



# Nonprofit Market Update

**SPRING 2022**



**Gallagher**

Insurance | Risk Management | Consulting

# The Headlines

While it is hard to paint a broad brush approach to the third sector, in terms of the insurance market conditions—given the diversity of operations and constituencies served—suffice it to say that overall the combination of pressure from demand on services (increased exposures) and price escalation in the cost of goods overall (inflation) have created significant challenges for nonprofits—and very few carriers are talking about rate stabilization, as we may be hearing in other sectors and lines of coverage. Thus we add an additional pressure point with little relief in the cost of financing the risk.

We should also say that the media headlines, often reflecting scandals and negligence on the part of nonprofits, for the most part is pointing out an outdated view of the nonprofit's current commitment to risk management and safe environments. These 'headlines' do not necessarily reflect the nonprofit's current mindset, and as such, we must filter the past news from the current information. We have learned a great deal about youth protection especially and consultants, carriers and nonprofits (who have this exposure) have worked tirelessly to make youth protection a core strategy, committing to a culture of safety.

We are encouraged by the quality of emerging leaders coming to the third sector.

We are fortified by specialist carriers committed to the nonprofit sector and new entrants approaching us, as they see an opportunity here to make a profit while also living out their ESG and SRI commitments. Let us capture this momentum in ways that are synergistic for all. And do not lose sight of the power of technology and analytics to pivot to new ways of financing the risk- alternative risk financing and group purchasing are no longer an 'alternative'! We have proven, long term success here.

## UNDERSTANDING THE FACTS

1

### TELL YOUR STORY

What surfaced most in our reaching out to carriers writing in the nonprofit sector was the importance of controlling the narrative—highlighting the best practices and ways the nonprofit may have overcome any adversities and excelled. Get ahead of old news lingering on websites.

2

### UMBRELLA LIMITS

We have witnessed limits evaporate or become exorbitant in cost. Social inflation is accentuated with nonprofits for whom there is a higher standard of care from the public at large. Some carriers are reducing limits for this class of business, including abuse. Be prudent in your analysis—jurisdictional considerations, concepts, such as limits as targets and your overall confidence in your 'duty of care' should come into play going forward.

3

### CLAIMS DEVELOPMENT REQUIRES DETAILS

Carriers want to see correction strategies in place and proven outcomes from those actions. Demonstrate positive momentum and change.

4

### AUTO IS A KEY DRIVER OF PREMIUM

Clearly, this exposure is heavily scrutinized, given the development of losses over time. Be proactive in fleet management, training and safety protocols.

5

### CYBER IS IN STRESS MODE

This coverage is in a state of pressure for all industries, and with many nonprofits not achieving full MFA across the enterprise, there is an ongoing threat of nonrenewal, let alone significant increases in premiums and deductibles. Take advantage of the free assessments that certain providers offer.

6

### PROPERTY

What used to be an asset has become a challenging liability for nonprofits relying on physical properties. Have you been proactive in maintenance?

7

### IT MAY BE TIME TO MARKET THE PROGRAM

We are actually seeing some opportunity to control costs with leveraged options that create competition.



# Detail by Coverage Line

## OVERALL — PACKAGE

- “Skyrocketing inflation and legal system abuse have forced prices higher across society at the same tie that losses in such lines as professional liability and cyber insurance have also increased” (APCIA, May 2022).
- “The continued trend of nuclear verdicts in not only sexual abuse suits but also an alarming increase in large auto liability verdicts. The frequency of claims may be down a bit, but the trend in average settlements is alarming” from a key nonprofit underwriting leader.
- From multiple carriers specializing in nonprofits—Costs at every portion of the insurance policy chain continue to rise—building replacement costs, including contractor’s wages, lumber, appliances, copper for plumbing, auto replacement parts, wages, medical costs, legal costs, etc. Inflation is at a 40-year high. Insurance costs for society and the nonprofit space are an aggregation of all those rising costs. This does not even account for social inflation, which pertains to higher liability costs for GL, professional, abuse and auto, which are in addition to normal inflationary costs. Rates going up are in direct proportion to costs going up.
- Informal survey of over a dozen nonprofit specialized carriers indicate that rate increases will continue (in some cases nonrenewing), some focused on specific classes of nonprofits such as youth-serving organizations and where plaintiff attorneys are reluctant to settle within reasonable ranges or there are expectations for higher settlement values. Monetary inflation (cost of claims) has put tremendous pressure on the property and auto lines social inflation/larger verdicts on GL/Professional lines continue to be a concern. Such a combination of factors makes it important to achieve a rate that keeps up with increasing loss trends.
- There continues great resistance to offer unnecessary high limits, and sexual abuse and molestation coverage. There has developed a cottage industry of plaintiffs seeking nonprofits with high limits as targets for litigation. “Availability of higher limits automatically attracts a high demand that is not justified by the act”, reported one underwriter.





