

Insurance basics for nonprofit organizations

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This document is intended as general and abbreviated guidance for nonprofit organizations. Because every organization's insurance needs are a little different, we encourage you to work with an agent or broker who understands your particular risk exposures and has access to insurance markets appropriate for nonprofit organizations. If you have questions about any of the information that follows, you are welcome to contact William Henry at CIMA Volunteers Insurance, 800.222.8920.

General liability

This coverage protects your organization against allegations that someone suffered bodily injury, property damage or various kinds of personal injury arising from your premises, your operations or your products, if applicable.

General liability insurance is rated different ways depending on the best way to measure your organization's risk. Square footage, receipts, payroll and the number of members or participants may be used in determining a price. No matter how the coverage is rated, it is important to get quotations for at least \$1,000,000 each occurrence and \$2,000,000 policy aggregate. Higher limits may be available and affordable, and you should ask your agent to explore this. General liability costs begin around \$450 - \$700, depending on the organization.

Every organization needs a general liability policy. Also, any vendors or contractors you hire should provide evidence of current coverage for general liability (and for workers' compensation, discussed below). Consider requiring that your organization be named as an "additional insured" on the vendor's or contractor's general liability policy, to protect you in the event your organization is named in a suit arising from the other party's negligence.

Professional liability excluded – Please keep in mind that the general liability policy provides no protection against allegations of an error or omission in your delivery of professional services. Over the years, the definition of "professional" has expanded greatly. Many nonprofit organizations that engage in counseling, vocational training and other kinds of instruction have a professional liability exposure. Professional liability insurance coverage is available. Policies are nonstandard; they are written specifically for each organization's particular risk.

Volunteer liability – A broadly written general liability policy includes coverage for bodily injury, property damage or personal injury by volunteers. However, many nonprofit organizations choose to insure their volunteers separately, to protect the organization's own



available limits of liability and its claims experience, in the event that a volunteer causes a claim. The policy available through CIMA Volunteers Insurance provides up to \$1 million in protection, in the event of such a claim.

Directors and officers liability

Directors and officers of nonprofit organizations face virtually the same exposures to lawsuits as do corporate directors and officers. Directors and officers can be sued for wrongful acts, or mismanagement of the organization or its resources. These wrongful acts result in financial damages, not bodily injury or property damage, so they aren't covered by general liability insurance.

Among nonprofits, the most frequent allegation involving board liability is employment practices – wrongful termination, for example, or discrimination in hiring or promotion practices. This coverage can usually be added to a directors and officers liability policy; general liability insurance policies usually do not respond these matters.

A broadly written directors and officers liability policy will cover allegations such as wrongful termination; failure to hire or promote; discrimination, including sexual harassment; claims alleging mental anguish and emotional distress. Other risk exposures that are covered include libel, slander or defamation; invasion of privacy; wrongful entry or eviction; false arrest; false imprisonment; malicious prosecution; and infringement of copyright, or trademark or other unauthorized use of title; and plagiarism or other misappropriation of ideas.

Prior acts also are covered under a broadly written policy, and the cost of legal defense will not reduce your available limits of coverage.

The standard limit of liability is \$1 million, but higher limits are available, depending on the organization's risks. The policy offered by CIMA Volunteers Insurance has a minimum premium of \$800, for a \$1 million limit of liability.

Workers' compensation

This insurance provides coverage for job-related injuries and illnesses your employees sustain the course of their work for the organization. Depending on your number of employees and your jurisdiction, this coverage may be required by law. Under the employer's liability section of the workers' compensation policy, you are protected in the event the employee decides to sue you for negligence, rather than take the benefits available to them under your state's workers' compensation law.



The rating basis for workers' compensation is your estimated annual payroll for each job classification in your workforce.

Coverage for volunteer injuries -- State laws vary in terms of whether or not volunteers may be, or must be, covered under workers' compensation. Where state law does not require that volunteers be covered, many organizations choose to purchase an accident medical reimbursement policy to protect their volunteers in the event they are injured. The policy available through CIMA Volunteers Insurance provides up to \$50,000 for a covered accident.

