CALL TO ACTION
FOR NONPROFITS

BAKER-HOPP & ASSOCIATES

Information Series

2020 State of the Commercial Insurance Market for Nonprofits

Nonprofit organizations are most often the invisible backbone of communities, a thankless job that can come at some high risks. While every nonprofit is unique and insurance needs are specific to the type of nonprofit, there are some common trends with insurance renewals in the second half of 2020.

In the commercial insurance industry, market cycles are typically referred to as a “hard” or “soft” market. Soft market cycles result in competitive pricing, reduction in rates, program coverage flexibility and minimal limits on capacity. All of which we and our clients have experienced over the last five or more years.

At the end of 2019, the commercial insurance market rapidly hardened with conditions changing on a daily basis (7.5% average increases across all lines of coverage). The individual impact will vary depending on individual focus on the nonprofit, your risk profile, location and previous claims activity.

What is also concerning about this market swing is (in addition to premium increases), there are also capacity withdrawals by carriers for certain accounts particularly in difficult to place commercial property, commercial auto and umbrella risks. This can mean less carriers willing to provide proposals on a risk, increased deductibles, narrower coverages or limited liability limits. All-in-all this means a nonprofit could be looking at paying higher premiums when finances are strained or having to scramble to find coverage at the last minute.

On a global basis, underwriters are citing unsustainable claim levels and low interest rate environments driving the need for more premium and decreased appetite. In the world of nonprofits, an example of this activity is D&O coverage (D&O is an abbreviation for Directors and Officers Liability - coverage designed to protect directors, officers and board members from being sued and resulting in personal loss). 63% of nonprofits reported a D&O claim within the last two years which is double the claim activity than private companies. Out of those claims, 85% of them were employment-related (wrongful hiring, termination practices, etc).

As your advisors of insurance and risk management, we are proactively prepared to work with your nonprofit through this market adjustment. At Baker-Hopp, our core purpose is to contribute to the success of others-particularly our clients. We understand that our role in your success is to provide transparent and competitive options with detailed information on changes in coverage and pricing so you can make informed business decisions. Our model of service below is the cornerstone of our capabilities:

1. Discussing with you well in advance of the renewal expectations and strategy

2. Leveraging our wide reaching relationships in the insurance industry to obtain the most complete and competitive options

3. Providing in depth and easy to understand analysis of options at renewal so you can make confident business decisions.

Outlook by Line of Coverage: Property

In the most recent 90 days, the commercial property market is experiencing a dramatic shift and projections for premium increases are as follows:

Accounts without catastrophic exposure	5-15% increase
Accounts with catastrophic exposure	10-20% increase
Accounts with catastrophic exposure AND claims	15-30% or more increase

Note that catastrophic exposure primarily relates to weather events such as wind storm, hurricane, earthquake and flood but can also apply to the operation of the property and its contribution to a catastrophic loss. Regions of concern include coastal Florida, North Carolina, South Carolina, Georgia, and Texas. Also, Kansas and Missouri for hail and tornado.

Carriers are often forcing larger deductibles on policyholders creating more financial exposure for buyers. In some cases, they are limiting their exposure and causing the need for layered programs or multiple carriers on one property.

Outlook by Line of Coverage: Casualty

As a whole, the casualty insurance lines of coverage are experiencing significant changes in the frequency and severity of liability losses. What appears to be the driver of losses is due to *"social inflation."*

Social inflation is a new insurance industry buzzword used to describe the rising costs of insurance claims resulting from increased legal advertising, expansion of the litigation finance sector, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards.

While the core components driving social inflation have been evident for some time, their impacts on the insurance industry have only really started to come to a head in the past couple of years. This is impacting most lines of casualty coverages with the major exception being worker's compensation, which remains competitive.

The hardening of the casualty market accelerated in Q4 2019 and continues into the first quarter of 2020. Capacity is constricted and rates on primary layers continue to increase. Below are the most recent forecasts of casualty premium increases:

LINE OF COVERAGE	PREMIUM INCREASE
General liability	2.5% to 7.5% increase
Umbrella	12% to 20% increase
Workers compensation	–2% to 2% increase
Auto	6% to 12% increase
International Executive Risks	–5% to flat
Directors and officers public company (primary	+17.5% to +50% or more
Directors and officers private/not-for-profit (overall)	+5% to +35%
Errors and omissions	+5% to +10%
Employment practices liability	+5% to +15%
Fiduciary	Flat to +7.5%
Cyber	Flat to +10%

Resources include State of the Market Q1 2020 AmWINS Group, Willis Towers Watson 2020 Insurance Marketplace Realities, Business Insurance Magazine, various carrier underwriter conversations, Travelers and Baker-Hopp client renewal negotiations.