Liability Insurance and the Nonprofit Sector

a Study for

the Joint Select Committee on Banking and Insurance

December 16, 1987

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I. INTRODUCTION

On September 17, 1987 the Legislative Council approved the recommendation from the chairs of the Legislature's Joint Standing Committee on Banking and Insurance to engage a research assistant for the purpose of assisting the committee with its Study of the Relationship Between Nonprofit Service Agencies and Professional Liability and Other Hard To Obtain Lines of Liability Insurance. The nonprofit service sector has voiced discontent with the availability and cost of the professional liability insurance. This study is designed to determine the extent to which such problems exist.(1)

The availability of affordable liability insurance exists as a major concern for the nonprofit industry. Self -insurance, risk pooling and other alternatives to the reported high cost of commercial insurance market are being actively considered, as are legislative initiatives such as tort reform, Joint Underwriting Associations, Market Assistance Plans and interstate insurance compacts.

The purpose of this study is not to retell the history of the so-called "liability insurance crisis" but rather to provide evidence so that a rational solution can be identified.

Nonprofit service organizations hold a unique position in the marketplace. When forced to pay large increases in their insurance premiums, they have relatively inflexible funding mechanisms. These reasons are many:

- They often serve clients who can not afford to pay price increases for services;(2)
- For some, the shortage of directors and officers insurance has made it increasingly difficult to attract and retain trustees, officers, directors and volunteers;(3)
- Some programs such as child care, foster care, group homes and health services frequently require liability insurance as a condition of licensure;(4)
- Some programs are required to have liabilty insurance to receive public fundings.(5)

For the past five years, representatives of Maine's non-profit service sector have presented startling evidence of huge premium increases:

- A community service group in central Maine having to deal with a $2500 (500%) increase over their 1985 premium for Directors and Officers coverage;(6)

- A youth program, of long standing service, experienced a 193% increase in insurance premiums per registered child;(7)
- An agency dedicated to the aurally handicapped has seen its average premiums for its individual staff policy holders rise 160%;(8)
- Professional liability coverage is an out of reach goal for a program of community services in Southern Maine;(9)
- Our study indicates that nearly 68% of all non-profit service agencies have experienced premium increases of varying magnitudes.

While market indicators point to a levelling off of the spiralling premium costs (10) , non-profit agencies are faced with the high cost that remains for desired coverage. That is, if the desired coverage is available at all.

II. INSURANCE COMPACTS.

Faced with either high cost or unavailability of liability coverage, organizations are out of necessity looking for alternatives to the commercial insurance market for risk protection. Several legislative initiatives aimed at regulating the insurance market have been proposed. Among these are interstate compacts.

An interstate insurance compact is an agreement between two or more states in order to make it impossible for an insurance provider operating in member states to pull out of one market without having to pull out of that market in all of the compact states. Such an agreement is viewed as a way to retain insurance coverage in areas where the risk is perceived as too high.

Only once has actual legislation been introduced (VA, 1987). Virginia House Bill No. 1631 allowed " the governor (to) enter into interstate compacts ... with the appropriate authorities of any other state..., with respect to requiring any insurance company which threatens to withdraw from a particular market in one state to withdraw from the same market in all states who are members of the compact "(11) (see appendix A). The bill, which passed in the Virginia House, was defeated in the Senate. The reasons for its defeat ranged from insurance company opposition and prior passage of an omnibus liability remedy bill to vagueness in the legislation.

According to Bill Cramme, the staff attorney assigned to draft the bill, principal sponsor Bernard S. Cohen (D-46) approached him late in the session in order to draft a bill which outlined the agreement stated above. The resulting legislation was based upon form contained in stock compact bills and was written in the most general of terms.

Virginia Assistant Attorney General Gail Jaspen believes that the bill may have been too general in its scope. "A problem is the bill.. doesn't define 'market'."(12) The Virginia Bureau of Insurance, which acts in an advisory capacity to the governor, might interpret the term in one way, while other members of the compact may interpret it in another. Delegate Cohen asserted that the general nature of the bill was intended and that the definition of 'market' would be left up to the members of the compact to decide.

Cohen feels that the establishment of interstate compacts will enable the creation of interstate joint-insurance programs as well. VA- 1631 in all likelihood will be resubmitted in the upcoming session.

The National Association of Attorneys General (NAG) is currently discussing the viability of uniform insurance regulations; a topic which Jaspen believes may evolve into compact legislation.

III. SURVEY OF NONPROFIT AGENCIES-BUSINESSES THAT HAVE ATTEMPTED TO SELF-INSURE.

The purpose of this questionnaire is to produce quantifiable data concerning nonprofit agencies in the state of Maine regarding their actual liability insurance burden to provide the Banking and Insurance committee hard evidence in its quest for answers to the stated liability problem.

Methodology

In an effort to obtain a master mailing list representing the full spectrum of nonprofit organizations in Maine, agency lists were solicited from various umbrella organizations throughout the state. Participating agencies included the Maine United Way, the Maine Ambulatory Care Coalition, the Maine Alcohol and Drug Abuse Clearinghouse, the Maine Bureau of Social Services (Lead Agencies), the Maine Department of Human Services (Bureau of Health), and the Maine Arts Commission. The lists were cross referenced and compiled into one master document which was used for the mailing.

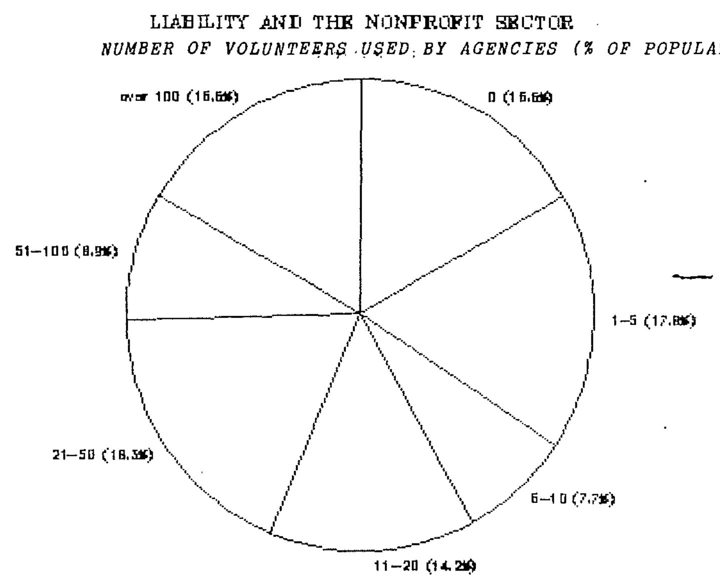
The actual testing instrument was based upon a model questionnaire developed for United Way of America by the Public Risk and Insurance Management Association (13).

The questionnaire was sent out on November 3, 1987 to 530 nonprofit organizations; 197 responses were received, 17 of which were returned to sender. This left a useable population of 180 responses representing a 35% return. Because of time limitations there was no plan for a follow up reminder letter.

Demographics of the Sample

Volunteer Use

As indicated in question #14, of those organizations within



the sample that expressed a preference, agencies which utilize between 21 and 50 volunteers are the dominant population (18.3%). However within 4.1% are those agencies which use between 1-5 (17.8%), more than 100 (16.6%), no volunteers (16.6%) and organizations which use between 11-20 volunteers (14.2%). Agencies using 51-100 (8.9%) and between 6-10 (7.7%) complete the sample.