## Detail by Coverage Line (continued)

### CASUALTY

- There have been several industry publications lately highlighting the inadequacies of historical liability rates given the change in the legal climate.
- There is some concern about a rise in professional negligence claims due to staffing shortages and/or untrained staff in nonprofits.
- Anne Blume, CEO of the Claims and Litigation Management Alliance, says that nuclear verdicts or jury awards in excess of \$10 million “impact insurance carriers, but also contribute to social inflation, drive up premiums and impact insured clients’ bottom lines.”
- Catastrophic losses are appearing in all industries, and claims that break through the umbrellas have an impact on all insureds. In a recent analysis, the American Transportation Research Institute released a report documenting that the average size of verdicts that they observed from 2010 to 2018 increased by 867%, from just over \$2.3 million to \$22.3 million.
- The proliferation of nuclear verdicts is often attributed to third-party litigation funding and where third-party investors provide capital in exchange for a share of the eventual jury award.

### PROPERTY

- Some carriers are seeking more detailed COPE information, especially relating to updates on older properties (which tends to be a higher percentage in the nonprofit sector).
- From December 2019 through December 2021, the price of construction materials rose by 44.1%, with some lumber prices up 400%. These contribute to higher underwriting losses.
- Property in CAT exposed areas are getting greater scrutiny by carriers-fine tuning their guidelines for wildfire, wind and hail, and even looking to reduce risk in these areas.



# Detail by Coverage Line (continued)

## AUTO

- Most nonprofit carriers commented that auto rates will continue to climb as they continue to see the frequency of claims and more litigation and claims costs.
- Frequency may be below pre-pandemic levels, but the severity is up significantly and many nonprofit carriers indicated that the unique exposures in the nonprofit space make it even more important to stay on top of this and thus the uncertainty makes it hard to forecast and thus conservative pricing is not as competitive.

## NONPROFIT MANAGEMENT LIABILITY

- Nonprofits need to pay attention to diversity, and its importance especially in reflecting the constituencies they serve, beginning with their board of directors and key executives. In addition, Environmental, Societal and Governance (ESG) focus has been elevated as well in the third sector, and underwriters may put a heavier emphasis on this going forward. We see some stability in these management coverages overall, although we must pay attention to employee wellbeing and documenting human resource issues. There is still some pressure on umbrella limits (availability, affordability) as nonprofit negligence hits the front page of the newspapers, reminding us of the higher standard of care human service organizations need to achieve.

## WORKERS COMPENSATION

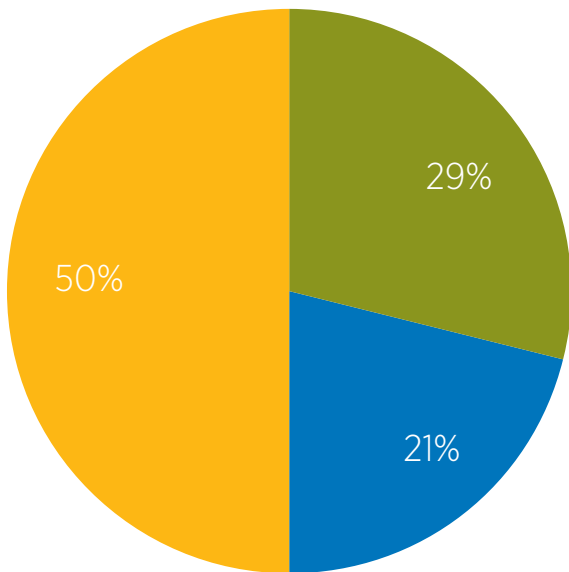
- We urge especially human services organizations to look holistically at premium and funding the insurance program properly, considering with incorporating the full portfolio including workers compensation and especially with carriers that offer the full continuum of coverages
- Rates have been low for workers compensation coverage for several years in a row. Favorable loss development in prior years continues to positively impact most carriers. There's been a lot of competition and rate reductions over the past two years. There is still some uncertainty of the long-term effects of the pandemic.
- We are finding great success with new nonprofit clients and *workers compensation recovery*. We review class codes, which can change frequently in nonprofits due to the addition and or subtraction of services and locations, (which happen often). We also review the experience mod, regardless of rating agency, (NCCI; CALIF: NY,NJ,PA) , but we also check combinability, which has been an issue for some nonprofits. We have found class code application errors and have been able to wipe out the additional premium. We have helped nonprofits that worked with individuals with TBI, most of them veterans but not all, where we lowered their annual workers compensation costs by 65% and recovered them over \$200,000 for three years. We have helped other nonprofits, who ended up with noncompliance issues because of combinability issues that prior brokers and agents did not address. We help nonprofits facing a large additional premium from an audit. With our involvement, we wiped out the audit additional premium and recovered another \$270,000 on original premium and more is coming now on their next audit.



