



**Challenges, Opportunities,
and Insurance Buying Trends
in the Nonprofit Industry**



PHILADELPHIA
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EXECUTIVE SUMMARY

Nonprofit organizations are often the invisible backbone of many communities. The nonprofit industry is broad, made up of institutions with goals to provide services for the public good, rather than to make a profit. This includes grant-making foundations, giving services, advocacy groups, civic clubs, and social organizations.

Like for-profit businesses, nonprofits require various types of insurance to reduce exposure to risks that could result in financial loss. While every nonprofit is unique and insurance needs are specific to the type of nonprofit, there are common industry traits, trends, and challenges that lead to demand and interest in coverage areas. Understanding key trends in the nonprofit world provides insurance agents with essential insight to convert prospects into new customers, recommend the best coverage options, and build strong customer relationships that are difficult for competitors to break.

On behalf of Philadelphia Insurance Companies, NAPCO Research and NonProfit PRO (units of NAPCO Media) conducted an online survey of nonprofits to find out their top challenges and how they are strengthening fundraising efforts, growing donor bases, improving operations, and evaluating insurance providers and needs. The survey revealed trends guiding nonprofits' growth strategies, the actions and investments organizations are taking to expand services and challenges, and critical factors influencing insurance requirements and provider selections.

Key Research Takeaways

Close to 200 nonprofits participated in the survey. Here is a summary of key survey takeaways:

- Nonprofits plan to address changes in charitable giving and new sources of income, such as crowdfunding and mobile fundraising, by shifting fundraising activities to the web and social media (46%), investing in expanding donor bases (46%), adjusting strategies based on analyzing donor actions (43%), and adding emerging digital and mobile technologies (40%).
- 28% of nonprofits are actively exploring for-profit entities and for-profit ventures/contracts as a source of additional revenue, while 13% are exploring such arrangements.
- Nonprofits reported solid adoption of technology and tools to manage donor relationships, raise funds online, and ensure data security. Newer technology adoption areas include case management, mobile technology, grant management, and content marketing. Peer-to-peer fundraising software and technology services for disabled customers are emerging adoption areas.
- Survey respondents' top three challenges are cultivating donors and stewardship, having adequate staffing, and retaining donors.
- While 36% of respondents haven't researched a new insurance provider because they are happy with their current provider, the remaining 64% who researched a provider relied on word of mouth/colleague referrals (36%), talking to peers (34%), and face-to-face meetings with insurance sales reps (31%).

- When purchasing or renewing an insurance policy, nonprofit respondents identified the following challenges in rank order: price, understanding the differences between insurance policies, a complicated application process, and finding documentation to explain a policy.

RESEARCH METHODOLOGY

The purpose of the research was to identify key strategies nonprofits were pursuing to strengthen fundraising, grow donor bases, expand programs, improve operations, and evaluate insurance needs. NonProfit PRO conducted an online survey of its database of more than 79,000 nonprofit organizations to obtain a minimum of 150 completed questionnaires. The survey was created by NAPCO Research (a unit of NAPCO Media, the parent company of Non-Profit PRO) and deployed in March 2019. The survey base included nonprofit organizations of various sizes (Figure 1).

Figure 1: **Size of Nonprofits**

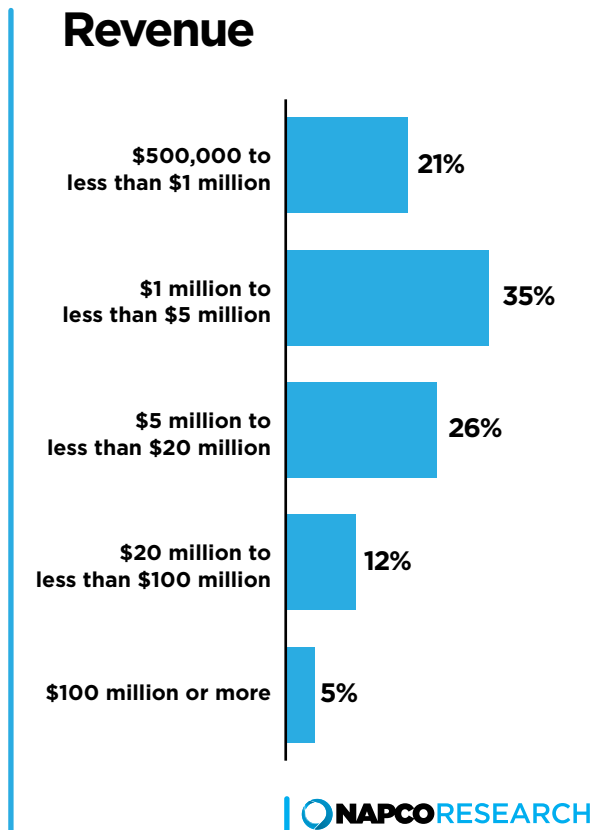


Figure 1a
Q: What is your organization's annual revenue?
N = 189 Nonprofit Organizations

Number of Employees

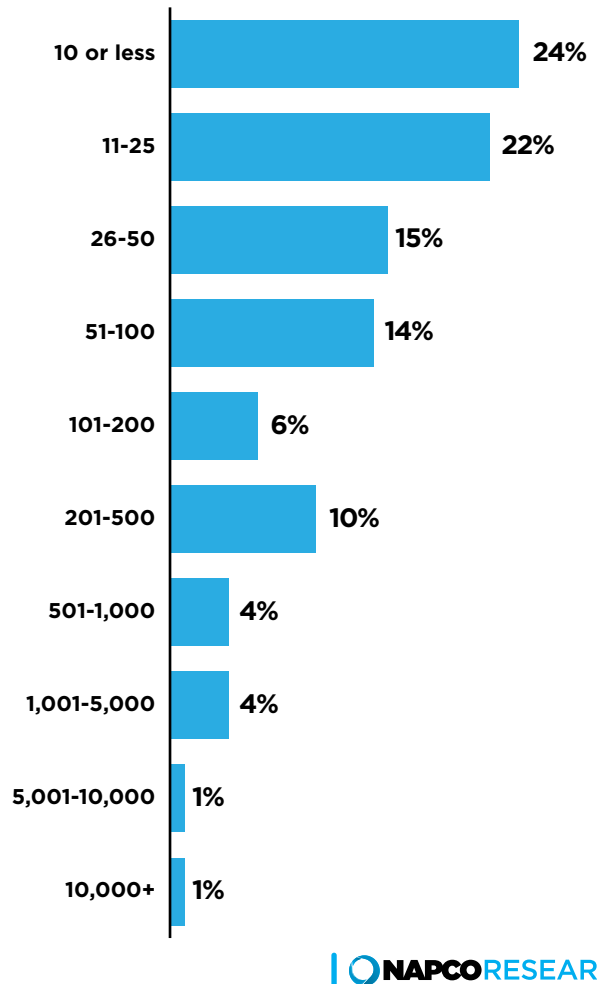


Figure 1b
Q: How many total staff members make up your nonprofit organization (not including part-time employees or volunteers)?
N = 189 Nonprofit Organizations

Survey respondents represented nonprofits with various areas of focus and missions (Figure 2). The majority of respondents were from nonprofits in the human services field.