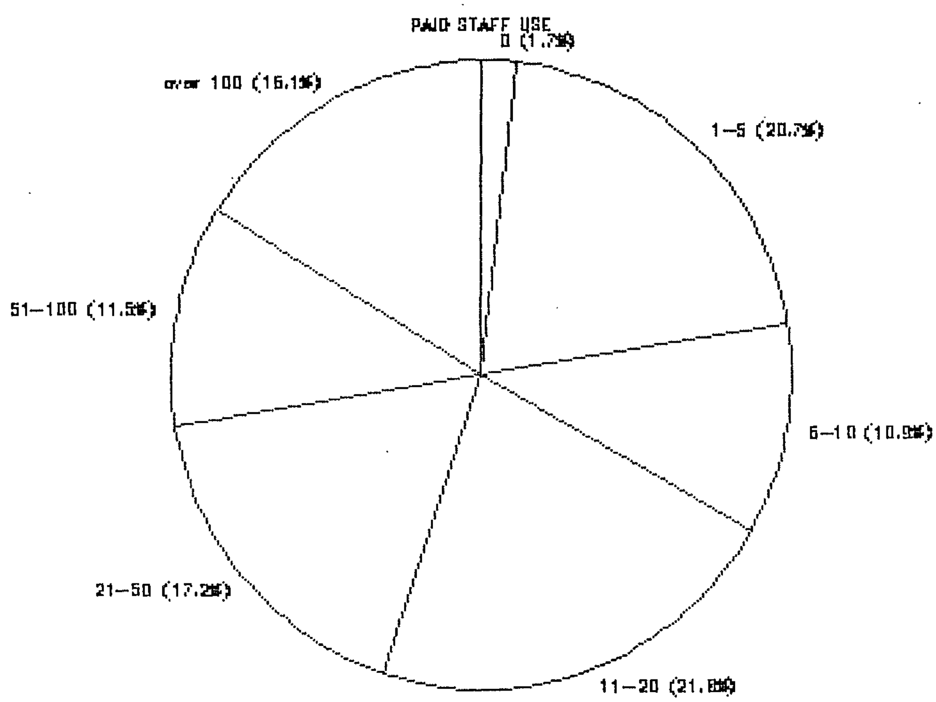
While usage of 21-50 volunteers is the dominant single category in the sample population, it is interesting to note that the smallest organizations, in terms of volunteers used nearly double the 21-50 segment. Organizations using 0-5 volunteers make up 34.4% of the sample. Second to these are agencies which use between 11-50 volunteers (32.5%). In light of its more narrow scope, it is significant that the agencies of smallest volunteer size figure so prominently in the sample.

Number of Paid Staff

In terms of paid staff, which for the purposes of the questionnaire includes part time employees, question #15 indicates that those agencies employing between 11-20 (21.8%) were the dominant category among those respondents showing a preference. As with volunteer usage in question 14 categories of data were not delineated by large margins. Small organizations of 1-5 paid employees also claimed a comparably large segment of the population (20.7%) as did those of 21-50 employees (17.2%) and those of over 100 (16.1%).

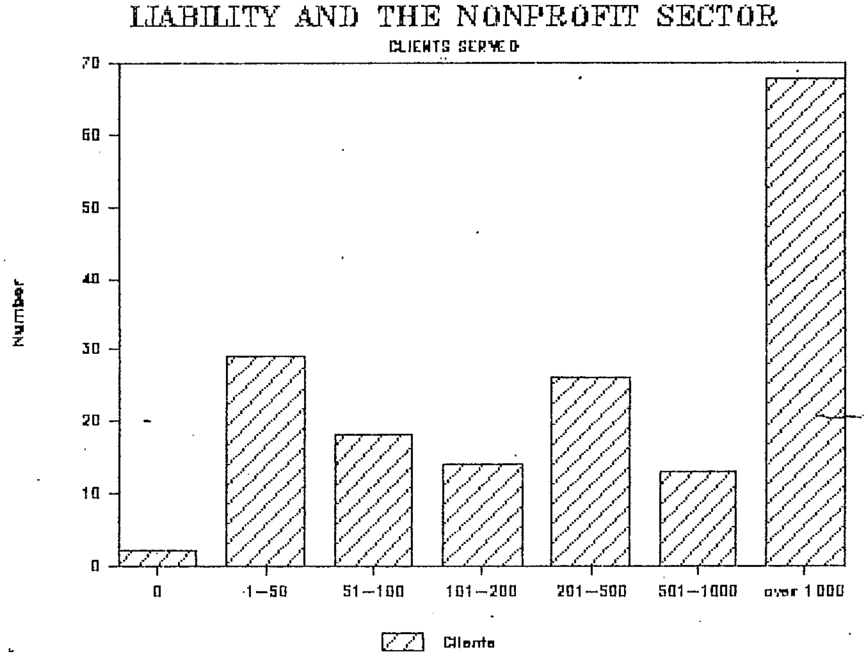
As a representative agency size, those employing between 11-50 account for 39% of the sample. This is compared with almost 32% for the employers of 0-10 persons and 27.6% for those of 51 or more.

LIABILITY AND THE NONPROFIT SECTOR



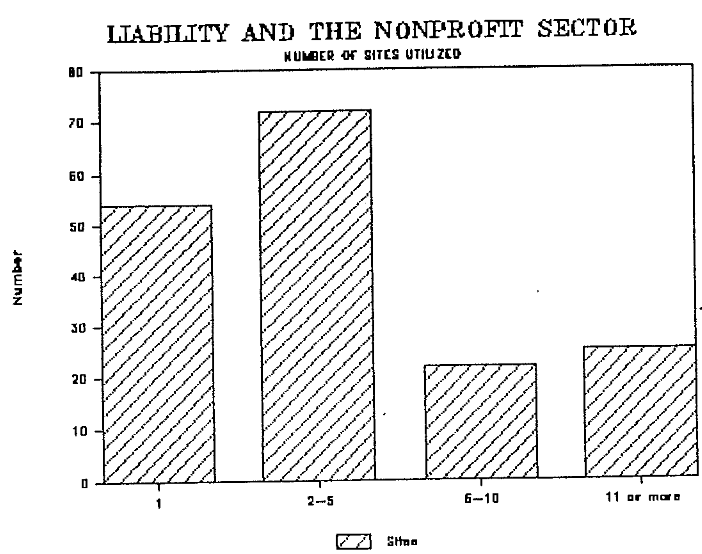
Number of Clients

As is easily seen in the graph below, data gathered from question #16 indicate that those agencies which serve over 1000 clients dominate the respondent population. These organizations, 40 % of those expressing a preference, more than double the nearest category of response: those which serve between 1-50 (17%).



Number of Sites

Agencies serving its clientele from multiple sites more than doubled those serving from one site (119:54). Of those working from many sites, agencies utilizing between 2-5 sites represented 60% of the population, 41.6% overall. Agencies that restrict their business to one site represented 31.2% of the overall sample.