## U.S. Nonprofit P&C Insurance Marketplace Snapshot

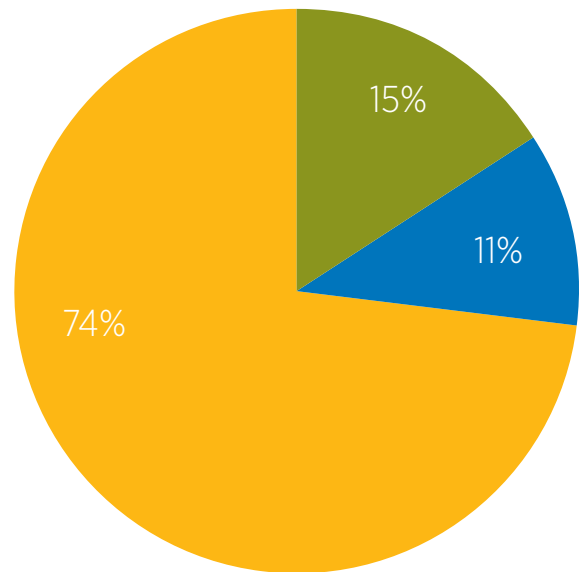
Data derived from Gallagher Drive<sup>®</sup>, a real-time database that incorporates our nonprofit client database along with industry specific intelligence.

GL Rate Change Distribution



■ Decrease ■ Flat ■ Increase

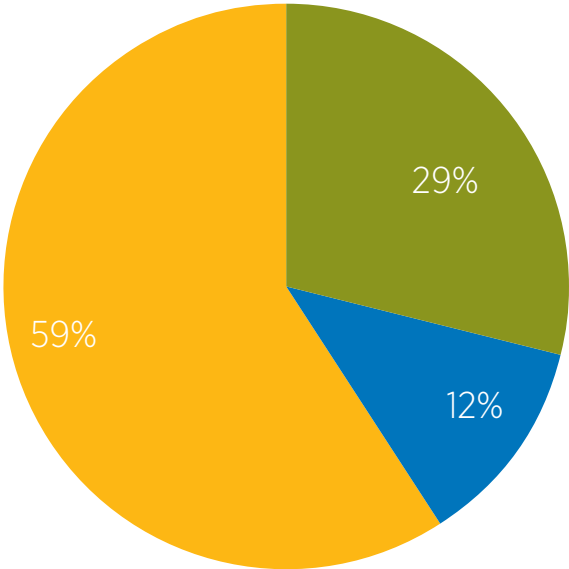
Property Rate Change Distribution



■ Decrease ■ Flat ■ Increase

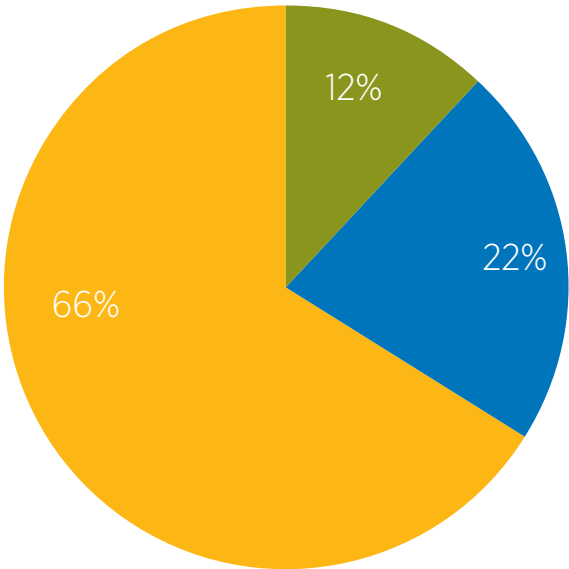
# U.S. Nonprofit P&C Insurance Marketplace Snapshot (continued)