Figure 2:

Nonprofits' Area of Focus

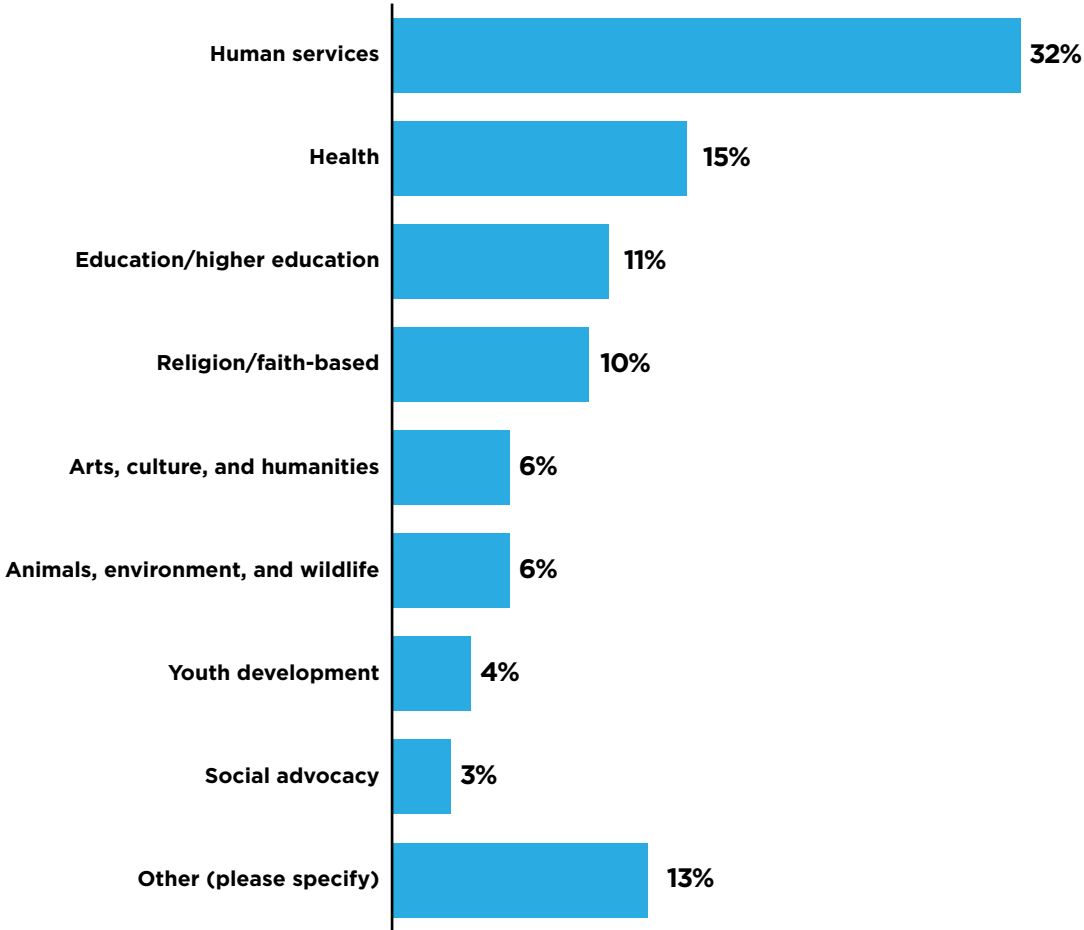


Figure 2
Q: What category best describes your nonprofit organization's area of focus?
N = 189 Nonprofit Organizations



The Nonprofit Opportunity

Nonprofits encompass many types of organizations, including grant-making foundations, giving services, advocacy groups, civic clubs, social organizations, soup kitchens, credit unions, food banks, disaster relief, local churches, parent-teacher organizations, homeless shelters, labor unions, museums, universities, and hospitals. They typically serve a scientific, religious, educational, or charitable purpose, and are recognized by the Internal Revenue Service (IRS) as tax-exempt.

The IRS recognizes 29 different types of nonprofit organizations. In 2015, approximately 1.56 million nonprofits were registered with the IRS. These organizations account for almost 10% of all salaries and wages paid in the U.S.

The following characteristics are common to nonprofits:

- They have a mission that focuses on activities that benefit society and with goals that are not primarily for profit.
- They are private organizations separate from the government.
- They are self-governing organizations.
- Their income must be used to fund nonprofit organizations' missions and activities.
- They are supported by volunteers.

Like for-profit businesses, nonprofits require various types of insurance to reduce exposure to risks that can result in financial loss. While every nonprofit is unique and insurance needs are specific to the type of nonprofit, there are common industry traits, trends and challenges that lead to demand and interest in coverage areas. Understanding these key traits, trends and challenges will best equip insurance agents in recommending the best coverage for nonprofits, all while building strong relationships that lead to long-term customer loyalty.

Top Challenges Center on Resources

Survey respondents' most pressing challenges center on essential resources for maintaining a nonprofit: funding, donor, and staffing. Nonprofits' top three challenges (Figure 3) are cultivating donors and stewardship, having adequate staffing, and retaining donors.

Figure 3:

Top Challenges

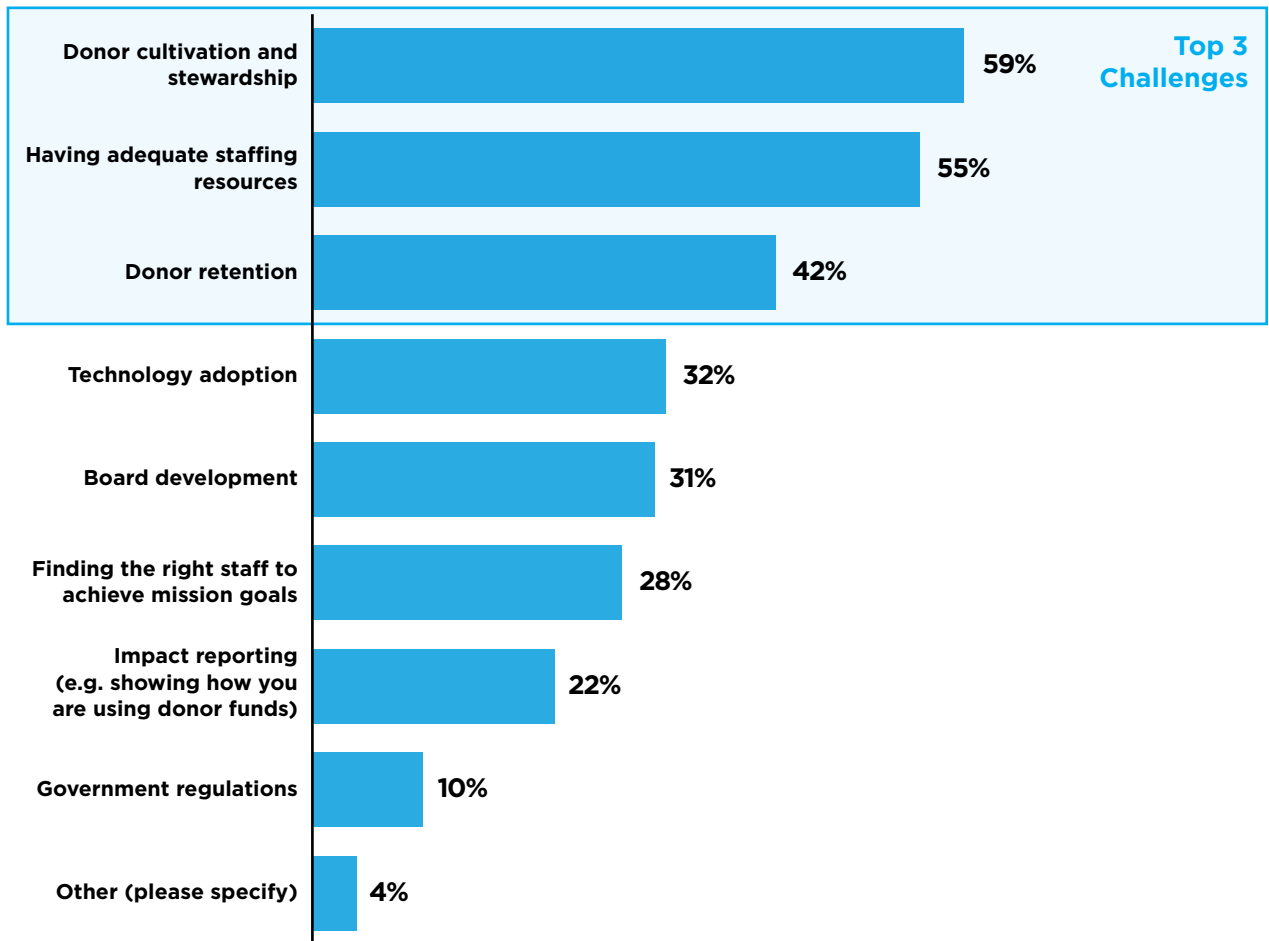


Figure 3

Q: What are the top THREE challenges facing your organization in 2019? (Choose up to three)
N = 189 Nonprofit Organizations



Nonprofits are typically funded by outside contributions, grants, and fundraising efforts. Some nonprofits depend on membership fees and sales of specific services or products. A critical step in fundraising is building and retaining a donor base, increasing giving amounts, and cultivating stewardship.

Donor relationships and retention are important to nonprofits. With the growing number of nonprofit organizations, the competition for donors and their dollars is becoming steep. This is why it's more crucial than ever for nonprofits to invest in deeper relationships with their supporters to understand the reasons people give and how they can keep donors loyal to their organization. People's motivations for charitable giving vary. Some donors give on an impulse, often in the wake of a disaster or other publicly advertised need; while others develop a relationship with a nonprofit organization that continues for a long time and involves opportunities for face-to-face interactions. These in-person interactions allow a charity's staff or directors the opportunity to gain valuable feedback on why donors choose to support this particular charity, and what the donors expect to receive in return.

This is why donor stewardship is so important. Stewardship is the cultivation of an ongoing relationship between a charity and its donors, through which the charity seeks to express gratitude for a donor's gift. Stewardship management typically involves an understanding of the motivations that spur giving to charitable endeavors. The process of donor stewardship often entails use of a data management system to track donations and note donor intentions.

Expanding Strategies for Fundraising Growth

Fundraising is critical to a nonprofit organization's survival, and that's why survey respondents are taking action to expand fundraising channels, build donor bases, and use data on donors to guide strategies. A key strategy is pursuing new contribution methods. Nonprofits report they are planning to (Figure 4) shift more fundraising to the web and social media (46%), considering mobile and digital communications (40%), and looking for new ways for donors to contribute (29%).

Another key area is donor growth. Respondents expect to make investments to build donor bases and analyze actions of current donors to make changes that will lead to increases in giving.

Figure 4:

Nonprofit Funding Strategies

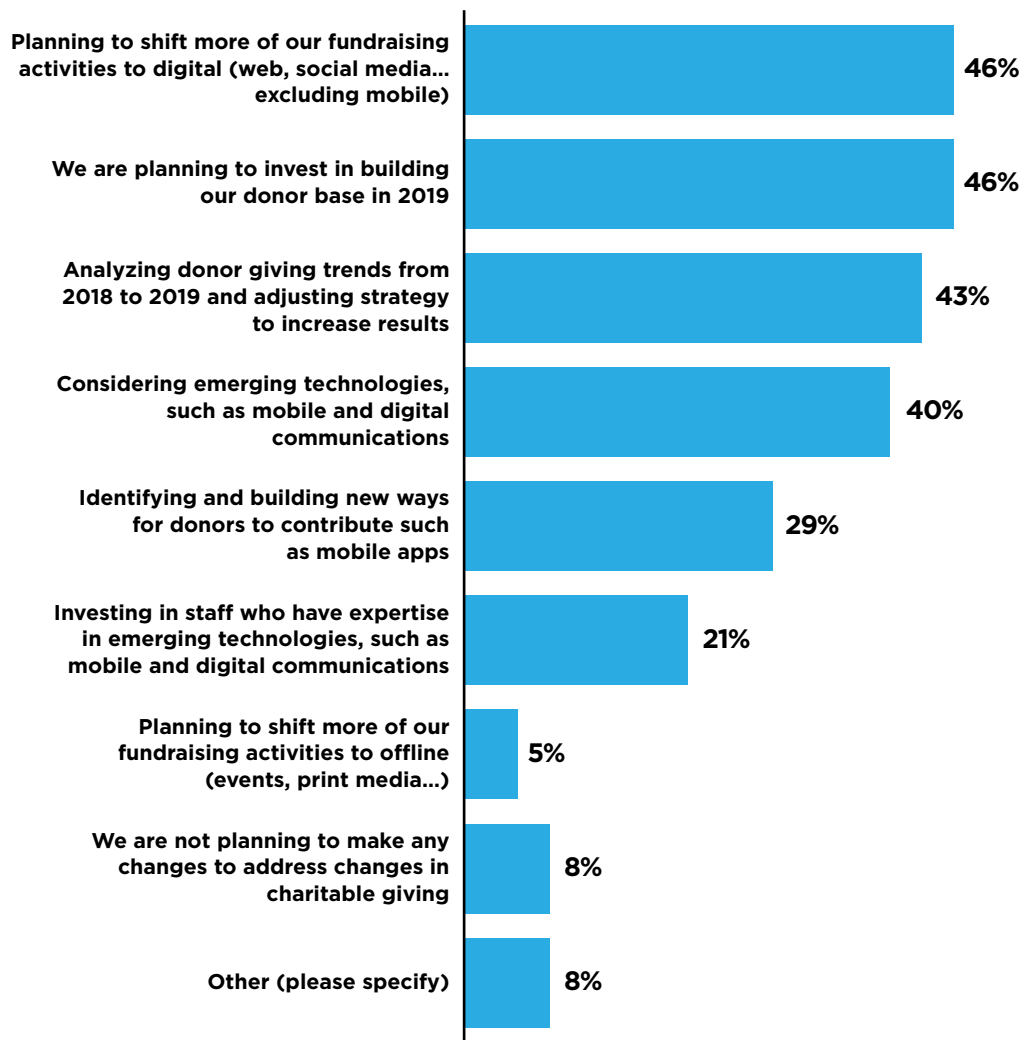


Figure 4
Q: How, if at all, is your organization planning to address changes in charitable giving and new sources of income, such as crowdfunding, and mobile fundraising? (Choose all that apply)
N = 189 Nonprofit Organizations

Exploring For-Profit Opportunities

A recent trend in the nonprofit world is pursuing for-profit ventures by partnering with for-profit organizations. While most nonprofit survey respondents were not exploring for-profit opportunities, 41% were either actively exploring or planning to explore for-profit opportunities (Figure 5).

Figure 5:

Exploring For-Profit Opportunities

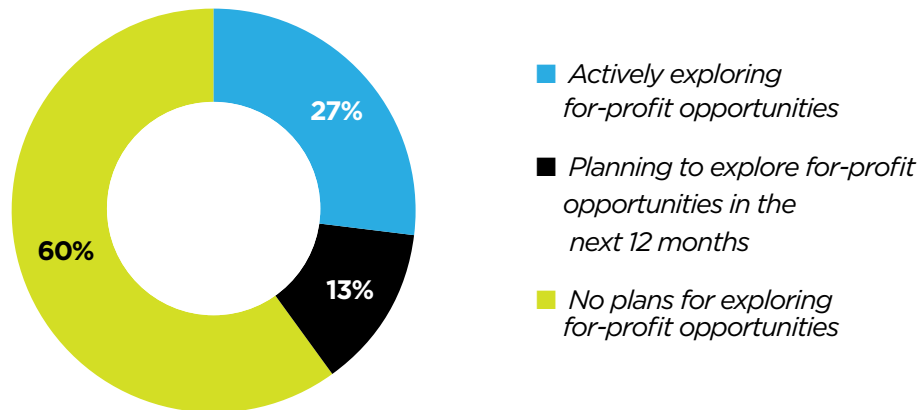


Figure 5

Q: Choose the statement below that best describes your organization's plans in forming for-profit entities and/or exploring for-profit ventures/contracts as a source of additional revenue. (e.g. identifying products or services to sell, new revenue producing partnerships...)
N = 189 Nonprofit Organizations



In a period where resources for charitable contributions are becoming scarcer, nonprofit organizations are looking for new ways and partnerships to generate the resources necessary to sustain and grow their organizations. Here are a few examples:

- Point-of-sale fundraising, where people are asked to make a donation to a cause when they make a purchase at a store. According to Engage for Good's "2017 America's Charity Checkout Champions" report, U.S. point-of-sale fundraising campaigns raised over \$441 million in 2016—a 4.5% increase from 2014. In total, these campaigns have raised over \$4.1 billion within the past three decades. The report evaluated a group of 73 point-of-sale fundraising campaigns that have raised over \$1 million.
- A charitable cause partner shops with a product manufacturer that sells a product specifically to raise funds for a charity.
- Social enterprises are organizations or ventures that advance their primary missions using business methods. They can be for-profit or nonprofit entities. These operations can be independently owned and operated by community-based nonprofit organizations that sell goods and services, and reinvest the money they make back into their business or the local community.

As nonprofits continue to evaluate alternative revenue opportunities, including for-profit ventures, they must be aware of potential pitfalls, particularly as they relate to insurance coverage. The availability and cost of insurance for for-profit ventures can be dramatically different than what a nonprofit is accustomed to seeing. Nonprofit insurance companies are likely to cover the sale of items at a "company store," such as T-shirts, canvas bags, etc. However, if a nonprofit wanted to expand into areas, such as manufacturing, growing or selling food items, or other areas that extend them deeper into for-profit territory, coverage becomes pricier and more difficult to locate. An insurance company that has favorable rates for a social service organization is often not interested in heavy products liability, and nonprofits must be aware of potential hurdles in developing for-profit programs, including differences in insurance coverage.

Investing in Technology to Drive Growth and Services

Nonprofits reported investing in and implementing technologies that help them build and manage donor relationships, raise money, and protect their donor databases and donors' privacy. More than 60% of respondents reported using donor/relationship management technology, online fundraising technology, and data security tools/practices (Figure 6). They have invested mainly in technology that supports their funding. The biggest challenge that the nonprofit sector faces is having limited resources, and nonprofits can mitigate this problem by focusing on tools that build and protect donor relationships, and support fundraising.

As for future technology investment, nonprofits indicate they are pursuing tools that center around finding new ways and channels to engage and communicate with donors. While more than 30% of nonprofits report using mobile and content marketing technologies, over one-third not using software are actively considering it.

Respondents also are investing in tools to better manage organizational efficiency. Close to 60% of respondents are either using or considering using case management software and/or grant management technology. As for future/emerging investment areas, respondents are considering peer-to-peer fundraising software to support a fundraising method that leverages a nonprofit's supporters to recruit other donors.

