



NONPROFIT ADVISOR

For DAV Departments and Chapters

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INSURANCE: DEMYSTIFYING THE OPTIONS

There is a legend that a fellow named Crassus, who lived in ancient Rome, started the insurance business. It seems that Crassus owned a fire truck and would pull up in front of burning buildings and offer “instant insurance” – at a hefty price – to distraught owners whose property was going up in smoke. Buying the insurance brought instant firefighting. Declining the insurance? Ashes.

Nowadays, insurance is only available *before* disaster strikes. DAV departments and chapters have the opportunity, and maybe the obligation, to buy various kinds of protection. For example, Sections 8.4 and 9.3 of the National Bylaws require protection of organizational assets. In some cases – most obviously, perhaps, where a subordinate unit owns a building – that would involve buying insurance.

KINDS OF INSURANCE

Insurance is designed to minimize risk. Naturally, the kind of insurance a department or chapter might need depends upon the kinds of risks it faces. Below are brief descriptions of the most typical types of insurance that nonprofit organizations consider.

PROPERTY AND LIABILITY

These two types of coverage, which are often joined in a single policy, are designed to protect the

property of an organization (building and contents, etc.), as well as to insure the organization against claims of bodily and/or property injuries by third parties. If a department or chapter owns a building, it certainly needs property insurance for protection against, e.g., fire damage. Even if no building is owned, the subordinate unit might still need liability protection to cover cases such as an injury sustained by someone attending a DAV function. **Note: Any subordinate unit operating a bar/lounge will need additional liquor liability insurance.**

AUTOMOBILE (OWNED AND NON-OWNED)

Obviously, any vehicle owned by a department or chapter must be covered by an appropriate policy. In addition to being good practice, this type of insurance is a legal requirement everywhere. However, depending on the circumstances, a subordinate unit might also need “hired and non-owned” auto insurance. This kind of policy offers protection to the unit in such cases as this: a chapter official uses his own car for a chapter-related errand and has an accident in which someone dies. If the chapter is sued – and it will be sued – the hired/non-owned policy offers protection.

DIRECTORS AND OFFICERS

A D & O policy protects the chapter and its officials against a variety of claims for so-called “wrongful acts.” These “wrongful acts” generally refer to an alleged breach of duty by a chapter official. For



example, a suit seeking money damages against a chapter or its officials for publishing a newsletter that allegedly defames a member would be covered under a typical D & O policy. D & O policies are very inexpensive and can pay for themselves many times over in cases where a subordinate unit is forced to defend itself against a frivolous claim.

EMPLOYMENT-RELATED INSURANCE

If a subordinate unit has employees, it is prudent to have an “Employment Practices Liability” (EPL) policy in place. Nonprofit organizations of all kinds are subject to employment related lawsuits all the time, and the cost of defending, e.g., a sexual harassment case, can be frightening. An extra benefit is that most EPL carriers will offer substantial assistance to an insured seeking to update its human resources practices. In the nonprofit world, EPL policies are usually written as an optional part of D & O policies.

CRIME INSURANCE

Nonprofits are unfortunately sometimes the target of dishonest persons, both inside and outside the organization. “Fidelity” insurance protects a subordinate unit against “insider” theft. An inexpensive fidelity insurance policy is available through a Cincinnati-based broker who provides some of DAV’s coverage. Details about this are available through the Inspector General’s office. In addition to fidelity insurance, some

chapters/departments may wish to consider “crime” insurance, which can protect against dishonesty by third parties. Such insurance may be especially important when large amounts of cash are on hand, such as with bar/lounge and bingo operations.

DEDUCTIBLES AND DEFENSE

One of the key benefits that insurance provides is the payment of defense costs associated with a claim. A department sued for employment discrimination may be blameless, and may ultimately win the case. The process, however, can easily involve \$50,000 or more in legal defense costs. An EPL policy would cover these costs. The same is true of other kinds of policies. The reimbursement for defense costs is usually reduced by the amount of deductible under the policy. Thus, a policy with a \$10,000 deductible means that the insured must pay the first \$10,000 in costs (legal or other) associated with the claim. For that reason, it is important to seek policies with low deductibles.

Nonprofit Advisor is prepared by the Office of the DAV’s General Counsel and is published quarterly for the informational use of DAV Departments and Chapters. This newsletter is not intended to replace legal advice that may be required to address individual situations.