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Insurance for Nonprofits: Where to Begin

by Craig R. Blackman

Insurance is critical to any nonprofit organization because it ensures the success and survival of the organization while protecting its primary assets. Because nonprofits often operate on strict budgets, insurance is imperative to manage the risks these organizations face and protect them from any unexpected or significant losses.

This article explains the role of insurance for nonprofits and is divided into two sections: claims filed on behalf of third parties (third-party liability insurance) and claims filed by the organization itself (first-party liability insurance). Common insurance policies that may provide coverage for nonprofits are briefly discussed in each section. In determining which policies protect a nonprofit, the organization should carefully examine all policies that cover the business.

This article is not intended to provide a full education on insurance policies that may cover your nonprofit. Instead, it is an abbreviated discussion to inform you of different types of available coverage. This is also meant to help you understand different insurance risks any nonprofit may confront so that you can discuss your coverage with an insurance provider and ensure your business is well-protected.

Third-Party Liability Insurance

Third-party claims are those for which the nonprofit is liable and must pay a third party, examples include:

- **Errors and Omissions Liability Insurance**
Errors and omissions liability insurance is like a general professional liability policy for errors or omissions by the nonprofit. In some areas of business, this is often referred to as “malpractice insurance.” For example, this insurance may provide coverage for a customer lawsuit claiming injury as a result of inadequate safety/security measures.
- **Comprehensive General Liability (CGL) Insurance**
CGL insurance is an “occurrence”-based policy in that coverage is only triggered when an accident occurs. Thus, this insurance typically provides coverage for personal injury, bodily injury or property damage as a result of an accidental or negligent occurrence, such as a slip and fall. This insurance generally does not provide coverage for any damages resulting from a breach of contract.
- **Directors and Officers (D&O) Liability Insurance**
D&O insurance provides coverage for claims by stakeholders who complain that

actions by the directors and officers were improper or otherwise not in the company's interests. D&O insurance generally covers claims regarding wrongful acts or omissions on behalf of directors and officers. Coverage may also include claims for wrongful termination, harassment, discrimination and failure to hire.

- **Workers' Compensation/Employment Practices Insurance**

Workers' compensation insurance provides employers coverage for claims filed by employees, including personal injury claims that arise from job-related accidents. Workers' compensation insurance may also cover "employment practices liability," which provides protection for employee lawsuits, including discrimination or harassment claims.

First-Party Liability Insurance

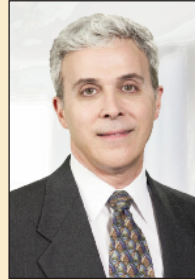
First-party claims are those filed by the nonprofit itself for payment of losses incurred, examples include:

- **Business Interruption (BI) Insurance**

BI insurance is the most specialized kind of coverage a business can purchase, and is arguably the most important. This insurance protects the earnings that the business would have received if the event insured against had not occurred and the business continued to operate normally. A typical policy requires that the loss result directly from a specified peril, which must cause damage or destruction to specified property at a particular location. The interruption must also be reasonably limited in duration and must occur within a specified time frame. BI policies do not cover actual loss or damage to physical property. This insurance is not designed to place the business in a better position than it would have been had there been no interruption.

- **Auto Insurance**

Auto insurance covers personal injuries and car repairs from employee accidents. It also may cover other repairs, such as those resulting from flood damage. If the nonprofit has its own vehicles or transports individuals, it should have auto insurance. If the organization does not own any vehicles, it can often obtain an endorsement for coverage under its CGL policy for claims made against it by a third party alleging damage by an employee's or volunteer's vehicle.



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- **Property and Fire Insurance**

Property insurance generally covers a business's building and its contents when damaged by fire. A business should review its property and fire policy to determine whether it covers damage resulting from a natural disaster.

- **Flood Insurance**

Flood insurance typically only covers damage caused to a business's building; however, it might also provide coverage for building contents if the business obtained the additional rider. A significant amount of flood insurance is administered by a federal program, the National Flood Insurance Program (NFIP). A business with flood insurance should never delay in submitting a claim for flood damage because there is a strict 60-day time limit to submit such claims under the NFIP.

- **Fine Arts Coverage**

Fine arts coverage covers art work in the event of theft, fire, or water damage. It generally does not include gradual deterioration, such as fading or cracking caused by natural or artificial light. This coverage is suggested for businesses whose standard property and flood policies only cover art up to the policies' limits for its contents. For instance, in the flood context, a flood policy generally will not cover more than \$2,500 for artwork and will only pay the "functional" value of antiques. Further, to cover the variety of objects within a museum, a policy's definition of fine arts should be broad to include paintings, tapestries, furniture, apparel, rare books, natural artifacts, etc. A fine arts policy should also be flexible enough to supply protection for both owned and borrowed collections and pieces.

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