Figure 6:

Technology Usage and Consideration

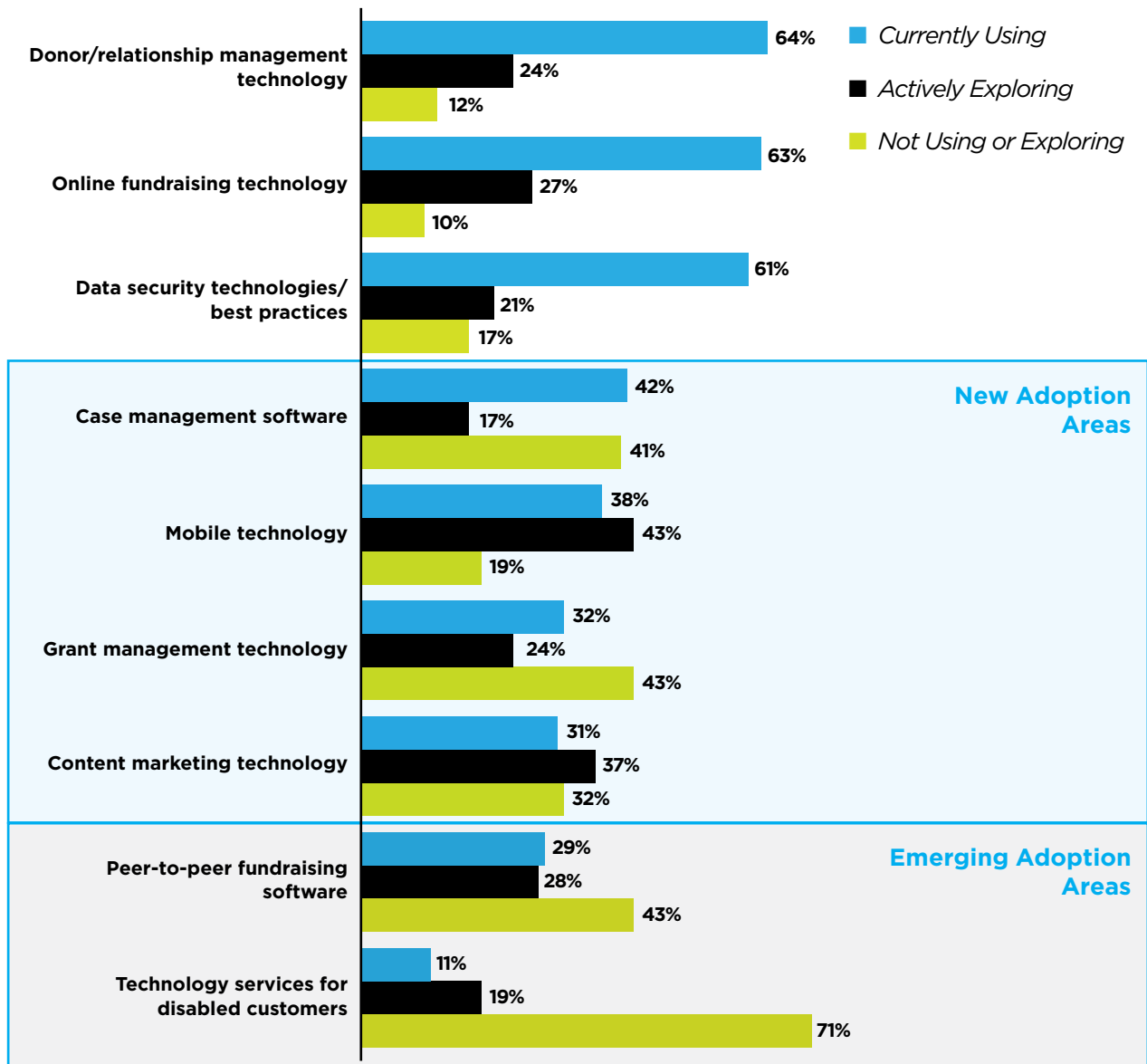


Figure 6
Q. Which of the following technologies is your nonprofit either currently using or actively exploring?
N = 189 Nonprofit Organizations

Nonprofits Face the Same Risks as For-Profits

Nonprofit organizations face many of the same risks as for-profit businesses and require many of the same types of insurance. Nonprofits understand the need for business insurance to safeguard their assets. These organizations typically bring together many constituents, including staff, volunteers, clients, and donors. As a result, the potential for accidents and liabilities is great.

While there are many types of nonprofit organizations, all face situations that could result in lawsuits:

- A patron slips on the floor of a museum or at a fundraising event.
- A child breaks her arm during an afterschool fitness camp.
- At a free clinic, a patient accuses his doctor of malpractice.
- A third-party vendor that hosted a foundation's website experienced a security incident.
- Customers who donated to the organization may have had their names, dates of birth, and credit card information accessed.

It only takes one accident, oversight, or misunderstanding to trigger liability lawsuits. And the costs of a lawsuit may force a nonprofit to shut down. Insurance can prevent that.

The survey revealed key insights on how nonprofits evaluate and select insurance providers.

Word of Mouth and Peers Are Key to Insurance Research

The survey asked nonprofits to select the top three ways their organization researches insurance providers. While 36% of respondents said they hadn't researched a new provider because they are happy with their current provider, the remaining 64% researched insurance providers in the following ways:

Word of mouth/colleague referrals	36%
Talk to peers in network groups (both online and in-person)	34%
Face-to-face meetings with insurance sales representatives	31%
Telephone calls with insurance sales representatives	19%
Online searches	12%
Visiting insurance company websites	8%
Review sales literature	4%
Social media searches/interactions	3%

The top three ways nonprofits research insurance highlight the importance of the insurance purchase. Respondents report the top way they evaluate an insurance provider is through referrals from others. In addition, they value high-touch, in-person communications when researching providers and welcome meeting with potential insurance providers. This finding can be viewed as an indicator that nonprofits seek insurance providers they can trust and with whom they can build consultative relationships. They are looking for partners who understand their missions and how their needs differ from those of for-profit organizations.

Nonprofit administrators are not insurance or risk analysis experts, and their first priority is to serve the mission of their organization. Nonprofit organizations depend on outside experts, such as their insurance agents and carriers, to guide them through insurance decisions and risk management procedures.

Given the importance of the insurance purchase, online searches, social media, and visits to insurance company websites are not the top research methods; but they are still crucial, as these venues may lead customers to find a provider or offer supporting materials for making decisions.



Balancing Price and Coverage Are Keys to Policy Selections

Survey respondents reported evaluating multiple companies before purchasing an insurance policy. Nonprofits reported evaluating three insurance companies, on average, before selecting a policy. The most important or essential factors in choosing or renewing a policy were price and breadth/depth of coverage (Figure 7). Nonprofits have limited resources, so price is a top concern. In addition, they need wide coverage to address ever-increasing risk exposures.

