Nonprofit

P&C Insurance Market Update for Nonprofits

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Gallagher

Insurance | Risk Management | Consulting

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We always begin our insights with some definitions of what we mean by nonprofit; it is a very broad term and at least at Gallagher in the United States, we segment nonprofits like private hospitals and higher education institutions as separate verticals with great data and expertise through peers at Gallagher.

We are speaking of the broadly defined human service organizations — social service charities who work with vulnerable stakeholders (youth, athletes, exceptional persons, seniors, immigrants, the poor, disadvantaged, those with food insecurities, homeless shelters and asylum seekers, the adopted and fostered) as well as the many public-serving organizations such as Ys, cultural institutions, zoos, aquariums, community-based organizations, affordable housing, mission-based causes, and even voluntary health organizations and NGOs.

We begin with the headline, from an insurance perspective, we are in unprecedented, sustained times of stress. We ask you to review Gallagher's **Insurance Market Report** first to see that we have significant data analytics and there are many recurring themes in terms of the challenges with continued rate changes in **property**.

The most challenging line of coverage is property, and carriers are pushing higher rates, higher deductibles and focusing on proper valuation given the increased cost of construction. In some geographies that are exposed to wind, especially Florida, the rate and deductible pressure are much more drastic.

Before we go any further on the lines of coverage, just some commentary on what we are seeing with carriers in the nonprofit sector overall. We have witnessed carriers leaving segments of this sector or reducing their offerings — in areas such as camps, foster care, adoption, animal-oriented, mental health, juvenile justice, affordable housing, to name several. Most carriers are slower to share renewal quotes, given in part to the internal needs for more referrals and decision-making (approvals) resting in oversight positions. Some carriers have ceased writing in specific states (or even urban areas of a state), for specific classes of nonprofits midyear 2023. We are pleased to see the Nonprofit Property Protection Act being seriously considered as an extension of the federal legislation — Liability Risk Retention Act. This would create valuable options for our nonprofit clients in this very difficult market.

Perhaps nothing has been more impactful for the 2023 insurance landscape overall than the January 1, 2023 reinsurance treaty renewals where reinsurers raised their hands asking for more rate and limiting capacity to insurers. Much of it is due to experience (losses), whether it be fortuitous (storms, wind) or due to social inflation (rising cost of defense and verdicts, uncertainty of the legal climate for public-serving organizations held to the highest standard of care). Combine this with inflation for the cost of goods and the lower investment portfolio values for insurance and reinsurance companies (conservative portfolio), carriers end up with reduced capacity (as the cost of capacity is too much) and limited leverage for offset through collateralizing their balance sheets.

Carriers are changing terms and conditions midstream, such that we as brokers have to defensively challenge them as best we can for our nonprofit clients. We are scrutinizing every aspect of a quote to make sure we can secure the expected terms within similar limits and at the best price.

Carriers are also looking at the utilization by their insureds of their value-added services, such as a training platform for abuse prevention and vehicle safety. There is even some inconsistency in the marketplace, with carriers taking a more proactive position of interest in new business versus renewals.

We are post-COVID-19, and most nonprofits' demands for services are increasing significantly. Nonprofits are working diligently to balance staff shortages with quality service. We also recognize there is nonprofit insureds' fatigue with all that has to be done to meet the demands of their constituencies while also completing the submissions, raising the values of their properties and accurately updating the ever-increasing elements of exposures (both quantitative and qualitative) that insurance carriers want to see.

Yet there is also power in this state of stress with nonprofits, through specialized consultants like Gallagher (which features a full continuum of services among its divisions around the world) looking at alternative risk financing strategies such as captives or finding alignment with other similar nonprofits in pooling risk. We have a large contingency of nonprofit clients who embraced these strategies as far back as the late 80s, and today these clients are reaping the benefits of control, underwriting discipline and strategic use of data analytics, let alone reduced total cost of risk (TCOR) over time.

We are seeing some trending upward in workers' compensation premiums after several years of softening, but that is likely due to the increased demand for nonprofits as part of society's safety net and sustained medical cost inflation.

Earlier, we commented on property coverage and the challenge all organizations are facing around the globe with insurance. For the nonprofit sector, the **umbrella** coverage remains another challenge, especially as there are few claims, but insurers and reinsurers are looking for significant rate increases while reducing limits of coverage. Again, this speaks to the crisis of the potential of nuclear verdicts, especially from those organizations serving youth and sitting on historical experiences that remain latent and uncertain, all making it difficult for carriers to actuarially project with any confidence.

Our general insurance report comments on Directors & Officers and Cyber coverage, both improving after spikes in the past few years; overall, we are not seeing that in the nonprofit sector. Nonprofits continue to be challenged on these lines, especially organizations that are not technologically centralized, fully MFA (Multifactor Authentication) or employing staff under certain convictions and beliefs that are contrary to what carriers support from the ESG and DEIB perspectives. Nonprofits overall continue to trend upwards or, here too, are facing non-renewals.

Such economic stresses take away from the ability of nonprofits in many cases to live out their mission. Some look to grow through alignments and acquisitions, seeking size, economies of scale, and greater spread of risk; others are examining alternative risk financing (and positioning their organization's insurance and risk management program as a profit center with favorable cash flow, control over outcomes and better analytical data) and all are realizing the importance of a specialized insurance broker and team plays in navigating these headwinds that continue year after year.

Gallagher's Bill Baker says it well in this recent **Insurance Business Article**, "We can step in and help insurance carriers to make sure their client knows that they are a good risk versus a tough risk, while also ensuring that they adhere to proper risk mitigation requirements to get the correct coverage they are searching for."

7 INSIGHTS FOR NONPROFIT LEADERS '23

Tailwinds to confront the headwinds

1. Tell your story
What surfaced most in our reaching out to carriers writing in the nonprofit sector was the importance of advocating the narrative — highlighting the best practices and ways the nonprofit may have overcome any adversities and excelled. Continue to work on this — short video vignettes? Get ahead of old news lingering on websites.

2. Property
What used to be an asset has become a challenging liability for nonprofits relying on physical properties. Have you been proactive in maintenance? Rethink your physical plant in terms of coverage terms, deductibles, valuations, business interruption needs, partnerships with others, etc.

3. 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.

4. Claims development requires details
Carriers want to see corrective strategies in place and proven outcomes from those actions. Demonstrate positive momentum and change.

5. 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.

6. Cyber is still tough for nonprofits, overall
This coverage continues to be a challenge for many nonprofits not achieving full MFA across the enterprise, there is an ongoing threat of non-renewal, let alone significant increases in premium and deductibles. Take advantage of the free assessments that certain providers offer.

7. Keep your options open in terms of potential insurers and risk financing strategies in the future
We are actually seeing some opportunities to control costs with leveraged options that create competition. We all value loyalty, but we also have to look at the bigger picture of controlling the total cost of risk.

Gallagher | Drive®

CONFIDENCE

begins with powerful insights

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

The **CORE**360® 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 and Risk Purchasing Groups — feasibility, formation and ongoing management
- Human Capital Consulting — executive search and 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 manuscript and policies archaeology
- Member Benefit Programs — affinity and associations

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 and holistic enterprise risk management (ERM) framework.

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 benefit to 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 **CORE**360 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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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 broker 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.

Connect with us

Peter Persuitti
Managing Director

nonprofitpractice@ajg.com
US Toll-free 888.285.5106, ext. 3898

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