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AN EXCESS OF RISK: SOCIAL SERVICES AND NONPROFITS IN A PANDEMIC WORLD

INCREASED NUMBER OF CLAIM CHALLENGES IN THE SECTOR PUSH FOR HIGHER PAYOUTS

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Embezzlement. Molestation. Catastrophic weather-related losses. Contracts, agreements, cyber exposures and more are all risks that social service and nonprofit organizations face daily. Add to those risks the usual suspects: fraud, EPL exposures, even auto and property risks. As pandemic-related issues begin to ease, the social services and nonprofit space is wondering what's next, and how long of a tail pandemic-related claims will have.

In a sector that is often hard hit by high-payout claims and settlements, parsing out the most concerning exposures becomes more challenging with a global pandemic as an additional layer. Not that they need yet one more thing; there are enough claim challenges in the sector that are pushing payouts higher and increasing the number of claims filed.

Exposures up close

Even as many experts are seeing some claims arising out of the pandemic, the majority of claim trends are oc-cur-ring in familiar territory. Rich Skorupski, nonprofit practice leader for Risk Strategies, has seen a few emerging trends in the insurance realm. "Cyber liability exposures and threats continue to increase.

These are particularly concerning to middle market and smaller nonprofits due to the lack of budgetary resources and IT expertise availability," he says.

That makes them an easy target, says Richard T. Geoghan, director of specialty lines for Irwin Siegel Agency. Cyber thieves looking for ease of access will seek out those organizations from which they can profit, he says. "These attacks are always evolving, making them difficult to prevent."

The lack of prevention has impacted coverage, as well. "Capacity for cyber has been reduced," adds Geoghan. "Many carriers that would have offered up to $10 million limits a couple of years ago will only consider up to $5 million or less today."

"Staffing issues continue to plague many nonprofits leading to inadequate service levels and potential for increased claims on professional and general liability exposures."

—Rich Skorupski
Nonprofit Practice Leader
Risk Strategies

Another area of concern that many agencies are facing: molestation and abuse. Sara Bankert, brokerage under-writing manager for Builders & Trades-men's Insurance Services, Inc., says that the legal landscape for such allegations has shifted, creating larger exposures. "Many states have reviewed and passed 'look back window" laws to over-ride statute of limitations restrictions, thus creating a much longer tail for potential lawsuits to be filed against an organization for acts that may have taken place decades ago," says Bankert. "Given the increase in exposure and potential expense to investigate claims, many carriers have responded by limiting coverage, or even removing themselves from the market."

Jennifer Johnston, vice president of underwriting and E&S division with Irwin Siegel Agency, says that as a result, capacity in the market "has been decreasing over the past few years and continues to be a challenge." She adds that excess and surplus lines have become a more viable market in the social service and nonprofit agency arena.

"All carriers in this space are looking for creative ways to continue to provide the insurance coverage these agencies need in a profitable way," Johnston says. "The more complex risks that may have claims issues are faced with taking on more of that risk them-selves via self-insured retentions." Some of the more stressed classes of business, she notes, are the foster care, at-risk youth, and one-on-one youth mentoring organizations.

That's causing carriers to tighten requirements, says Bankert. "Today, contracts, lease agreements and grants for service organizations often require extensive coverage to be in place and may have specified coverage limits for errors and omissions, as well as abuse and molestation," she says. "In some cases, excess or umbrella liability is needed to satisfy higher limit requirements.

Nearly every class of business in the sector, though, is feeling the impact of another big driver of claims—large weather events. "Obviously, the CAT storms have been driving property claims, "says Karen Skiba, assistant vice president of claims with Irwin Siegel Agency. "However, throughout the pandemic, property losses continued to creep up. Some of the drivers of this were losses related to vacant buildings as well as increased activity, particularly fires and related water damage stemming from more activity in residential settings."

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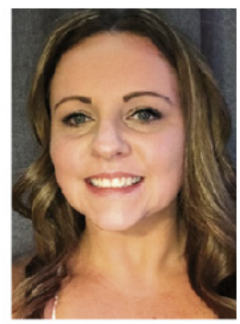
—Sara Bankert
Brokerage Underwriting Manager
Builders & Tradesmen's Insurance Services, Inc.



Other issues are adding even more pressure on the sector. "Supply chain issues lingering from the pandemic coupled with inflationary pressures are becoming more concerning," says Zachary Siegel, business development and distribution executive, Irwin Siegel Agency. "Delays in building materials and the increased costs have caused a longer tail, particularly on the property side. These delays have larger impacts on business income claims as insureds are out of the property for longer than expected."

