News & Insights

Nonprofit P&C Insurance Market Update

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Due to the COVID-19 pandemic, the nonprofit sector is experiencing an insurance crisis now as one of the top 10 industries impacted by the coronavirus. As many experts indicate that some nonprofit organizations may face potential liability exposures for insurance claims in which they failed to safeguard and notify the public, nonprofit businesses are also concerned that there could be an impending risk exposure if the nonprofit practice adjusts its services to address the pandemic and those services not listed on the insurance policy.

This P&C report discusses the potential unknown losses and liabilities for nonprofits, including workers' compensation.

For Gallagher's entire history as a company (founded in 1927), the nonprofit sector has been an area of specialization. It is truly the foundation of our position now as the third-largest broker in the world, and our nonprofit practice serves more than 24,000 clients and programs globally. We have a tremendous amount of aggregated data that is critical to understand trends and how the future might unfold. Nonprofits must protect their mission and reputation at all costs, but they also have to consider trade-offs on past patterns of buying more limits and getting access to broadly worded coverages. The insurance marketplace is stressed all around, not just for nonprofits. And as a result, there needs to be a great deal of discussion about risk management and limited budgets.

We also think this may be a time to come together to find new coalitions around insurance purchasing and risk assumption. Looking back at our history of serving the nonprofit sector, it is truly a legacy of reclaiming dollars for mission through alternative risk financing strategies. We can demonstrate the success of so many of our nonprofit clients who have embraced the risk-reward challenge in informed ways that have led to lower fixed costs long term.

It's time to think differently and leverage the interconnectedness that came upon us so suddenly with COVID-19 — this is the silver lining — along with a refreshed awareness of risk by everyone.

The following update specific to the nonprofit sector complements Gallagher's **general P&C Insurance Market Report (https://www.ajg.com/us/news-and-insights/2020/may/gallagher-2020-spring-summer-market-update/)**.

P&C Insurance Market Update

There are compounding signs of disruption for the broader nonprofit sector insurance world, especially as we navigate the COVID-19 pandemic and look to a new reality on the other side. Nonprofits are singled out as among the top 10 industries impacted by COVID-19, with many experts indicating that some nonprofit organizations have potential liability exposures for claims that they failed to safeguard and notify the public about. In addition to concerns about exposures to the virus at the insured's location, there may be an exposure if the nonprofit adjusts its services to address the pandemic and those services aren't listed on the policy.

Gallagher believes many nonprofits are experiencing an insurance crisis now. The confluence of an already firming general insurance marketplace, headlines that point to the moral failure of nonprofits and now a global pandemic make for a storm that requires strong advocacy, analytics, enterprise risk management and longer-term strategic attention from the board. We continue to see some carriers exit this class of business, intentionally reduce limits or demand rate increases that we have not seen in decades.

As a result, we have implemented short-term adjustments to our approaches for carrier submissions, data analytics, and detailed risk management commentary and metrics. Longer-term strategies for alternative risk financing include looking at pooling groups of nonprofits to help them prepare for the worst, weather the current storm and come out better than expected in the long term. All of this requires sector specialists who work in this new reality each day as consultants and advisors.

Earlier discussions of the renewal are critical as nonprofits balance the anticipated increased fixed cost of operations (especially the cost of risk) versus the amount that goes toward their mission. Key factors driving the current market conditions include the following.

COVID-19 presents many unknowns about potential losses and liability for nonprofits.

- In particular, there are concerns regarding workers' compensation (WC) exposures for employers who are required to work. Add to this the fact that nonprofits turn to volunteers in times of need and, depending on the state, these volunteers might not be covered under the WC policy.
- We also don't know how potential liability might surface for claims against nonprofits who neglected to follow the necessary guidelines to operate in a COVID-19 environment (as dictated by local and federal regulations) or even expanded their services to address the rush of the pandemic without considering whether those services are listed on the policy.
- As a result of COVID-19, the nonprofit sector also needs to pay more attention to coverage enhancements like extra expense, business interruption and code upgrades, which may be more compromised than ever, given the pandemic.

Larger verdicts and increased litigation and expense have escalated the value of harm.

- Loss creep and social inflation have new nuances and applications for us in the insurance world, specifically the nonprofit sector
- The significant rate change of 28% on umbrella and excess liability for nonprofits during the first quarter of 2020 speaks to this need of carriers to support loss trends. This is on top of an average rate change of 22.8% for Q4 2019.

- The data also shows how this trend is impacting more nonprofits overall, as Q3 2019 showed 12% of nonprofits experiencing a significant rate change of 20% or greater, and it is now over 37% in Q1 2020.

There is not a one-size-fits-all reaction to pricing and terms, and the market is not hardening consistently.

- Certain geographic areas like the Northeast, the Southeast and Texas are experiencing reduced limits, rate increases of as much as 40% and even non-renewals.
- Other areas or clean accounts (i.e., no losses) may see increases of about 5%, whereas nonprofits with losses may see rates increase more than 15%.
- Certain parts of the country like California and New York are witnessing a frequency of EPLI claims, which means D&O management liability rates are on the rise.

Insurance carrier reaction to the marketplace continues to change.

- Certain dependable, specialized carriers are strategically deciding to exit the nonprofit class of business overall, specifically in segments like camps and treatment centers, among others.
- Crime coverage is stressed as carriers continue to non-renew and no longer offer coverage, and some nonprofits struggle to maintain financial controls and deal with cash at events.
- Carriers are paying closer attention to schedules, applications, loss runs and supplements.
- Renewal cycles are lengthening. To adjust, Gallagher now begins the renewal process earlier, but the increasing needs of carrier management approvals results in carriers frequently requiring longer times to provide quotes.