Figure 7:

Factors Influencing Insurance Policy Selections

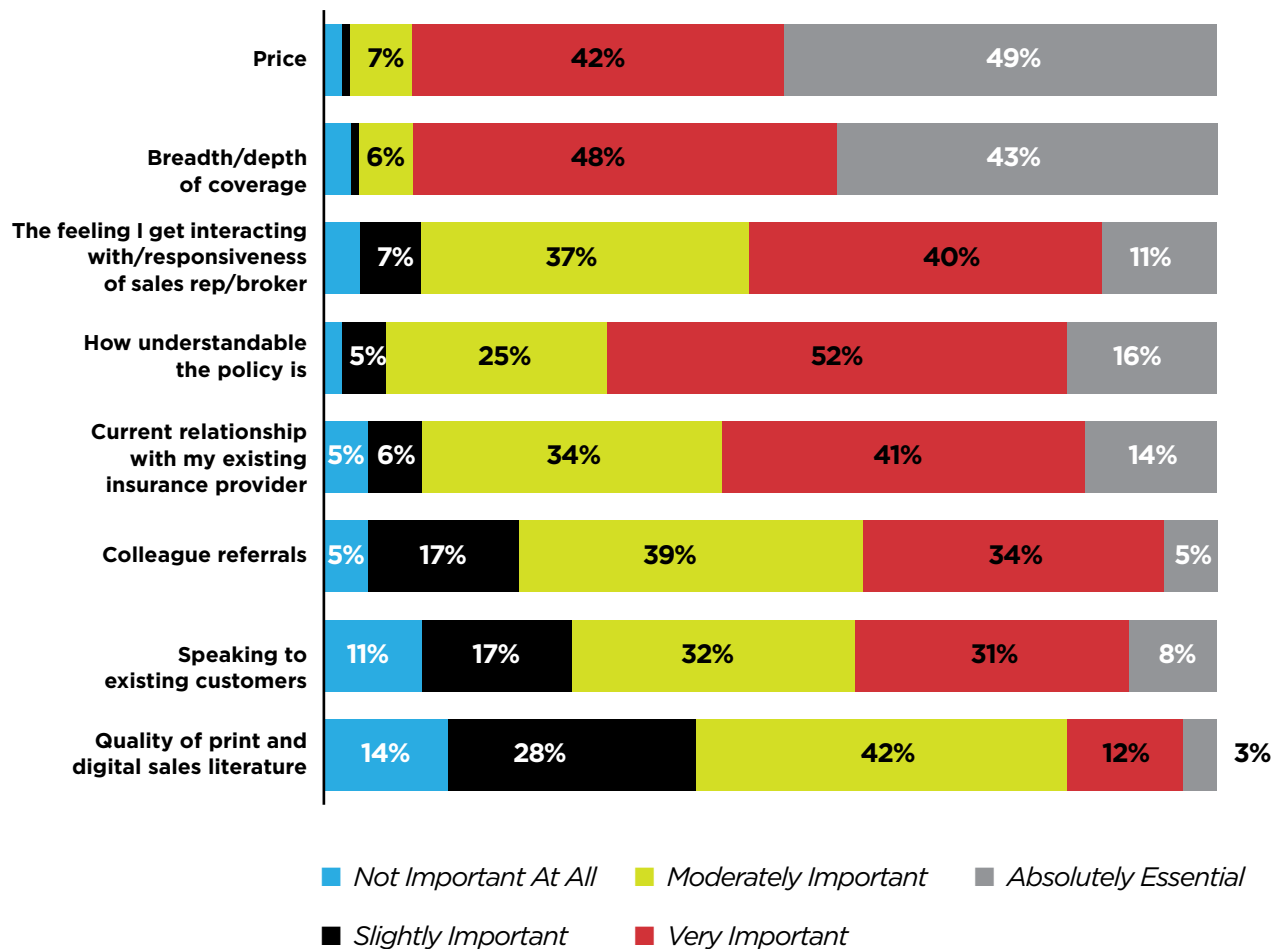


Figure 7
 Q: How significant are each of the following factors in choosing or renewing an insurance policy for your nonprofit organization?
 N = 189 Nonprofit Organizations



Other important considerations are understanding the policy, the relationship with a current provider or potential provider, and customer testimonials. Nonprofits want to build solid relationships with their insurance providers based on trust.

Nonprofit respondents identified price, understanding the differences between insurance policies, a complex application process, and finding documentation to explain a policy as the top challenges (Figure 8), in rank order, in purchasing or renewing an insurance policy.

Figure 8:

Challenges in Purchasing Insurance

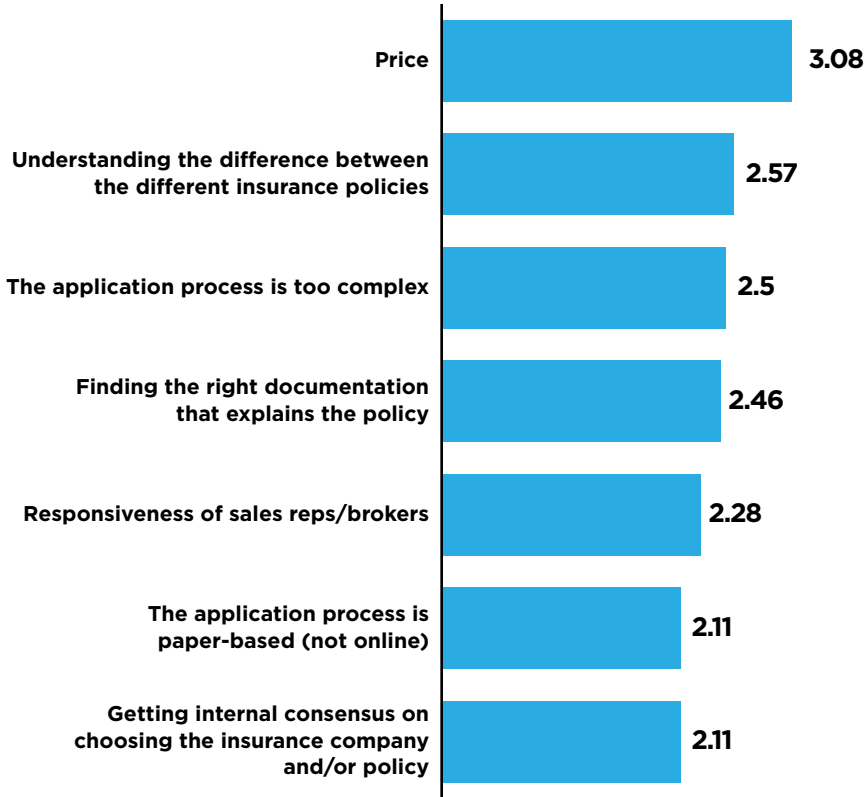


Figure 8
Q: For each of the below, please indicate the degree to which it is a challenge when purchasing or renewing nonprofit insurance policy.
N = 189 Nonprofit Organizations



When asked to elaborate on the most significant challenges in purchasing insurance in a fill-in question, respondents offered the following insights on price, agent relationships, coverage, and policy understanding.

