

Myths of Volunteer Risk Management, Part 2



By Hal Denton and Fiona Lally

Resource Type: Articles

Topic: Insurance and Risk Financing, Volunteer Risk Management

This is the second of a series on common myths associated with the risks of using volunteers in nonprofit organizations. We'll look at each myth for its impact on liability assessment, the purchase of insurance, and risk management planning.

Myth #2

Risk management for volunteers is primarily a question of getting the right insurance.

Purchasing insurance has often been the sum total of the risk management effort of many nonprofits, but this approach is too limited. Consider risk management to be an entire system of ways of dealing with risks, of which insurance makes up only one component.

Insurance is inadequate when it is the sole method of risk management. Many risks are excluded from coverage under liability insurance policies, for example, while others may be subject to restrictive policy terms. Still others may not be cost-effective to insure. Also, insurance only helps once a loss has happened. It's not designed to prevent losses to volunteer organizations, which for our purposes is a major risk management goal. So volunteer organizations can rely on insurance for limited purposes only, and need to create a larger risk management program to effectively protect themselves.

As we discussed in Myth One, volunteers are associated with two kinds of liability, neither of which fit into a single general liability policy. These are liability for injuries to volunteers themselves and liability for harm that volunteers can cause. Even the best insurance is not enough to adequately protect a volunteer organization from the many losses that can arise from these two risks.

...volunteer organizations can rely on insurance for limited purposes only, and need to create a larger risk management program to effectively protect themselves."

It is helpful to clarify the purpose of insurance. Volunteer organizations do need to buy a solid liability insurance policy as a matter of good practice. This package usually includes several important types of liability coverage, including bodily injury, damage to the property of others, personal injury (such as slander and advertising injury), and legal defense for lawsuits. Liability insurance is effective for managing insurable risks which could give rise to major lawsuits. But even this tool is limited in two ways.

First, liability policies for volunteer organizations should rarely be bought off-the-shelf because they are usually

not specific enough to cover these organizations' operations without special alteration. This means that you need to know a good deal about the organization's risks to dictate what the insurance policy can and should cover, and that means that you need to take a risk management approach even to buy insurance well.

Secondly, lawsuits in tort are a significant kind of loss, but not the only kind that volunteer organizations face. Other kinds can include damage to image, for example, or contractual loss. Insurance policies don't protect against losses like these. They must be addressed within a more comprehensive risk management program.

How can you create such a program? The first step is to identify and assess risk. This process should be as broad and all-inclusive as possible, and should not be limited only to risks which can be covered in insurance policies. This is a common mistake. The goal here is not just to determine what to insure. It is first to identify all of the kinds of risks that could cause losses which could affect the organization's ability to carry out its mission. These can spring from a wide array of sources.

Historically, insurance brokers used insurance checklists to advise clients on the appropriate insurance policy to buy, and there the risk management discussion ended-until a claim arose. Risks not on the checklist or which could not be insured were ignored.

In addition to these uninsured risks, volunteer organizations face significant losses which cannot be addressed by insurance, such as loss of reputation, loss of funding, or deterioration in the volunteer or client base that can come from an allegation of negligence or other tort claim. These kinds of risks are entirely overlooked when an organization focuses only on insurance.

As a result, more and more volunteer organizations have discovered that insurance does not protect them as fully as they had hoped, at the same time that the legal environment surrounding them has become more litigious and complex. The problem is that the help available from insurance salespeople is largely limited to providing insurance policies, because that's how brokers and agents are paid.

Instead, volunteer organizations should first conduct their own liability risk assessment to identify and evaluate the risks they can reasonably foresee. Then they can take a broader approach to manage these risks through a number of methods. Risks can be eliminated, for example, by changing procedures or by avoiding certain activities. Risks can be reduced by training. They can also be shared with others by contract, for example, by obtaining informed consent in an agreement about risks that are known. Insurance is a form of risk sharing, where the insurer accepts the risk of a claim in return for premium. This is just one method of managing risk.

The best way to use insurance is to combine it with other risk management methods. This helps to protect the organization from leaving critical risks unaddressed and helps ensure that the insurance that is purchased is appropriate and cost effective for the risks that the organization chooses to cover. Usually, the most effective insurance decisions are made only when all the other risk management methods have already been considered.

In other words, insurance should only be purchased in the context of an overall risk management strategy. This approach is the best insurance of all.

Fiona Lally is the President of Rasenna Consulting, Inc., a risk management consulting firm for nonprofit organizations based in New York City. Hal Denton is General Counsel and Chief Risk Management Officer for AFS Intercultural Programs, Inc., an international nonprofit organization based in New York City.

([Part 1](#) and [Part 3](#) of this series are also available online.)