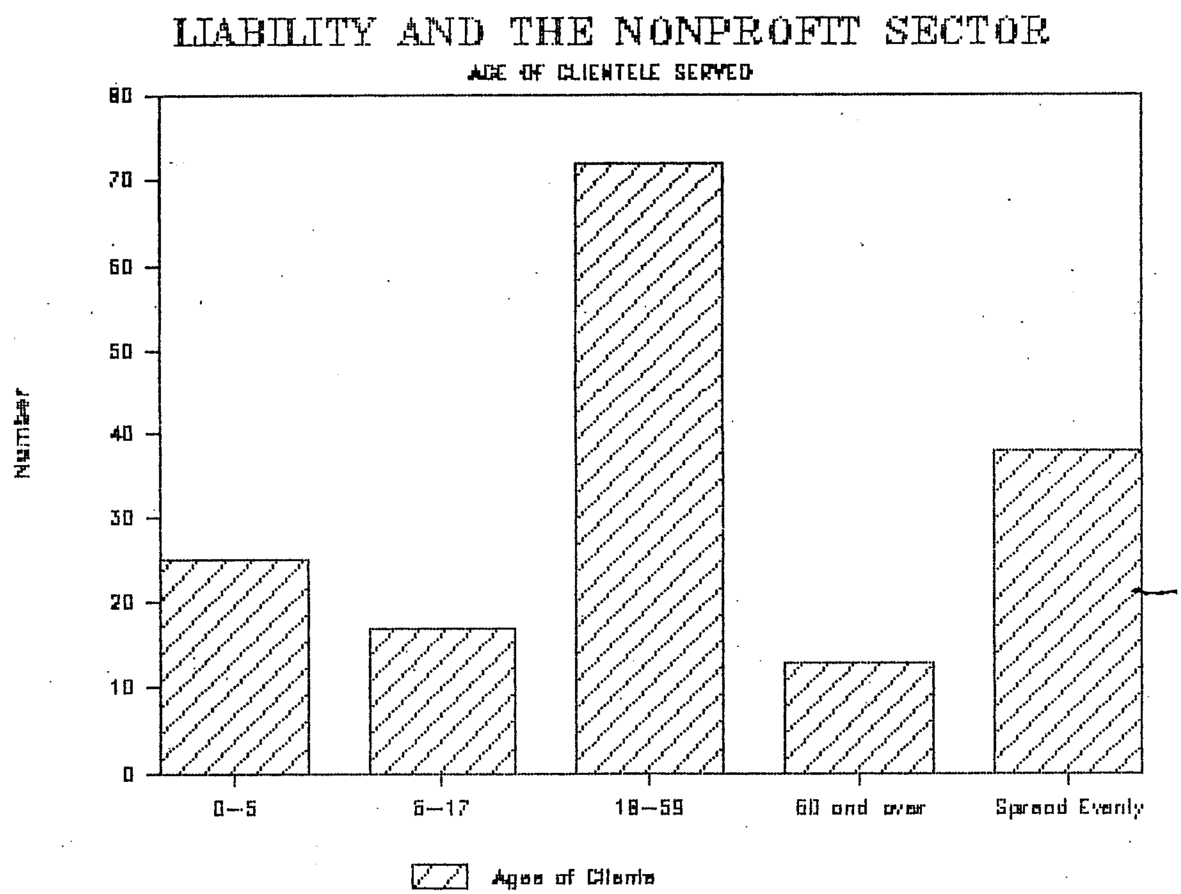


Age of Clients

According to data compiled from question #18, agencies which mainly serve the adult population, ages 18-59, are the dominant group in the survey. Of agencies expressing a preference, 42.6% cater to this age group. Organizations equally serving all ages place a distant second (22.5%).

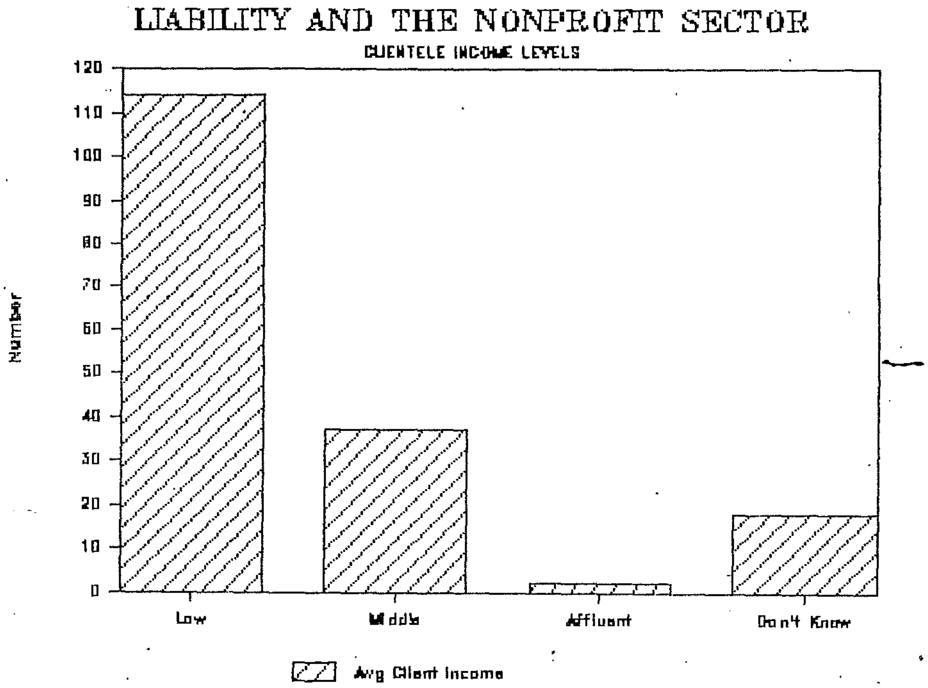
Respondents serving minors ,ages 0-17, comprise 24.8% of the sample with 14.7% dedicated to those clients 0-5 years of age and 10.1% to ages 6-17.

It is interesting, if not significant that of 169 responses expressing a preference only 13 mainly serve the elderly (60 and over).



Income of Clients

By more than a 3:1 margin agencies which serve the low income population of Maine are the leading category of respondents. Such agencies comprised 74.5% of the sample. Organizations with a middle income clientele (11.1%) and those serving the affluent (1.3%) finish a distant second and third respectively.



Type of Organization

Organizations which describe themselves as providers of counseling and-or therapeutic services comprised 20.6% of the sample. The second largest group was Child Care providers (29%) and third, Adult Care providers (27%).

While on the surface this may seem to contradict results previously reported, it must be noted that while respondents were instructed to answer only once for this question, many did not feel that one category accurately defined their organizational charge and therefore answered more than once.

Further, because of the subjective and largely interpretive nature of the categories listed, cross usage may occur thereby providing misleading results. For instance although an organization may categorize themselves as a therapeutic service provider, their clientele may be the adult population. It is subjective which way the question is answered. In this case, the data will be catalogued under Therapeutic Services and not under adult care providing a misleading impression of the organization in the sample.

The two blank entries that can been seen at the bottom of the accompanying table represent two responses received from out of the State of Maine and hence not relevant to the question.