Auto Rate Change Distribution



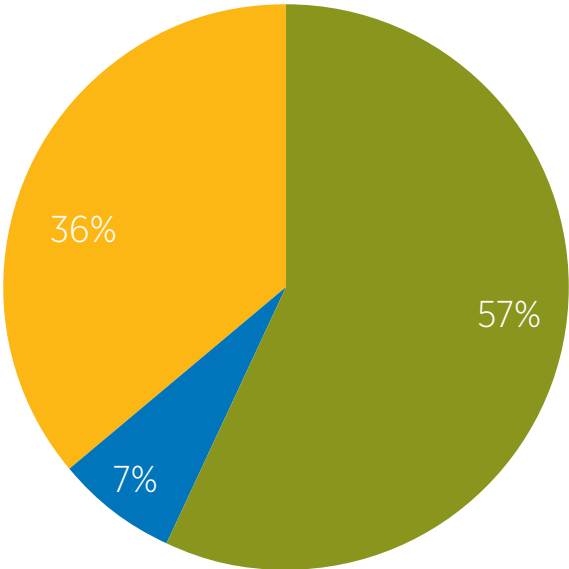
Decrease Flat Increase

Umbrella Rate Change Distribution



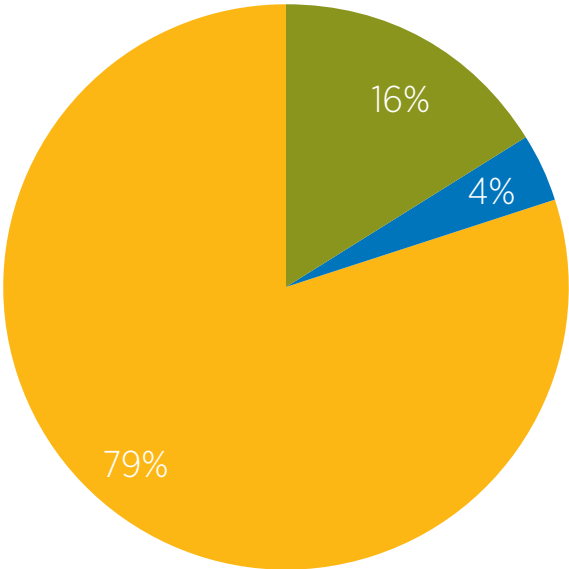
Decrease Flat Increase

WC Rate Change Distribution



Decrease Flat Increase

Cyber Rate Change Distribution



Decrease Flat Increase

# CONFIDENCE

begins with powerful insights.

**Gallagher Drive** is the premier data and analytics platform that combines market condition, claims history and industry benchmark information, giving you access to real-time data to optimize risk management programs.

## The **CORE360**<sup>®</sup> Difference

A unique comprehensive approach of evaluating our clients' risk management program that leverages our analytical tools and diverse resources for customized, maximum impact on six cost drivers of their total cost of risk.

We consult with you to understand your actual and potential costs, and the strategic options to reallocate these costs with smart, actionable insights. This will empower you to know, control and minimize your total cost of risk, and improve your impact.

Gallagher is proud to be a leading broker/consultant to the third sector, serving more than 30,000 clients around the world, many of whom have multiple locations.





We partner with nonprofits to reduce the total cost of risk and efficiently direct revenue to their mission.

## SERVICES INCLUDE:

- Insurance and Risk Management
- Benefits and HR Consulting
- HR and Benefits Technology
- Financial Wellbeing Consulting and Actuarial Services
- Claims Administration and Advocacy
- International Mission and Travel Solutions
- Board Governance and Diversity
- Crisis Resiliency Services
- Alternative Risk Transfer, Pools, Captives, Trusts, Risk Purchasing Groups — feasibility, formation, ongoing management
- Human Capital Consulting — executive search, talent management
- Investments and Fiduciary Consulting
- Pharmacy Benefit Management (PBM)
- RFPs and Assessments
- Exposure analysis — benefit plan design, sexual abuse and molestation, cyber risk, probable maximum loss (PML properties), limits, policies' alignment and manuscripting, policies archaeology

Gallagher's Nonprofit practice is among the earliest niches established by Gallagher more than 50 years ago. With over 24,000 nonprofits and charities served across the world and some single risk and other enterprises with multiple locations, we are among the leading brokers for many specialized nonprofit carriers and a major consultant and advisor in the alternative risk-financing world of captives, RRGs and trusts. No one marshals that specialized talent and resources available through the Gallagher network better—all for the benefit of the charities we serve around the world.

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## OUR EXPERTISE AND SOLUTIONS:

We offer consultative services relating to nonprofits and their needs in three main categories.

**Business continuity:** We provide governance consulting for nonprofit boards.

**Benefits and HR consulting services:** Our Gallagher Better Works™ framework delivers a comprehensive approach to benefits, compensation, retirement, employee communications and workplace culture, and centers on the full spectrum of organizational wellbeing. From executive benefits; multinational benefits; and HR pharmacy and voluntary benefits, we work with you to design programs to align with your goals.

**Insurance and risk management:** Our team evaluates your nonprofit's total cost of risk in our **CORE360** approach, and the data and analytics tools to provide additional insights from benchmarking tools and placements. Our team will leverage alternative risk financing, including captives to manage exposures and lower your costs. We review your current coverage and goals to see if your risk is properly balanced and gaps are reduced.

We speak your language. We walk with you on the journey of stewardship.

- Reclaim dollars for your mission
- Promote safe environments with resources and technology
- Align with you as your partner
- Collaborate and work as a team

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