Price Is Critical

- “Finding the right fit of cost and coverage.”
- “Getting everything that we need for a price we can afford.”
- “Pricing: We use two different policies for our special event fundraisers—an umbrella policy for our peer-to-peer events, and an event cancellation policy for our largest fundraising events. Pricing on the cancellation policy is challenging.”
- “Price, as we are still a small nonprofit.”

The Sales Agent Relationship Is Based on Trust

- “Finding the right relationship with the representative.”
- “Some sales reps don’t seem to know how to answer questions to people who aren’t insurance people. This is very frustrating.”
- “We have gotten excellent advice from our broker, who is a supporter, and ended up with a great Directors & Officers liability insurance and professional liability policy.”
- “We rely heavily on our insurance broker being able to help us navigate and understand all of these pieces.”
- “We have an unusual mission, and it is difficult to get companies to understand the nature of our work.”
- “Getting the underwriter to understand our core business. We are insured at a risk [level] similar to a bank when, in fact, we very rarely handle cash.”

Understanding the Policy

- “Understanding the policy and its everyday impact—ensuring we have the coverage we think the policy provides.”
- “The language can often be confusing. I would rather visit directly with an agent and ask the two big questions: ‘What does this cover, exactly? What is the cost to our office?’ The rest of the information is often useless or too complicated for someone not in the insurance business.”
- “It seems to be purposely confusing. An insurance company that focused on being understandable, believable, and actionable would be a true disruption.”
- “We always need a clear breakdown of costs and the differences between different policies to bring to the board. It needs to be informative, but easy to understand.”

Purchasing the Right Coverage

- “We need malpractice insurance for nurse practitioners and other professionals who staff our nursing homes. Insurance has to cover the physical plant, liability, health, disability, dental, vision, etc.”
- “We want affordable insurance for the best coverage possible, which can be tough to afford with average increases of 18% annually.”
- “The greatest challenge is making sure that we have the right coverage for a decent price. It seems the rates are always fluctuating at a pace that makes it difficult to forecast the expense of insurance. This is happening at the same time that the policies are changing the coverage options, and it’s hard to compare/rate what we need and how much we’re going to have to pay for it, since that pricing changes pretty consistently.”

Reasons Nonprofits Change Insurance Providers

Price is a key factor in selecting providers, and the top reason for switching providers (Figure 9). Survey respondents were asked to evaluate factors that would lead them to change providers. While price was the dominating factor, other relevant influencers were customer service, communication, and claim denials. Respondents expect their insurance providers to be responsive to their needs, simplify policy language, and clearly define plan coverage.

Figure 9:

Reasons to Change Insurance Providers

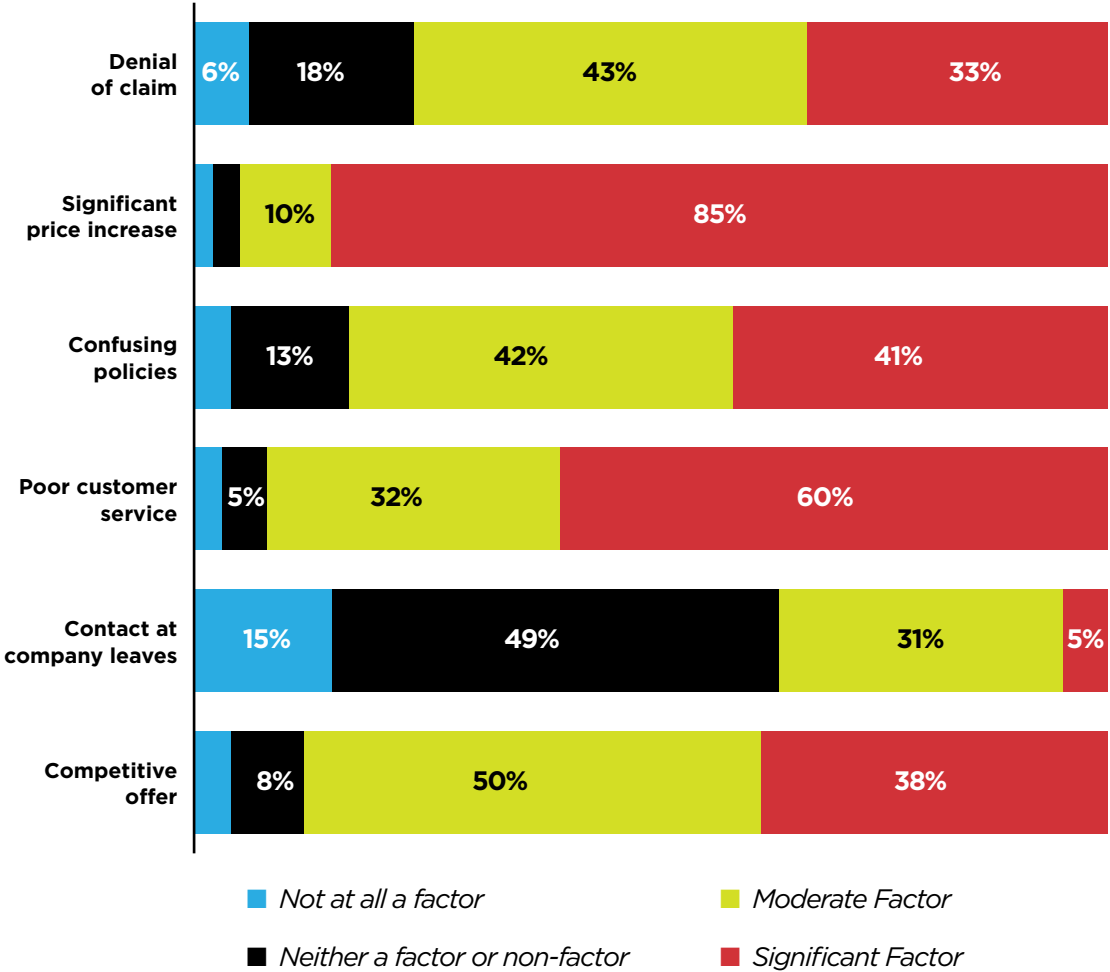


Figure 9
Q: What would cause you to change your insurance provider?
N = 189 Nonprofit Organizations



Targeting Nonprofit Customers and Prospects

Another important research objective is to identify key decision-makers for the insurance policy. Respondents were asked to identify who was the final decision-maker on insurance policies (Figure 10). According to the survey, the top decision-maker was the head of the nonprofit (CEO/president/VP/executive director). Other decision-makers include finance and operational staff, along with a nonprofit's board. Understanding where the final decision lies is important in targeting the right people in a nonprofit organization, but so is influencing others in the organization who can advance a purchasing decision.