Table 1: Services Provided by Respondent Population

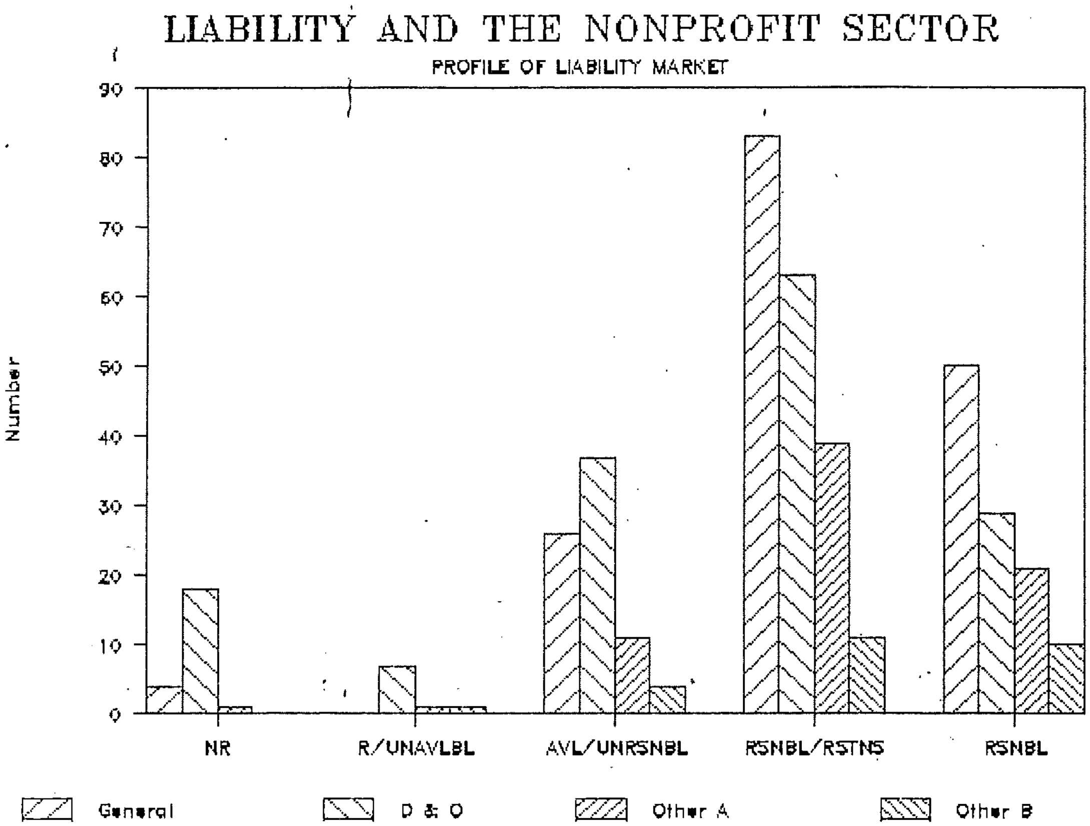
1	Adult Care	27	15.0%
2	Child Care	29	16.1%
3	Camping Services	0	00.0%
4	Counseling And-or Therapeutic Services	37	20.56%
5	Cultural Service Org.	1	00.56%
6	Home Repair and-or Weatherization	0	00.0%
7	In-Home Services	2	1.10%
8	Nursing and-or Custodial Care	10	5.56%
9	Nutritional Services	2	1.1%
10	Medical Care	11	6.1%
11	Case Management	10	5.56%
12	Transportation	2	1.1%
13	Job Employment	3	1.6%
14	Physical Fitness	3	1.6%
15	Product manufacturing Preparation	1	0.56%
16	Residential Care	14	7.7%
18	Governmant	7	3.89%
19	Educational	8	4.4%
20	Legal	2	1.1%
21	Religious	1	0.56%
22	Blank	2	1.1%.
TOTAL		180	100.%

Liability Insurance Needs

Question #1 outlines the liability insurance needs of the sample respondent. The question is designed in grid form with four major categories of insurance(general liability, director's and officers, and space for two other types of the repondent's choice) cross matched with 5 categories (not required, required but unavailable, available but priced unreasonably,reasonable with restrictions, and reasonable with no restrictions). The first three categories result in no policy purchased and the following two result in the purchase of the appropriate policy. With this question one type of insurance at a time is dicscussed

Data obtained from the first category of insurance, indicates that 2.2% of the sample does not require general liability coverage and that 28% were able to purchase a liability policy of reasonable price with no unforseen restrictions.

Of the 70% that remain in the sample, 46% were able to purchase a policy for the organization albeit with restrictions. The remaining 14% of the population could find a policy available but because of unreasonable cost decided not to buy one.



9% of the population did not answer the question.

In terms of directors and officer's coverage, 10% of the responding population does not require such coverage. Sixteen percent of the repondents found a policy that was reasonable with no restrictions.

It is significant, that 25% of responding organizations which answered this question did not or could not purchase coverage. Although 51% could afford to buy coverage for their boards of directors (35% with restrictions) 21% could not afford proper coverage and 4% could not find coverage at any price.

14% of the sample did not answer this question.

Other coverages mentioned are professional liability, auto, fire, and umbrella coverages. Of the sample, 1% indicated that other coverages weren't required. Seventeen percent could obtain coverage at reasonable cost with no restrictions. However, those organizations which found their desired coverages either too high to purchase (8%) or with restrictions (28%) far outweighed those agencies which had no trouble obtaining coverage.

It is interesting the percentage of agencies which indicated that although they were able to purchase their coverage, it was packaged with restrictions limiting the scope of the coverage. It is also interesting that along with such restrictions as a high deductible and limits on the amount of coverage several respondents also indicated that high cost of purchase was a significant restriction.

Self Insurance

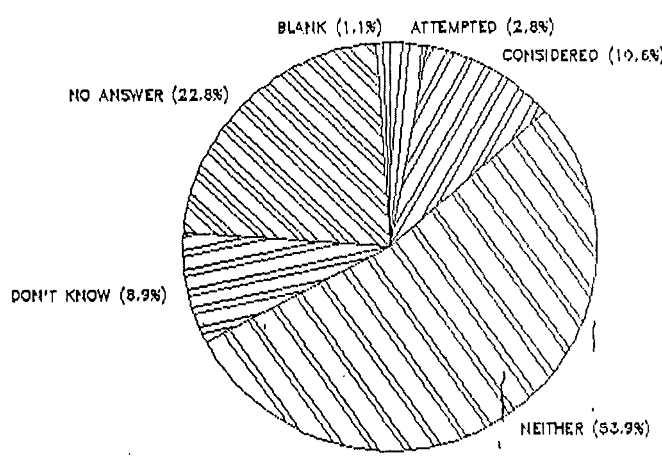
Of the total respondent population, only 10.6% have considered self-insuring their organization and 2.8% have attempted it. In terms of the question, three specific and one open alternative were offered. Specifically 2.8% have attempted to self-insure by themselves. Almost 11% of the sample have considered it. Two percent have attempted to self-insure in a risk pool and 6.11% have considered it.

Only .56 % answered that they have attempted to enter into a risk retention group while 3.33% have considered the option.

