



## MARKET OPPORTUNITY

# Managing Risk

NIAC is thriving, despite taking on clients that no one else would *by Kathryn Olney*

For most actuarial types, the image of an 81-year-old driving a forklift is enough to make them pack away their clipboard and head for the door. The forklift operator is a volunteer, as are almost all the operations people at Grey Bears, a nonprofit that packs and delivers nearly 60,000 lbs. of dated produce per week from Salinas Valley to seniors in Santa Cruz. But when the Nonprofits' Insurance Alliance of California (NIAC), a fledgling nonprofit insurance company dedicated to insuring fellow nonprofits, was getting off the ground, CEO Pamela Davis courted just such "high-risk" clients as the Grey Bears.

"We couldn't have stayed in business this long without them," admits director Lyn Francis. "Our premiums were going up 20 percent a year."

Most commercial insurance companies are only willing to insure nonprofits like the Grey Bears at high premium rates. Many nonprofits face an uphill battle to purchase insurance at an affordable rate because of the clients they serve or the nature of their staffing. Motor vehicle insurance, for instance, may be exorbitant for many nonprofits whose vehicles are driven by multiple staff or volunteers. Other nonprofits that provide transportation for special-needs adults and youth can be prone to lawsuits from mishaps. Or, in the youth services field, sexual abuse lawsuits are relatively common because staff or volunteers right out of college are often working with slightly younger teens.

For NIAC, though, these were precisely the kinds of difficult-to-insure clients that it sought to provide property and casualty insurance to. In its 15 years, the startup has grown from an untried idea in a grant proposal into a consortium that serves over 5,500 clients nationwide at rates that are at least 10 percent below most commercial insurers. Its affordable rates is probably one of the chief reasons that 93 percent of customers stay with NIAC as compared with a 65 percent retention rate for the insurance industry as a whole.

### A Problem Turns into Market Opportunity

NIAC has successfully penetrated a market dominated by for-profit companies by identifying the nonprofit segment as a niche that was not properly understood or served by for-profit insurance companies. Back when she signed the Grey Bears, Davis had been working in the nonprofit sector long



**Think about the consequences  
of sex with a minor,  
now...or later.**



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NIAC saw certain patterns of high-risk work environments among its nonprofit clients so it produced educational materials such as this sex abuse prevention poster.

enough to know that no one was looking out for them. "They faced a liability coverage crisis of unprecedented proportions in the late 1980s," she explains "Many could not obtain insurance at any price. Insurance companies were effectively dictating the kind of social services that would be able to stay in business."

Davis targeted these "risk-prone" nonprofits rather than turning them away. She found that by departing from entrenched industry standards, and being willing and able to understand the needs of each client, NIAC could insure them at a lower rate.

NIAC's strategy starts by delving deep into the specific programs and histories of the nonprofit. It looks at individual

# what works

Strategies, Approaches, Developments



nonprofits' track records rather than industry actuarial tables. For instance, before backing Heads-Up, which mounts moderately to severely disabled kids on horses for physical therapy, NIAC did its own research. While most actuaries would see these kids on horses and simply think "lawsuits," NIAC went in and studied the group's history. It found an impressive 10-year clean safety record, and welcomed the company aboard. Other clients that passed the individual inspection test include the Watts Health Foundation, which sends its vans deep into inner city Los Angeles to give kids health checkups and vaccinations, and Waterkeepers, which goes after big guns like the U.S. Navy when they are caught polluting the already mercury-laden waters of the San Francisco Bay Area. These groups, along with countless shelters for battered women, foster homes, and substance abuse centers, are all businesses that give insurance underwriters the heebie-jeebies. But NIAC welcomes them with open arms. "We love the little guy," exclaims Davis. "We owe our start to them. They were the least well served, and they came to us."

And now that it has worked with nonprofits exclusively for more than 15 years, NIAC's expertise in this market segment helps it provide more accurate premiums for its clients. "With insurance, it's what you don't know about a risk that causes you to charge more," says Davis. "We're so familiar with nonprofits, and we've seen so many kinds of businesses, that we don't have to charge those 'I don't know what they are doing' prices."

## Understanding Client Needs

NIAC also started providing educational materials early on to its clients. It has gone one step further than commercial outfits to keep premiums down by putting a Herculean effort into upfront prevention and risk management. It sends out about 10,000 risk management booklets to clients and also provides interactive CD-ROMs, seminars, and training courses on risk management. These educational materials were created based upon patterns that NIAC saw in the claims of the clients. "NIAC was great about helping us see where we could cut our risks for liability problems," said Francis. "I've used their literature and seminars on special events for the Harvest and Christmas dinners we put on for some 3,000 seniors."

Preventive measures are especially important for organizations most prone to sex abuse risks like foster homes and homes for teens who might otherwise be incarcerated. "Sexual abuse is our third most frequent claim," says Davis. "A 22-year-old guy right out of college can miss the distinction between a 17- and 18-year-old girl." Many charges don't turn

out to be true, but when a true abuser is rooted out, it can be a devastating expense and public relations nightmare. NIAC tries to keep those incidents down by offering a variety of rather arresting posters for employee gathering areas. One poster features a college-aged employee with his hand on the shoulder of a slightly younger girl, and reads: "Childcare Never Includes Sex." Another shows a young man with his face between bars and says: "Look Good in Stripes? Have Sex with a Client and You'll Find Out."

## Like-Minded Goals

Perhaps at the core of what drives NIAC's strategies is that it is a nonprofit itself. For one, NIAC is more comfortable with risk in the nonprofit sector because of its conviction in the role of nonprofits. "Work that saves or changes lives can sometimes be risky," believes Davis. Secondly, NIAC's effort to better understand and serve its clients is propelled by its awareness that money its clients save is money that could be used for social programs. So, NIAC tries to keep its own overhead costs down and pass on the savings to its clients. "We pay competitively, but at the senior level particularly, our compensation is fair but respectful of the fact that each and every dollar we have to spend comes from a nonprofit, and that we are part of the nonprofit sector and accountable to them."

NIAC is reminded how different its philosophy is from the rest of the insurance sector nearly every time they hire a new underwriter who has come from a commercial firm. "Their first response is horror that we are actually underwriting all of these high-risk nonprofits that they have been trained all of their careers to decline," says Davis. "The second response we sometimes get from new underwriters is: 'Why are we leaving all that money on the table. Why aren't we charging just a little less than the commercial carrier does, rather than, in some cases, significantly less.'" This practice is in keeping with the group's "double bottom line" philosophy, in which fairness is the second bottom line. The NIAC is careful to make sure that its economic bottom line is healthy: It holds and invests capital in the ratio of \$1 for every \$2 in net premium it collects. But its philosophy has been to charge only what's fair, not what the market will bear, so that nonprofits can put their money to use doing what they set out to do.

Bryon Ewick, who runs a substance abuse center in Ohio, jumped at the chance to not only save double-digit percentages on his premiums, but to also work with another nonprofit. "I was able to put that money right back into the agency; 75 percent of our budget goes into direct services, so there is a like-mindedness between nonprofits that is important." □