

Facing the Challenges of a Changing Insurance Marketplace



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While building an appropriate nonprofit insurance portfolio always takes care and focus, some nonprofits are finding that obtaining coverage can be especially difficult these days. Amid a challenging market, this article aims to give you a refresher on key insurance pointers and provide some context on how to navigate specific challenges you may face in today's market.

We'll provide background information on the insurance industry starting with definitions of a few key terms and an explanation of market conditions, followed by discussions of some of the causes of those market conditions. We'll highlight some current insurance challenges nonprofits face with tips for addressing them where possible. The article ends with a few things to remember when you shop for insurance for your organization. To keep the focus manageable, this article does not address health insurance challenges, nor does it tackle the issues associated with alternative risk financing like captive insurance companies or mutual insurance companies.

Definitions: Types of Insurance

Insurance that covers liability exposures common to all organizations is known as *Commercial General Liability* (GL) insurance. This type of insurance is a combination platter of several kinds of coverage: general liability, personal injury and advertising liability, and medical payments. GL insurance helps avert the financial risks associated with claims alleging bodily injury or property damage related to an organization's operations. The coverage is for typical occurrences—simple accidents with unintended injuries such as those from slips and falls. It can also provide coverage for other areas of risk involving:

- libel and slander: claims of defaming a person or business,
- invasion of privacy: claims of violating a person's right to privacy,
- copyright infringement: claims of infringing on another company's intellectual property,
- idea theft: claims of stealing another company's ideas,
- false advertising: allegations of making false claims about a product or service, and
- trademark infringement: claims of infringing on another organization's trademark.

Areas of coverage typically excluded from GL include:

- intentional injury such as assault and battery,
- liability assumed by contract such as your nonprofit assuming the tort liability of another party,
- employee harm such as bodily injury or disease suffered by your employees in the course of employment, and
- liquor liability, such as incidents that occur due to your organization furnishing or serving alcoholic beverages.

Directors & Officers (D&O) liability insurance coverage responds to allegations of wrongful management decisions. These may include actual or alleged errors, omissions, misleading statements, and neglect or breach of duty. Nonprofit D&O policies often include *Employment Practices Liability Insurance* (EPLI), which responds to claims alleging wrongful employment actions. EPLI typically covers the monetary amounts of settlements and court judgments awarded to employees in successful employment lawsuits. Some common examples of covered claims are:

- failure to hire or promote based on legally protected classes,
- discrimination in the workplace based on age, race, gender, and other protected categories,
- retaliation against employees who report workplace violations,
- harassment based on legally protected characteristics, or
- wrongful termination claims in which the employee alleges they were unfairly fired.

Some common examples of claims that EPLI typically does not cover are:

- physical injuries or property damage,
- contractual liability such as breach of contract,
- prior or pending claims that existed or were pending before the policy was purchased or of which the organization had prior knowledge, and
- criminal acts.

Umbrella Liability insurance is designed as a secondary layer of liability coverage to augment existing policies. An umbrella policy can cover claims such as:

- Legal costs incurred in defending your nonprofit in a lawsuit related to claims of bodily injury, property damage, or other covered liabilities,
- Medical bills: if your nonprofit is found liable for injuries to others and the medical expenses exceed your core liability limits,
- Damage to others' property if your nonprofit is found liable for this and the damages exceed your core liability limits,
- Judgments and settlements where the damages exceed the limits of your underlying liability policies.

Things an umbrella policy does not cover include:

- professional liability claims,
- business property damage or lost revenue claims for damage to your business property or lost revenue due to business interruption, or
- costs that are above the total aggregate limit of your policies.

Definitions: Insurance Market Conditions

The insurance landscape fluctuates between what industry professionals refer to as “soft” and “hard” markets. A hard market in the insurance industry refers to a period characterized by higher premiums, stricter underwriting standards, and reduced availability of insurance coverage. This typically occurs when insurers

have experienced significant losses and rising costs, leading to reduced capacity and increased caution in assessing risk. During a hard market, insurers may limit the types of risks (organizations) they insure and the coverage terms and limits they offer, resulting in fewer choices and higher costs for customers.

A soft market is marked by lower insurance premiums, more lenient underwriting criteria, and increased competition among insurers. This environment often emerges when the industry experiences fewer claims and accumulates substantial capital, leading to new carriers or specialty programs actively competing for accounts with more established insurers. As a result, customers can find more favorable insurance terms, broader coverage options, and reduced costs. A soft market benefits insurance buyers with easier access to coverage and competitive pricing.

Hard Market: Causes

One factor that can contribute to a hard market is *financial inflation*. When the average price of goods and services goes up, so does the cost of insurance. Inflation usually creates the situation of buyers paying more, but in some cases receiving less.