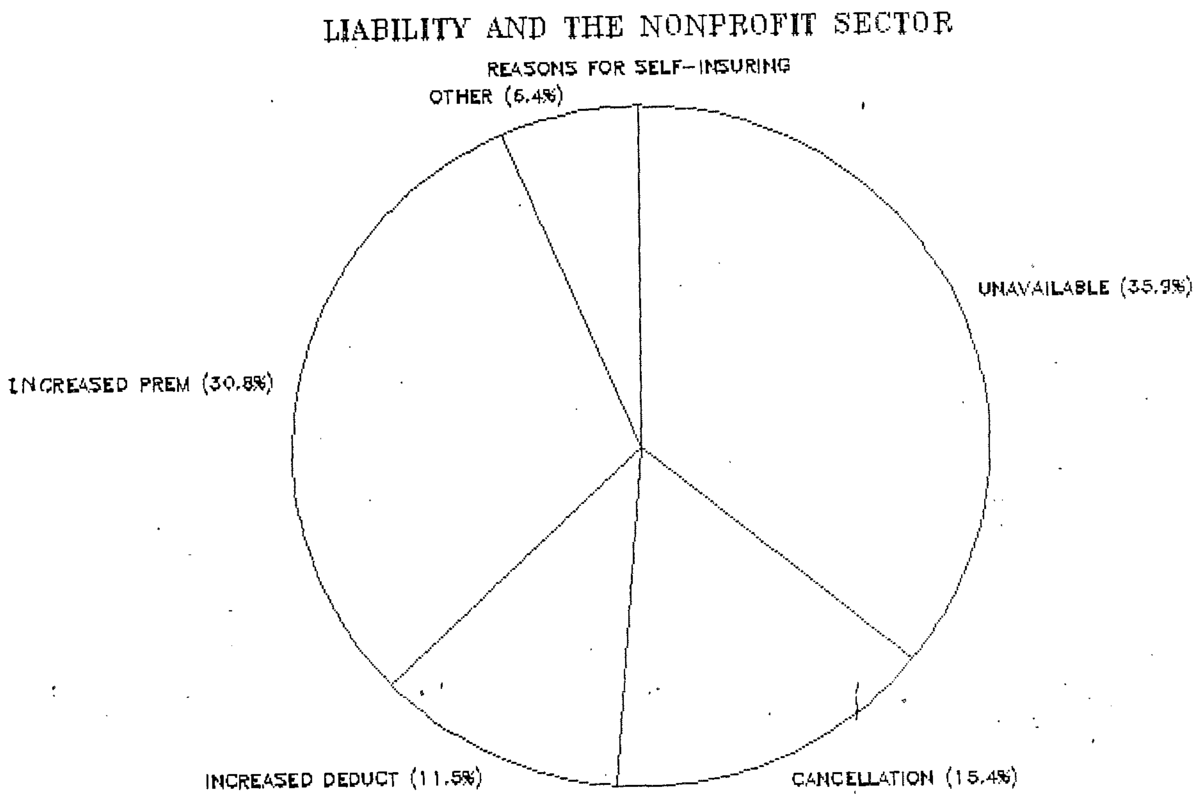
The agency motivations behind these actions are varied. The two largest reasons as defined in the sample are monteary in nature however: 12.09% were forced to take this option because of an unavailability of reasonably priced insurance, 11.06% because of an increased premium and 4.15% because of an increased deductible. Twenty seven percent of the population

LIABILITY INSURANCE & NONPROFITS

SELF-INSURANCE



that considered the self-insurance option did so out of concern for cost to the agency. Compare this with the 5.5% that acted because of a cancelled policy.

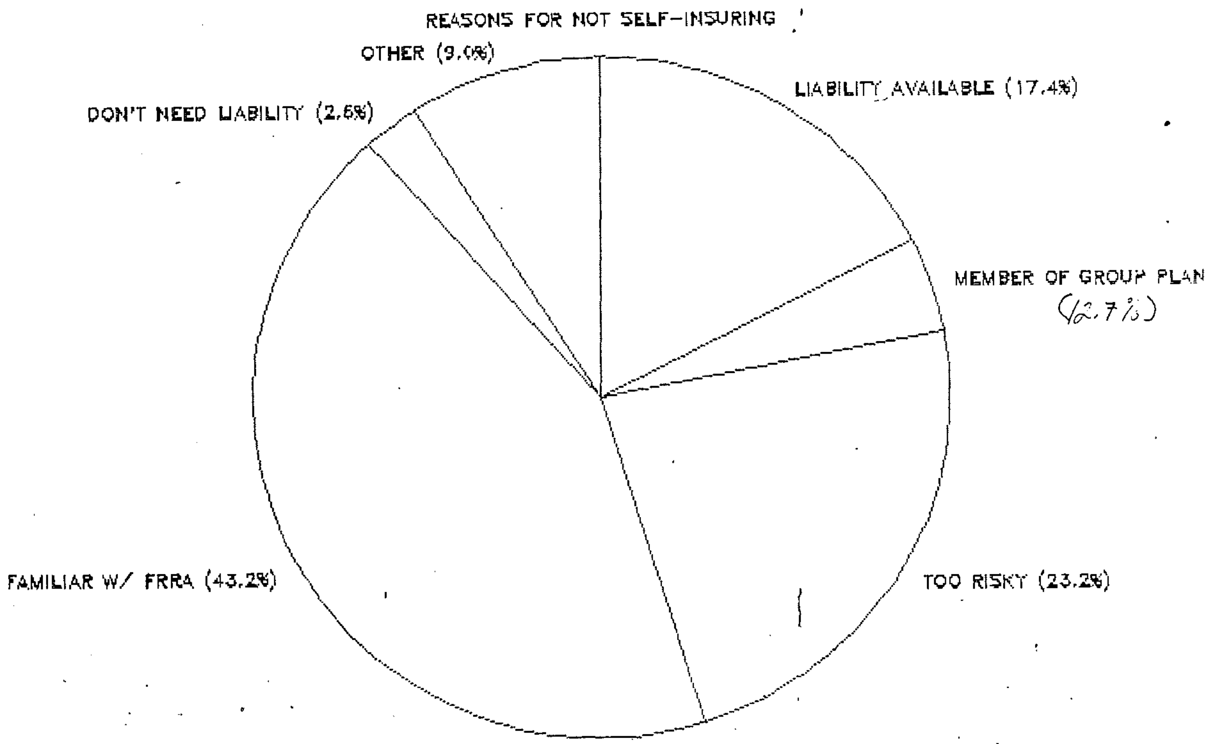


On the other side of the coin, 53.97% of the sample neither considered nor attempted to self-insure alone. Fifty two percent of the population avoided joining a risk pool. Fifty three percent (53.33%) had not nor thought of joining a risk retention group for their agency coverage.

Twelve percent of the population that answered this way did so because they could find reasonably priced coverage. Sixteen percent believed the option to be too risky.

Almost 30% answered that a major reason was unfamiliaity with the Federal Risk Retention Act. This is interesting if you color that response with the 80.6% of the total respondent population which answered that they were not familiar with the Act. It is not surprising thay felt they could not act on the subject when not familiar with all the rules.

LIABILITY AND THE NONPROFIT SECTOR



Midterm Policy Cancellation

Agencies that have experienced no midterm policy cancellations outnumber those that have by a margin of over 6:1. Those that answered 'yes' comprise 12.78% of the sample while those that have not, 80.56%.

Of those agencies that experienced a midterm cancellation, 82.6% were able to locate another carrier. No organization in the sample, self-insured because of a mid-term cancellation. Twenty three percent chose to go without coverage, however.

Policy Nonrenewal

Of the respondent population, 62.78% have not experienced a nonrenewal of their policy. However 30.56% have. Of these, 83.64% were able to find another insurance carrier, 5.55% self insured, and 12.73% were forced to go without any property-casualty insurance. Other actions that were taken included decreasing coverages and going without coverage for a while.