Speaking of the pandemic: As the pandemic-related restrictions lift, there are plenty of residual risks created by COVID-19 that many experts expect will reverberate within the industry for at least the short term. One of those areas is employment practices liability. Skorupski says he has seen "expanding exposure across all levels of nonprofit entities. This has been exacerbated by COVID through downsizing, virtual workplace, and return-to-work initiatives."

So, too, have auto exposures been ex-acerbated, he adds. "Traditionally a major loss exposure for nonprofit fleets as a result of finding quality drivers and turn-over issues in the midst of COVID shutdowns, companies are now bringing back employees who haven't driven, in some cases, for two years or more."

That is, if they can get the employees. Skorupski says that yet another pandemic-driven issue is putting more exposure on the nonprofit sector: staffing. "Staffing issues continue to plague many nonprofits leading to inadequate service levels and potential for increased claims on professional and general liability exposures."

Insuring myriad risks

So how does a social services or nonprofit agency mitigate its losses amid all the risk exposures? Not easily, says Bankert. “Overall, it has become more expensive to pay or settle claims—which forces the hands of many carriers to either tighten underwriting, increase pricing/deductibles, or ultimately remove themselves from certain geographic areas or classes of business.”

Moreover, she says, inflation-driven costs, higher jury verdicts, and increased building costs have exacerbated the situation. “Overall feedback is that response times for some carriers are now slower, and underwriters are more closely evaluating the information they are given,” Bankert adds.

As for the sector’s looming exposure that continues to increase in severity, Bankert says that “some carriers have reduced limits available for abuse and molestation coverage, or completely discontinued working with youth organizations.”

The primary coverage still available is good, says Skorupski, “although under-writing has hardened, and actuarial integrity has been in place for the last several years (losses matter). Umbrella capacity has been reduced across the nonprofit industry. Carriers are continuing to try to minimize their exposure to increased lawsuits by decreasing limits.”

Also, Skorupski is seeing much more scrutiny from cyber underwriters as they seek to rein in claims. “Dual authentication is a general requirement on renewals and for new business. Retentions have been increasing, as well.”

Still, Skorupski says there is activity in the market. “Competition is heating up on new business, with carriers being aggressive on new submissions while still seeking single-digit increases on renewals.”

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—Zachary Siegel
Business Development and
Distribution Executive
Irwin Siegel Agency

Selling to the market

So is the competition to sell the pro-ducts, says Skorupski. Agents should be “understand-ing past claims through trend analysis and anticipating how the reopening of programs is going to exacerbate these historical claim trends.” He recommends that agents and brokers work with clients to kick start risk management efforts “through existing safety committees if they were in place. We have found that these committees became dormant during the pandemic. Breathe life back into them sooner rather than later and get ahead of the trends.

“Introduce the carrier representatives to the insured on three levels—claims, loss control, and underwriting,” Skorupski adds. “This serves two purposes; the insured better understands what re-sources the carrier can provide, and it establishes both the carrier and the insured as more than policy numbers but as real people working towards the same end.”

For Bankert, prevention is key. “Pre-vent potential claims through providing sound loss control and risk management advice,” she says. “Carriers may provide access to resources that will help—such as background checks, sample waivers, or access to human resources consultants (just as a few examples).”

Agents need to understand, too, that the pandemic-related issues will still linger, says Skorupski. “Lingering COVID impacts to the workplace will remain. How will a hybrid/remote workforce affect compensation claims (home exposure vs. working time)?” Plus, he says, cyber exposures will continue to be an issue, as will ergonomic claims brought on by remote work.

Geoghan says that agents and brokers should “speak with your clients about cyber claims. When an organization experiences a cyber claim, time is of the essence. Their cyber carrier should have a 24/7 incident response team to help manage the immediate response. If caught early enough, this can significantly reduce the damage caused by the incident.”

This means the agent or broker selling the social service or nonprofit sector business needs to wear many hats well. Skorupski says in his experience and by what carriers are saying, carriers are looking for market specialization in the industry.

That’s a must, says Siegel. “The threats to not only the nonprofit sector but industry as a whole are highly dynamic and evolve regularly. It’s imperative that brokers understand the true exposures of their insureds The products available are vast but matching your insureds’ exposures to these products is key.”

For more information:
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www.btisinc.com

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