Figure 10:

Insurance Purchasing Decision-Maker

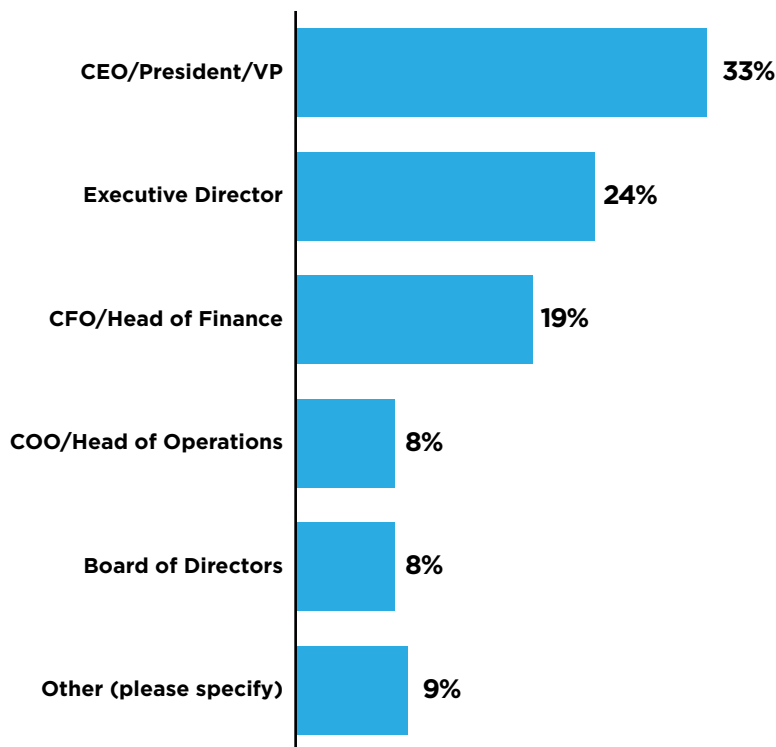


Figure 10
Q: Who in your nonprofit organization makes the final decision, when it comes to purchasing insurance?
N = 189 Nonprofit Organizations

When it comes to contacting customers and prospects, emails, telephone calls, and direct mail were the top preferred methods (Figure 11). Nonprofit executives have many responsibilities, and their time is limited. An email can be read at any time. Personal emails that follow up on a recent introduction and/or clearly explain an offer and how it can specifically benefit an organization often lead to telephone discussion. Given the importance of insurance to the nonprofit organization, many decision-makers prefer personal, high-touch communications.

Figure 11:

Best Way to Contact Customers and Prospects

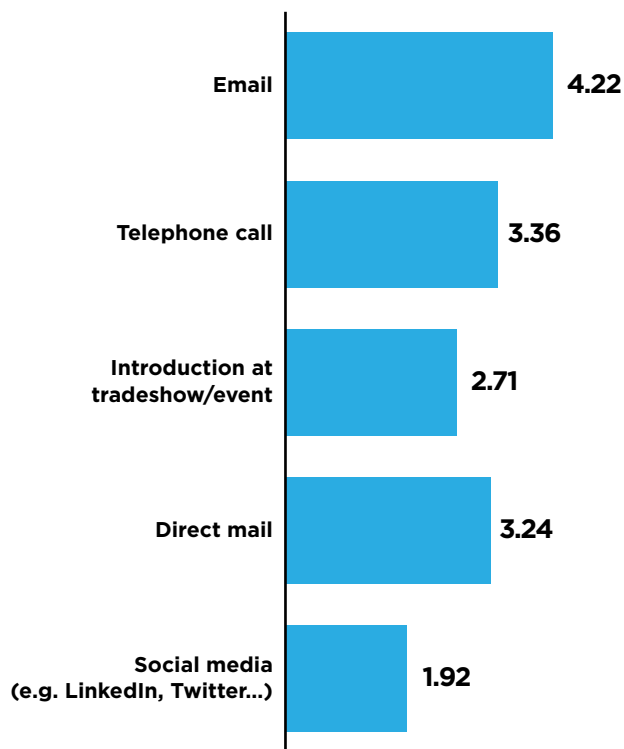


Figure 11
Q: What is the best way for an insurance broker/sales rep to make initial contact with you? Please rank 1-5, with 1 being the best way and 5 being the worst.
N = 189 Nonprofit Organizations



CONCLUSIONS

New research from NAPCO Research and NonProfit PRO, and sponsored by Philadelphia Insurance Companies highlights nonprofits' growth strategies, the actions and investments they are taking to expand services and challenges, and key factors influencing insurance requirements and provider selections.

The research shows nonprofits plan to shift fundraising activities to digital properties, and invest in expanding donor bases and emerging digital and mobile technologies. More than a quarter are considering new revenue streams by forming for-profit entities and exploring for-profit ventures. Their top three challenges are cultivating and stewarding donors, having adequate staffing, and retaining donors. To address these challenges, nonprofits are turning to technology, adopting case management, mobile, grant management, and content marketing tools.

While 36% of respondents haven't researched a new insurance provider because they are happy with their current provider, the remaining 64% who researched a provider relied on word of mouth/colleague referrals (36%), talking to peers (34%), and face-to-face meetings with insurance sales reps (31%). When purchasing or renewing an insurance policy, nonprofit respondents identified the following challenges in rank order: price, understanding the differences between insurance policies, a complex application process, and finding documentation to explain a policy.

WHO WE ARE



PHILADELPHIA
INSURANCE COMPANIES

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PHLY has provided industry leading expertise and unsurpassed customer service for more than 55 years. Headquartered in Bala Cynwyd, PA, we provide value-added coverages and services for over 120 niche markets across the United States including protection for nonprofits. We help ensure that our Human Services customers continue to gain positive feedback from the millions of people they serve. We offer customizable package policies, along with superior customer service and a free risk management plan toolkit to help meet the ever growing needs of nonprofits. Rated A++ (Superior) by AM Best; Rated A+ by Standard and Poor's; 96% overall customer satisfaction; 50 local offices across the country; Specializing in over 120 niche markets; visit www.PHLY.com to learn more!

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- PHLY competes on coverage, customized solutions, and consistent pricing, with a disciplined underwriting philosophy
- PHLY approaches the market through multiple distribution channels: preferred producers, independent insurance producers, wholesalers, and the internet
- PHLY continuously reviews and refines our business processes to improve efficiency and the ease of doing business
- PHLY seeks out the best people, provides opportunities, and recognizes their achievements
- PHLY partners with local and national charitable organizations to give back to the communities we serve



WHO WE ARE

NAPCORESEARCH

Led by a former Forrester Research analyst, the NAPCO Research team crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision-making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