The property market continues to tighten at a faster pace.

- Catastrophic losses caused by wind, flood, fire, hail and/or earthquakes have assumed more net than in former years and, as a way to stay competitive in pricing, the market will continue to harden.
- Compounding nonprofit property rate changes of 22.8% for Q4 2019 and 21.5% for Q1 2020 indicate that we are truly in a hardening market for property, even for nonprofits.
- Appraisals and secondary COPE information are ways to proactively leverage better terms and conditions, and protect potential recoveries with loss.

Sexual abuse coverage continues to evolve, with carriers withdrawing, reducing limits and increasing specific types of exclusions.

- There is much at play as carriers with occurrence coverage rethink potential unlimited exposure to the past on their balance sheets (distinguishing the unlimited nature of occurrence as a look-back coverage vs. claims-made coverage being limited to claims reported in that policy year), and reinsurers dramatically increase rates.
- We will see some carriers move to claims-made coverage, revisit policy form language to tighten up wording (and reduce coverage) and reduce limits to avoid potential targeting by plaintiffs. Some carriers will not give any sexual abuse coverage in an umbrella policy.
- Excess monoline misconduct coverage is very expensive and requires minimum premiums that are significant.

Auto losses continue to deteriorate.

- The broader nonprofit sector saw a decrease in the rate change from 15.7% in Q4 2019 down to 10.3% in Q1 2020.

- This is still a sizable increase in rate, and more than 77% of nonprofits in our analysis are seeing continued rate increases overall.
- Nonprofits with large auto fleets will see umbrella pricing increase dramatically, while at the same time there may be reduction of limits offered.

Umbrella coverage overall is being revisited by carriers.

- This is especially the case as more experience limit-type losses and as limits are being reduced (often viewed by plaintiffs as targets). In many cases, carriers and reinsurers are looking only to be a quota-share on the excess, not provide it alone or only provide at minimum premiums.
- Social inflation is partly to blame. Nonprofits need to consult with their brokers on potential benchmark data to determine appropriate levels/limits. Some of this relates to the jurisdiction in which the nonprofits reside, and some is tied to the kinds of operations that the nonprofit does. Ultimately, we still believe limits can be targets, and this too needs to be considered when looking at what the nonprofit can afford—yes, what the nonprofit can afford is more and more going to be an issue as rate increases create an unaffordable situation for many nonprofits.

Cyber risks and cyberattacks are a reality for nonprofits as they move to compete, and make an impact with social media and new ways of engaging donors.

The good news is that most cyber insurance coverage is affordable, and best if coupled with impressive pre- and post-breach services. The bad news is that few nonprofits take this coverage seriously enough. As we witness a workforce mostly operating out of homes, the need to evaluate this exposure is even greater now.

Conclusion: The Silver Lining

The broader insurance industry disruption is impacting all classes of business, and clearly the nonprofit sector is not immune. In fact, many consultants are advising that nonprofits may be among the hardest hit industries as a result of the pandemic. Resilient organizations will thrive, especially if they can embrace this interdependency that has emerged from the COVID-19 pandemic by operating with coalitions, partnerships and new ways of executing their missions. Thought leadership and innovation in the name of rethinking systems will dominate future nonprofit board meeting discussions regarding risk for some time.

Gallagher suggests that this sector continues under the microscope, not only from the consumer, donor and beneficiary of services perspectives, but also from the perspective of the insurance underwriting community. Underwriters are scouring the websites of nonprofits, researching certain types of risk, and trying to better understand liability exposure and limits in particular. The convergence of this scrutiny, along with the overall market firming in property, D&O, liability, auto, crime and sexual harassment, means that this is not business as usual, and we need to take all precautions to get ahead of any further headwinds. We are not seeing new market partner entries at this time, but instead some constriction of appetite, increased rates, and further restriction of endorsements and requests for more information.

And yes, we are witnessing more nonprofits asking questions about alternative risk, forming captives, risk purchasing groups or even commingling their P&C loss fund (retentions) with their medical stop-loss in a captive. Unfortunately, it takes a shock to cause groundbreaking change. But we see a silver lining that could be a great companion to looking at some level of self-insurance and/or pooling, and that is the culture of risk management that is emerging across the globe. Nonprofits may be better positioned than ever to deploy analytics, meaningful data, and technology to assume greater risk and benefit from the risk vs. reward strategy to help them reclaim dollars for their mission. This has been a core strategy of Gallagher's nonprofit practice for more than 50 years, so you don't need to do it alone or think you are pioneers heading down an unfamiliar path. The duration of the pandemic, the full magnitude of its economic impact and the subsequent impact on the insurance industry remain unknown. However, the underlying fundamentals we see with the environment today are likely to continue for some time. There's nothing that indicates the momentum will slow. If anything, it's picked up in recent months and is spreading more broadly.

Everyone is talking about risk, acting out principles of risk management, and society will be well served by this acute awareness. The question is, can we sustain that?

Due to the highly nuanced nature of this market, it is imperative that you are dealing with an insurance broker who specializes in your particular industry and/or line of coverage.

Gallagher has a vast network of specialists that understand your industry and business, along with the best solutions in the marketplace for your unique challenge.

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