Another cause of hardening markets is known as *social inflation*. Social inflation refers to a variety of societal trends such as legal shifts and changing public perceptions, rather than just the financial inflation of prices and wages. Social inflation is influenced by things like increased litigation, changing jury sentiments, and changes in laws—such as tort reform or the abolition of limits (known as “caps”) on the monetary damages that can be awarded in certain types of cases. Each of these components or a mixture of them can result in what are known as “nuclear verdicts”. A *nuclear verdict* refers to a jury award of extremely high value, often in a civil case for personal injury, wrongful death, or other physical or emotional harm. Essentially, this is a phenomenon where higher payouts on insurance claims lead to rising insurance costs at rates that go beyond typical financial inflation.

Natural disasters also play a role in social inflation and can cause insurance costs to rise dramatically. In 2024, there were 27 confirmed U.S. billion-dollar weather and climate disaster events. The total cost from these 27 events in 2024 was \$182.7 billion. In 2025, one catastrophe—the wildfires in Southern California—is estimated to have caused between \$135 billion and \$250 billion in damages. This makes it one of the costliest natural disasters in U.S. history. Despite some rate relief for many clients this year, the cost of property coverage for perils such as fire, wind, flooding, tornadoes, hurricanes and other natural disasters will likely increase in the years to come.

Current Challenges: The Application

Your application is the beginning of the underwriting process. The forms are long and request a great deal of information. It is a detailed process that can feel arduous to finish. A few tips for answering the questions:

- Make sure you give your insurance applications the time they require.
- Answer all questions completely and truthfully.
- If you need help, ask for help.
- Never guess or leave questions blank.

These tips are important because your application will be attached to and become a part of your insurance policy. A material misstatement in the application has consequences. If a claim results from an activity or function you never disclosed or provided incorrect information about, coverage will likely be denied.

Current Challenges: Underwriting

Underwriting refers to the process of evaluating the risk of insuring your nonprofit. It involves an underwriter or underwriters reviewing information you’ve submitted in your application as well as researching and reviewing your website, social media presence, media coverage, partnerships or other affiliated organizational relationships, information on sites that review nonprofits such as www.guidestar.org or www.causeIQ.com. Underwriting teams often use AI-enabled data analytics tools to automate and enhance their data analysis capacity. They will look closely at your organization’s activities. For instance, they will likely request specific

information about your internal approach and commitment to risk management and loss control. The most important advice in responding to any inquiries during the underwriting process is to make sure the information you provide is candid, consistent, and complete.

Current Challenges: Natural Disasters

Due to the increasing cost and incidence of natural disasters described above, real estate located in areas known to be hurricane alleys, flood zones, fault-line areas, waterfront property, or fire-prone areas will likely experience markedly higher insurance rates than real estate in other locations. This accentuates the need for both short-term planning for emergency displacement situations and long-term planning that includes examination of your real property commitments (rent or own) and a detailed, practical assessment of the importance of your current location and the feasibility of alternatives.

Current Challenges: Specific Activities

In addition to the difficulty in obtaining affordable coverage of physical spaces, some nonprofits are experiencing challenges that involve the very activities that allow them to fulfill their missions. This includes organizations with activities that are child serving (in general), day care (adult or child serving), shelters for unhoused people, affordable housing and social or climate justice advocacy. Not only are prices for coverage rising, but more limits and exclusions on coverage are arising. All of this makes it harder to appropriately cover exposures. The cost of sexual assault and molestation (SAM) coverage is high and still rising. At the same time, cybersecurity coverage rates have stabilized after years of upheaval.

The volatility of these market conditions emphasizes the importance of being prepared to provide potential insurers with information that documents your commitment to risk mitigation, such as thoughtful staff and volunteer recruitment and training processes. In addition, if you are an advocacy organization, take time to carefully assess not only the physical risks associated with your activities, but also the potential for legal challenges with longer term ramifications for your internal and external constituents.

Things to Know

As you work through the process of meeting your insurance needs, remember you are not alone. As noted elsewhere in this issue of *Risk Management Essentials*, we recommend you maximize your relationship with your insurance professional (your insurance agent or broker). Talk with your peers. Read your policies; know what you are buying. If you have questions, ask them. If you are asked for information, provide clear and thorough answers.

It is unlikely that the cost of insuring your organization will decline. Working with your insurance professional, include those cost projections in your forecasts. Depending on the nature of your mission and activities, be willing to take a hard look at current programs to determine if community impact warrants the increased insurance costs. Consider altering or even sunseting programs if needed.

Facing these challenges in the insurance market is not easy, but it provides nonprofits the opportunity to engage these issues with care, focus, and a strong sense of shared community.

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Resources:

<https://nonprofitrisk.org/resources/glossary-of-risk-management-and-insurance-terms/>

<https://nonprofitrisk.org/resources/contemplating-coverage-insurance-for-nonprofits/>

<https://nonprofitrisk.org/resources/liability-and-the-board-what-governing-teams-need-to-know/>

<https://www.ncei.noaa.gov/access/billions/time-series>