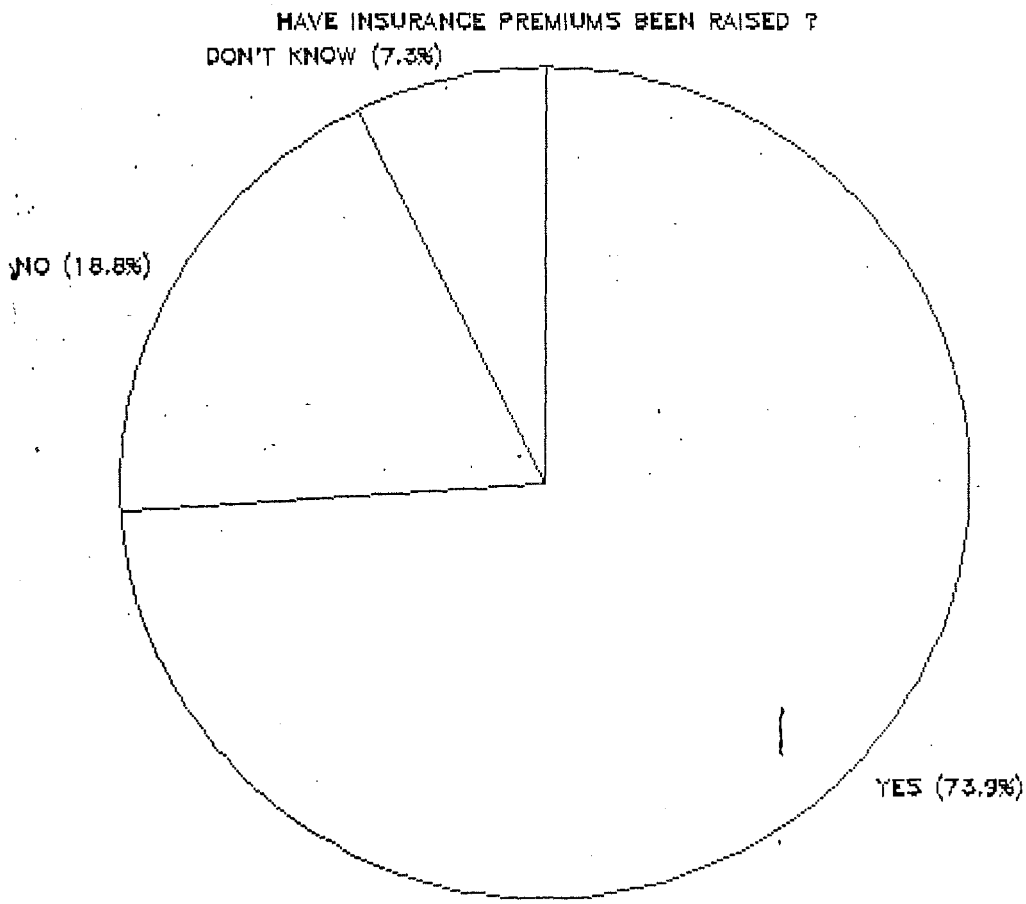
Policy Reduction

Twenty three percent of the population responded that they had had their coverage reduced. Of these, 55.8% were limited in the kinds of areas covered, 46.6% had the dollar amount of the coverage reduced, 53.49% increased their deductible and 27.9% had a deductible instituted.

Increase of Premiums

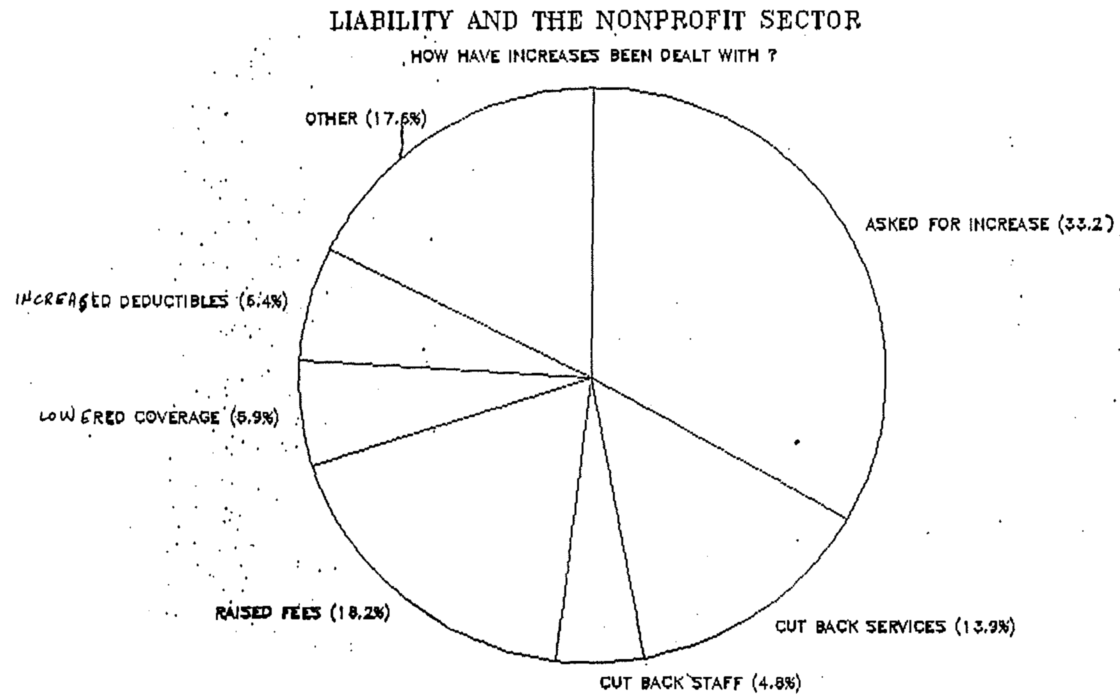
Far outdistancing other populations in this question's data sample are those organizations which reported an increase in their premiums. Among agencies stating a preference, 73.9% reported an increase of some kind ranging from 4.46% for a $13 jump to 1900% for a $9500 leap ($500 to $10000).

LIABILITY AND THE NONPROFIT SECTOR



Of the 122 indicating an increase of some magnitude, only 81.1% itemized the increase. A listing of those agencies with their increases appears in appendix C. Of those 29.37% represent adult care agencies (8.3%), child care agencies (9.4%) and counselling and-or therapeutic service providers (11.67%).

