

CURRENT ISSUES INFORMATION SHEET 2002/1

How to survive a rising insurance premium?

Many nonprofit organisations have received notice over the last year from their insurers of increased premiums, reduced coverage or that their insurances will not be renewed. There have been press reports of large insurance increases for nonprofit organisations, questions asked in Parliament and inquiries established by state governments.

The JP Morgan/Deloitte 2001 Interim Insurance Survey indicated that commercial insurance had risen on average 14% over the financial year to May 2001. <http://dtqfsi.com/news/austins.html> A Queensland Council of Social Service Insurance Survey Report in July 2001 indicated a 30-40% increase in premiums with some increasing over 500% <http://www.qcross.org.au/> The Victorian Government reported that the public liability insurance for the Melbourne Fringe Festival increased from \$9,000 in 2000 to \$63,000 in 2001. The Australian Parachute Federation's premiums have risen to \$1.1 million in 2001 from \$127,000 in 1999. The Queensland Women's Amateur Sport's Council insurance premium rose from \$900 to \$9,000 in 2001.

The insurance market worldwide and particularly in Australia is at a stage in its market cycle described as being "hard". A hard market refers to the state of the insurance market where it is a "seller's market" as opposed to a soft market that is a "buyer's market".

In a hard market, it is often the case that:

- ◆ Premium increases may be unrelated to loss experience;
- ◆ Insurers may make decisions to leave certain market segments or geographical areas;
- ◆ Some insurers will go out of business after suffering losses; and
- ◆ Coverage of risks and "add ons" that were available in a soft market is wound back and often conditions are imposed on buyers before a policy is approved.

In a soft market, it is often the case that:

- ◆ Premiums rise slowly and there is overt competition amongst insurers;
- ◆ Insurers compete for business by adding additional coverages or add ons as a way to distinguish their product; and
- ◆ Insurers are more ready to design new lines of insurance and products.

There is little that an individual nonprofit organisation or sector peak bodies can do to alter the insurance cycle, but there are some practical steps that can be taken to assist your organisation to survive a hard insurance market.

1. **Understand your coverage.** What coverage are you actually buying with your insurance and is it necessary?
2. **Identify a competent insurance professional and seek their advice.** A good broker or consultant will assist you to weather a hard market with advice and information about market trends.
3. **What are others doing?** One of the best sources of information is your existing network of nonprofit organisations and professionals. Where do similar nonprofits in your community or in your national federation or umbrella organization go for coverage? What are they hearing about the movement of insurers in and out of your particular area? While speaking to members of your professional network about these issues, you may glean some valuable insurance insights. For example, you may learn about an effort to band together to create a new insurance program for nonprofits with common exposures, or about the decision of an insurance pool to expand to new states or new client categories.
4. **Take Risk Management seriously.** Risk management is the way to manage the risks that face us and our organisation. Insurance is only one way to manage risks and usually not the most appropriate way. You can manage risk by (a) not engaging at all in the risky activity, (b) managing the risk to minimise its likelihood or the damage if it occurs, (c) self-financing the damage through your own resources or (d) transferring the risk to others. Insurance is one such option, but consider indemnities and contracting out.
5. **Budget wisely.** Your insurance costs are likely to rise in the near future and continue rising. You should ensure that any charged services or products reflect the increased costs that your organisation is facing or how you are going to cross-subsidise. The best way to predict the amount of the increase is to ask your insurance professional what he or she is seeing with respect to similar nonprofit accounts for the same insurer. A second strategy is to discuss this issue with colleagues in your nonprofit's field of activity. Consider setting higher deductibles if you can to reduce premium increases.
6. **Watch out for new opportunities.** State governments and peak bodies are beginning to work on ways in which to help nonprofit organisations to ride out the hard insurance market. The Queensland, Victorian, Tasmanian and

South Australian Governments are all active in establishing task groups and committees to seek ways to lessen the impact of insurance costs on the sector. Some options are:

- (a) The status quo is maintained – that is, organisations continue to purchase cover from private sector insurers at market-based premiums;
- (b) The Government provides cover to organisations in place of insurers (for example, Queensland Parents and Friends' Associations are to be brought under Government insurance arrangements, another example is the NSW statutory insurance scheme for sports injury *Sporting Injuries Insurance Act 1978*).
- (c) A subsidy is provided by the government to allow organisations to purchase liability cover from private sector insurers;
- (d) The amount that can be awarded to a claimant as a result of a liability claim is capped by the introduction of legislation, thus reducing the cost of premiums. The South Australian Volunteers Protection Act 2001 which relieves volunteers from liability of negligent acts in most instances is an example); and
- (e) Organisations are assisted to better manage their potential public liability risk and, by so doing, reduce the cost of public liability insurance. An example is a proposed insurance pool for nonprofit organisations in Victoria through the Municipal Association of Victoria that will reduce premium costs for nonprofit organisations.

Further Resources:

A Seminar AT QUT on 14 February, 2002 on these issues - register on <http://cpns.bus.qut.edu.au>

Facing up to the Liabilities of Nonprofit Enterprise: A Strategy to Minimise and Finance Liabilities, Myles McGregor-Lowndes, Program on Nonprofit Corporations, QUT Working Paper No.11 ISBN 0-86856-811-2 <http://cpns.bus.qut.edu.au>.

This paper proposes some reasons for the general discontent amongst nonprofit committee members and officers about their personal liability flowing from their voluntary positions. A practical strategy of risk management for nonprofit associations is outlined.

Effectively Managing Risks and Liabilities of Nonprofit Associations, in *Legal Issues for Nonprofit Associations* ed Myles McGregor-Lowndes, Keith Fletcher & AS Sievers, LBC Information Services, 1996

This chapter in the book examines risk management for nonprofit organisations with a checklist of risks. It also examines responses in other overseas jurisdictions to such issues.

Insurance Chapter in *The Associations Incorporation Manual*, ed Myles McGregor-Lowndes, Caxton Legal Service Inc, looseleaf, ISBN 0949477303

This manual is written specifically for Queensland Incorporated Associations that are required by law to insure for public liability to the minimum of \$1.1 million. The chapter examines types of the Act's requirement for insurance, insurable risks, and risk management principles.

Taking the Risk out of Community Management, Office of Women's Affairs, GoPrint, Brisbane, September, 1996 ISBN 0724271872

This is a resource and referral guide on legal issues for people on management committees of community organisations. It includes sections on risk management, insurance and compliance with legislation impacting on community organisations.

This Current Information Sheet was issued on 8 January 2002. Events, policy and laws alter rapidly and you should seek independent advice before acting on any matter raised in this publication. This publication's source is <http://cpns.bus.qut.edu.au>.