Auto coverage

For organizations that do not own vehicles

Consider a "hired and nonowned" auto liability policy or endorsement to your general liability policy. This coverage protects the organization against third-party claims when employees or volunteers are at fault in an accident while driving their personal vehicles on behalf of the organization. It also provides protection if the organization rents or leases vehicles. The employee's or volunteer's personal auto liability insurance coverage will protect them while driving their own vehicles, but those policies won't provide coverage if your organization is sued. Hired and nonowned auto liability policies provide this protection for your organization.

The "hired and nonowned" policy does not cover physical damage to the employee's or volunteer's vehicle. Physical damage for hired vehicles is an additional coverage option, however. Cost varies by region, type of organization and other factors, but for an organization with five employees or volunteers, typical cost would be \$150 a year.

For organizations that own vehicles

You should have a commercial automobile policy. It protects the organization when employees and volunteers (or anyone else driving the organization's vehicles with permission) are at fault in an accident while driving those vehicles. It also covers physical damage to the vehicles. The cost varies based on where the vehicles are garaged, and type of vehicle. Vans garaged in a large city, where the risk of an accident, or theft of the vehicle, are considered greater, might cost \$1,500 to \$2,000 per year to insure. The same vehicles garaged in a small town might cost \$800 to \$900 per year to insure. Cars might be slightly less costly to insure.



For all organizations

Have procedures in place to ensure that any employee or volunteer driving on behalf of the organization is a safe driver. At a minimum, check Motor Vehicle Records regularly, and require proof of current automobile liability insurance.

Excess automobile liability coverage for volunteers

This insurance provides up to \$500,000 in liability protection above the limits of the volunteer's personal automobile coverage. Because many volunteers choose only the state-mandated minimum limits of liability, they can be at risk of a large financial loss should they be at fault in a serious accident while driving on behalf of the nonprofit organization for which they volunteer. Offering this insurance, available through CIMA Volunteers Insurance, can help with recruiting volunteer drivers who are concerned about their potential liability.

Umbrella liability

This coverage provides additional limits above those of the underlying policies – usually your general liability, the employers' liability section of your workers' compensation policy, and your business automobile policy. Umbrella policies are usually written in incremental limits of \$1 million.

Employee/volunteer dishonesty coverage

Every organization has a risk exposure that no one likes to think about... the situation in which a volunteer or employee embezzles fund, commits forgery or in some other way steals from the organization. Insurance company claim reports on these situations show that, quite often, the dishonest volunteer or employee was never suspected, got away with the deception for years, and was caught only by accident. Employee/volunteer dishonesty coverage makes the organization whole for these kinds of losses. Optional coverage is available for losses due to theft by a third party (as in a robbery), and disappearance or destruction of funds.

The minimum annual premium for the coverage offered by CIMA Volunteers Insurance is \$203, for coverage of up to ten volunteers or employees. Additional volunteers or employees can be covered for a minimal additional premium.



Other coverages

Many organizations also own buildings, office equipment and other property that must be insured in case it is damaged or destroyed. A discussion of property insurance is beyond the scope of this document, but it is important to know that property can be insured either on a replacement-cost basis (essentially, new for old), or an actual cash value basis, which takes depreciation into account. Also, be aware that many insurance policies include “coinsurance” requirements; i.e., the insured is required to carry a limit of insurance that is equal to at least a specified percentage of the actual value of the property – usually 80%, 90% or 100%. If your limits are too low, you may incur a “coinsurance penalty” in the event of a loss. For real property (buildings), consider “building ordinance” coverage, to cover the increased cost of construction that might result from building-code changes that have occurred since the structure was built.

Other risk exposures for which your organization might need or at least consider insurance protection include (to name just a few) business interruption, and extra expense associated with such an interruption; loss of stored data, including personally identifiable information, due to cyber crime; equipment breakdown (sometimes called “boiler and machinery” coverage); fiduciary liability arising out of the management of a benefit plan; loss of property during transit or while off your premises; and liquor liability for special events.