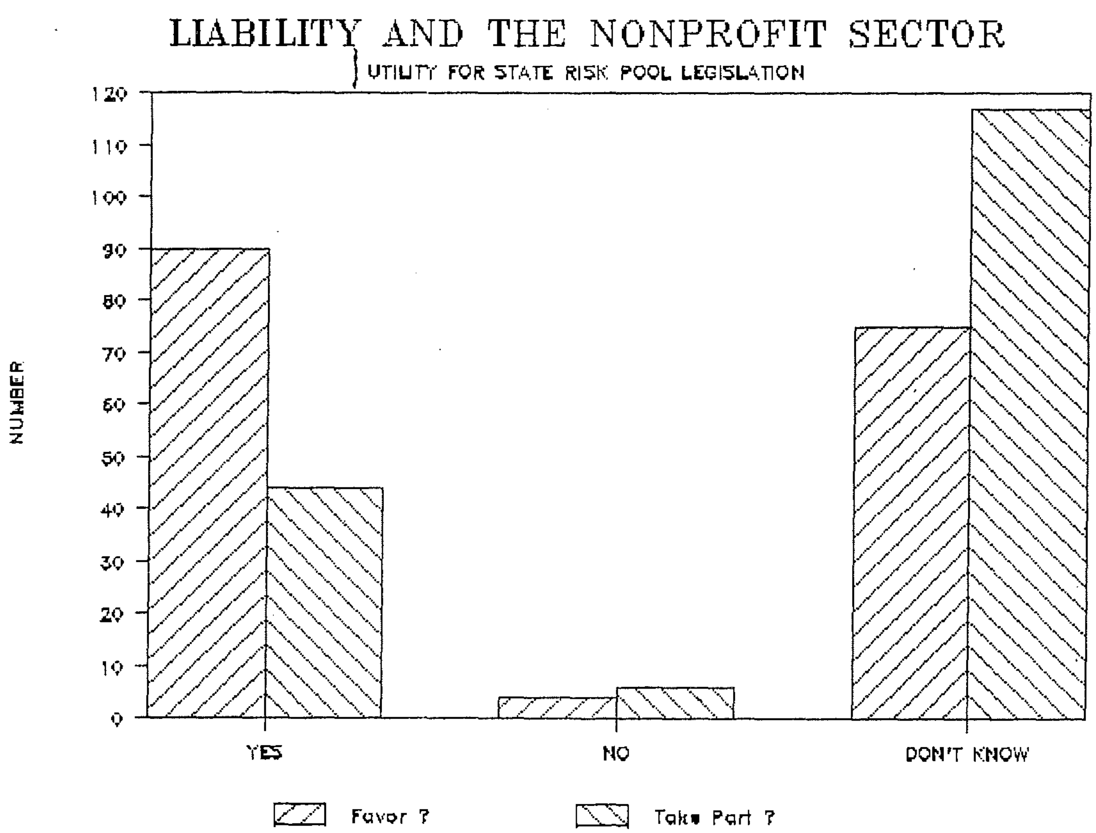
In order to counteract the increases, 50.8% asked their funding source for an increase. Twenty seven percent raised fees. Twenty one percent were forced to cut back services while only 7.3% had to cut back staff. Eighteen percent either lowered coverage limits (9%) or raised deductibles (9.8%).



This question was the subject of a secondary phone survey intended to identify the reasons, if any, for the increases. A discussion of this survey is located in section V.

Legislation

While 50% of the population responded that they would favor enactment of a state law to provide for risk pools as alternatives to commercial liability insurance, only 24.44% would participate if enacted.



Sixty five percent answered they did not know if they would participate or not. Although no room for comment was given, many responded nonetheless. It is generally felt that it would be unwise to commit to something they know little or nothing about. If compared to data presented earlier in the study, this is easy to understand.

Risk Management

While the survey indicates that more agencies than not have no risk prevention or safety program (45.56% to 41.11%), 48.85% of the sample have identified potential risks to the agency. This is interesting that by doing this action, the organization is conducting a small risk reduction program. The main problem with this question is that many respondents are unfamiliar with the terms "risk prevention program" or "safety program".

Many organizations believe that insurance is the main response an agency can have in terms of reducing agency risk. This is not so. Precautions as simple as an equipment inventory can act in a capacity to decrease agency risk and thereby creating a more safe agency.

Risk management is any structured process that is designed to protect your agency from a loss. It enables the agency to reduce or minimize the uncertainty accompanying these losses and minimize their effects.(14). In doing so, the agency becomes a better risk and potentially more attractive to insurance carriers (see appendix D).

IV. SURVEY OF PROPERTY-CASUALTY INSURANCE CARRIERS

Data obtained and analyzed in section III can only be fully valuable as a decision makers tool if balanced by information from the other parties involved; in this case the carriers of property-casualty insurance. This section will outline an attempt at obtaining such data.

Methodology

The actual testing instrument was developed in an effort to match relevant insurance company data with that already obtained from the non-profit sector. The questionnaire progressed through several revisions. The Maine Bureau of Insurance reviewed the document for relevance.

From the Department of Professional and Financial Regulation a mailing list of all potential property-casualty carriers to the Maine market was obtained. This listing of 331 carriers was used in its entirety. On November 17, 1987 it was mailed.

Return proved to be less than expected. Of the 331 companies contacted, only 64 returned a response (19%). While this return might have yielded statistically relevant data, only 9.3% of those responding answered affirmatively to question #1, " Do you insure non-profits in Maine ?"

Given the focus of the study, the size of the return does not give much in terms of useable data. Companies which insure non-profits in Maine account for only 2% of the original sample. Further, only 67% of these submitted questionnaire reponses.

The reasons for this disappointing return are many:

- An insurance company may not be able to sort collected data in terms of "non-profit service agencies" and unless industry classification codes are utilized, any answers could

only be speculative. (15). Other companies echoed this concern. " I would say yes we might cover their general liability according to to our own guidelines; we make no distinction between profit and nonprofit entities and, in fact keep no separate records for them statistically.(16)

- There is the possibility of having used an inappropriate mailing list

Nevertheless, 4 companies did answer affirmatively to question #1 and a meager sample of data was collected from their responses. They insure 44 Maine non-profits representing a range of 85% to less than .01% of the companies' respective buisness.

Earned premiums amounted to $312,717 over the last 12 months.

In the past twelve months, 50% of whom have had no claims incurred. Fifty percent indicated claims were made representing $178,159 but were not specific as to their number.

Twenty five percent of the sample had to increase rates on property casualty coverage. The amount of the rate increase is not available. The company's reasons for the increase were largely due to imposed rate increases. Increase in perceived risk and more coverage provided were listed as minor reasons. Unavailability of reinsurance and increase in the cost of reinsurance were not reasons at all. The company indicated that a rate filing was not submitted.

Of the sample 25% refused to renew a a total of 10 policies that were in force. Reasons given were an increase of perceived risk (minor) and various underwriting reasons not specified (major).

Reinsurers have limited neither the kinds of coverage respondents can offer nor the amounts of coverage they can offer to their clients in 100% of the sample.

Twenty five percent of the sample has experienced a 10% increase in the amount it must pay for reinsurance for non-profit agencies. To deal with this increase, the insurance company raised its premiums.

In 75% of the sample, business would remain constant if the state were to enact a law providing for risk pools as alternatives to the commercial liability insurance market. In the remaining 25%, service might possibly be cut back.

Premiums would stay the same in 100% of the sample if non-profit organizations formed a risk retention group.

Although this represents a tiny and statistically insignificant population, questions can still be raised. In such a highly structured industry as the insurance industry, it is surprising that some companies can provide the kinds of information that the committee is looking for and some can not. This could be if no repondent was found. But presumably, all insurance companies are guided by the same rules and use the same classification codes. Yet some admittedly few in number, were able to generate the data we asked for. While one hesitates to draw conclusions from this size of a data sample it is interesting nonetheless.

One can not draw any conclusions from this data sample. It is unfortunate. However, it has raised the awareness of the need for this kind of work to be continued. In order to make any kind of decisions about the data contained in the previous section, one needs to hear from the insurance companies. Else, one is left with a biased frame of reference.

