. Sometimes not. "If you're an agent, and your client is managed by an AMC, find a carrier that provides that coverage, if it's important to the client," Johnson says.

Nonprofit charitable foundations present other risks. While a key driver for D&O claims is employment practices liability, foundations typically have few, if any, employees. "But third-party discrimination is an issue," he explains. "Someone could claim a grant application was denied based on fill-in-the blank. If a foundation doesn't need EPL coverage, make sure they have third-party discrimination coverage, since it's often provided on the EPL form."

Increased IRS and attorneys general interest in foundation oversight may help agents serving this market. "New tax forms provide much more information about governance, compensation, use of independent contractors and other issues," Johnson notes. There's a side benefit. "Increased scrutiny heightens the foundation's awareness of risks associated with their organization."

According to Johnson, more carriers are providing EPL risk management services for the market. "They help with creating employee manuals, hiring and firing procedures, and more," he says. "And because the health of our insurance book is important to us, we provide these resources as well."

Special exposures

Great American Specialty Human Services Division is active with nonprofit schools. John Sullivan says, “We write hundreds and hundreds of independent sector schools, single-location elementary schools, Christian and religious schools, gifted and talented programs, and Montessori and other early childhood learning operations.” It’s a growth business. “There is an increasing demand for different forms of education,” he says.

Risks are growing, too. “Abuse and molestation is one concern,” Sullivan explains. “You’re dealing with an at-risk population.” Other risk-related issues include tuition coverages, business income extra expense, seasonality, building valuation and more.

“Another exposure is educators professional liability—the school psychologist, curriculum, testing, discovering learning disabilities, promoting and advancing students, and remedial programs,” he adds. Many nonprofit schools employ nurses, which presents added risk, and they have special automobile risks, including the use of 15-passenger vans, as well special events and off-site activities exposures.

Mark McCrary, ARM, AIC, president of program manager Glatfelter Public Practice, says his firm is starting to see potential claims from the nation’s economic downturn. “Layoffs lead to higher potential for employment practices claims to occur,” he explains. Levine concurs. “In this economy, we’ll see increased employment practice claims, due to cutbacks, failure to promote or improper termination,” she says.

Other exposures exist, too. “We see more reasons for insureds to consider school violent acts coverage,” McCrary explains. “Some schools think they’re immune to that.” It wasn’t too long ago that a shooting occurred at an Amish schoolhouse in Pennsylvania. “That’s the last place you’d think a violent act would happen,” he adds. “But it did.”

Agents must fully analyze exposures and present coverage options from a specialist organization that focuses on the segment, McCrary says. “Agents need to counsel schools on the right types of coverage and proper limits for each. I can’t stress enough the value to front-line agents of a specialty niche provider. Relying on a specialist can boost agent confidence and offer peace of mind that the client’s program is well designed and comprehensive.”

Sullivan concurs. “These aren’t middle-market, Main Street accounts,” he adds. “Even small schools bring a fair amount of complexity. Agents should find carriers with refined product and service offerings in all those areas.”

McCrary says schools respect coverage counsel presented properly by a trusted agent. “There is always a pressure to cave on price,” he explains. “But agents skilled at explaining options and gaps can do well in this market.”

Zeroing in

It's important to recognize differences between nonprofits and their for-profit counterparts. "Contrast nonprofits to contractors," Binford explains. "By their nature, contractors are used to the bid process. If nonprofits find an agent or broker they like and trust, and if the carrier does a good job, they stick with them. They value relationships."

More than that, they refer business. "Agents that demonstrate commitment and expertise become great solution providers," explains Sullivan. "Over time, they're sought out. One nonprofit shares with another that their agent understands the space, speaks the language, understands funding and executive committees, and understands what nonprofit and mission means."

Introductions follow. "And then something wonderful occurs," Sullivan adds. "The independent agent is no longer selling; the nonprofit is coming to the agent for expertise."

Binford advises addressing nonprofit pain points. "Workers comp is a sore subject for most nonprofits," he explains. "A lot are in the assigned risk pool or the competitive state fund. If an agent comes in with a market that serves nonprofits with workers comp, it's a great door-opener for other business."

Harris reinforces the value of delivering extra value to nonprofits. "Agents and brokers need to provide risk management services," she explains. "And they need to make sure the insureds don't create gaps by dropping coverages, reducing limits and, perhaps, forgoing maintenance on facilities or vehicles, just to save a little on their premiums."

Levine works to do just that. "We deliver value-added services—risk control, risk management support and good claims management," she explains. "We recommend people look at their policies and procedures, make sure they're updated, well communicated and enforced. A document trail should exist."

She also helps with budgeting. "Nonprofits need to manage the bottom line," she explains. "Structuring multiyear insurance contracts helps, because it gives some level of predictability."

Building a specialty

According to Levine, nonprofit organizations are often stretched so thin running their programs that insurance doesn't get the attention it deserves. "Not-for-profits don't always have time to focus on insurance," she notes. "They look to their agents to be knowledgeable in the sector, to understand what coverages are important and what markets offer the coverage and enhancements they need to run their programs."

Johnson encourages forms familiarity. “Agents look at nonprofit D&O and think one policy is like another,” he explains. “Policies differ a great deal. There’s a greater onus to look at forms now, because they change and are updated often, and they differ from one carrier to the next.”

Sullivan affirms the value of expertise and specialization. His company recently completed detailed agency profiles around several criteria—including niche focus. “Agencies that are specialized and that stress coverage and service—theirs and ours—are high-achievers,” he explains. “They realize they need to bring value to the table; they’re not intermediaries. Optimally they meld their and the carrier’s service.”

He spoke recently with an agency doing just that. Three or four years ago, the agency segmented its portfolio and realized its third-largest market was a nonprofit market. “They dedicated resources, and it’s now their top area,” he explains. “If the demographics support it, other agencies should consider devoting producers and support staff around such a space.”

McCrary offers additional advice. “Look to a specialist to partner with,” he explains. “If you can develop a specialty or access specialty markets, that’s where your strengths will be. These markets have the coverages needed for the specific industry. But make sure they’re stable. The worst thing for an agent is to write something today and then move it next year and the year after.”

Charity First’s Binford echoes the stability admonition. “Some new carriers have entered the market, and some have started serving nonprofits traditionally served by the non-admitted market,” he explains. “When the market turns, a lot of these admitted markets will retract. They don’t have the flexibility. It’s important to assess commitment to the market.”

Tapping markets that deliver extra value—including claims expertise, well staffed loss control and risk control, risk management planning tools, client education and access to market risk information and counsel—is also important, Binford believes.

Sullivan says there’s good reason to build specialization in the arena. “This has been one of the fastest growing spaces in the U.S. economy over the last decade,” he explains. Plus, it’s sizable, employing nearly 10% of the country’s workforce—more than what the U.S. Bureau of Labor Statistics says work in the entire finance industry, including insurance and real estate, combined.