V. FOLLOW UP PHONE SURVEY OF NONPROFIT AGENCIES

This survey was an out growth of the questionnaire reported in section III of this report. Its purpose was to identify numbers of claims reported and periods of time covered by two categories of population: those who reported an large increases of their coverage and those that reported low increases.

Methodology

For both phone surveys, the samples were taken from the non-profit population as described in section III. From the main reponse group, 2 subgroups were identified: those agencies which experienced premium increases of more than 250% (group A) and those agencies that reported an increase of 32% or less (group B). In both cases, percentage boundaries were chosen with respect to total number of organizations which would be in the resulting samples. Group A was comprised of 14.4% (26) of the total population where group B was of 13.89% (25). These numbers were chosen to keep both populations equivalent while maintaining a manageable sample with which to work. The final sample sizes were determined by phoning all qualified agencies and reporting within the alotted time.

In each case organizations were phoned and the agency representative who answered the original questionnaire was asked 2 questions:

a)Has the agency made any claims on its liability insurance policies? If so, how many? and,

b)What time period did the reported policies cover?

Results

Fifty one organizations were identified to fit in either group. Of these 51% were contacted. The respondent population were comprised of 61.5% from group A and 38.5% from group B.

Demographics of Group A

As indicated in figure A, of the organizations reporting an increase of greater than 250%, 0% made any claims on their policies.

Table B1: Agency Types of Group A

Adult Care	18.75%
Child Care	25.00%
Counceling and-or Therapeutic Svs	18.75%
Case Management	25.00%
Product Manuf-Prep.	6.25%
Educational	6.25%

Seventy five percent of the sample reported insurance policies of 1 year duration while 13% have 3 year policies.

SELECTED AGENCIES REPORTING MORE THAN 250% INCREASES

	AGENCY	Agency Type	% Increase	Claims Y	Claims N	Time Frame 83	84	85	86	87	88	Policy Length	Policy Type
2	Opportunities	11	1900		X								Going Without
27	Cerebial Palsy Center	11	328.57		X					X	X	1 yr	
28	Group Home Foundation	15	600		X			X		X		1 yr	
33	Aroostook Area Agency On Ag	01	941.67		X	X	//	X				1 yr	1984 went w/o DEO
41	Uplift Inc.	01	530.84		X			X	X			1 yr	Only one company would insure Professional Liability
42	UNE	12	495.52		X				X	X		1 yr	Professional Liability
53	Northern Aroostook Alternatives	01	623.36		X	X				X		1 yr	Without for 2 wks.
55	St. Joseph Day Care Ctr	02	255.07		X			X		X		1 yr	Dropped in '86
60	Coastal Adoption Placement Svs.	11	275		X								Going without
65	Youths Family Svs	04	1268.42		X			X	X			3 yrs	Pulled out in yr 2 or 3
76	S. Kennebec Child Dev. Corp.	02	630.77		X	X				X		3 yrs	
78	Penquis Cap	11	370		X		X	X				1 yr	
85	Action Deportunities	02	391.67		X		X	X				1 yr	
90	Mid-Coast Mental Health	04	414.29		X				X	X		1 yr	
125	Children's Circle	02	300		X	X	X					1 yr	
45	Maine Central Blind	04	1011.43		X				X	X		1 yr	Directors & Offices
16		01-18.75% 02-25.00% 04-18.75% 11-25.00% 15-6.25% 19-6.25%		0 0%	15 100%	4	3	7	5	8	1	12 1 yr 75% 2 3 yr 13%	4 Either going w/o or went w/o 25%

(61.5% of sample which fit) [26]

8.8% overall

Agencies in this group reported on policies which began 25% in 1983, 12% in 1984, 25% in 1985, 18.75% in 1986 and 6.75% in 1987. In two cases (13%) agencies could not justify the cost and decided to go without coverage.

This last fact is interesting because the two organizations nearly define the range of premium increases of the sample. One at the high end (1900%) ad the other at the low end at (275%). This might indicate that there is a factor that goes beyond merely the increase. If this were true, we would expect other organizations scattered through the sample to choose this alternative as well. In fact this is the case, for 14% of the remaining agencies indicated that they are either going without now, or have gone without in the past at some time.

The major consideration for an agency as data indicates is the cost to the agency vs. scope of the coverage offered. If the utility of the first outweighs that of the second, then as is the case in 25% of this sample, coverage may not be purchased.

In 18.75% of the sample, organizations were forced to find coverage after being dropped by their then current carrier.

Demographics of Group B

Table B2: Agency Types of Group B

Child Care	40%
Counselling and-or Therapeutic Svs	30%
Nursing-Custodial Care	10%
Physical Fitness	10%
Legal	10%

Unlike group A, 40% of the sample reported claims on their agency's liability coverage. From this sample 6 small claims were reported.

In all cases 1 year policies were utilized. Fifty percent of the sample began coverage in 1985 and 50% in 1986.

Discussion

It is very interesting that organizations in group A experienced inordinant increases of their liability premiums while those in group B which have made claims on their policies have not.

Evidence of claim vs. cost of coverage must be balanced with information obtained from the insurance companies themselves. Taken alone, this data indicates an illogical relationship between number of claims made and amount one must pay for policy premiums. Perhaps there is no relationship. However, logic dictates that there must be. In order to

SELECTED AGENCIES REPORTING LESS THAN 32% INCREASES

	AGENCY	Agency Type	% Increase	Claims Y	Claims #	Claims N	Time Frame 83	84	85	86	87	88	Policy Length	Policy Type
17	Catherine Morrin Day Nursery	02	28.06			X			X	X			1 yr	
31	New Hope for Women	04	8.8			X				X	X		1 yr	
45	Maine Center for the Blind	04	21.95			X				X	X		1 yr	Comprehensive
75	Mobius, Inc.	08	13.02	X	1				X	X			1 yr	Completed products/ owners/lenders/ Professional
94	St. Elizabeth's Child Dev Ctr	02	12.57			X			X	X			1 yr	
112	Sunshine Child Care Center	02	14.29	X	2				X	X			1 yr	
152	Downeast Health Services	04	14.29			X				X	X		1 yr	
60	Mid Coast Human Resources Cncl	02	26.09	X	2				X	X			1 yr	
167	Pine Tree Legal Asst.	20	19.10			X				X	X		1 yr	
174	Motivational Services	14	31.59	X	1					X	X		1 yr	
10 (40% of sample which fit) 25 5.5% overall		02-40% 04-30% 08-10% 19-10% 20-10%		4 40%	6	6 60			5	10	5		10 100%	

DC/B&I/jj/3016*

conclude anything further however, data must be collected from insurance companies in order to lend an equalizing light on the situation, to de-bias the sample. Until that time decision makers will be forced to act with one sided data.

This study only begins the research needed. In terms of liability insurance, in all of its varied forms, the data suggests that its premiums are too high for nonprofit service agencies to handle. That Directors and Officers coverage specifically is causing the agencies to rethink their priorities. As are all other coverages.

To tell an organization which has just finished an extensive search for coverage only to find 1 carrier charging an outrageous price for coverage that the cycle is turning does not help that organization pay the bills.

Agencies are afraid that without proper coverage they can no longer attract qualified volunteers to staff their boards. This would lead to a cessation of their nonprofit status. And their continued existance status altogether.

There has to be an opening up of the insurance industry to legitimate public observation. What kinds of data **do** they collect? How can we use this data? An evironment must exist that allows for the state to collect data from all concerned in order to find solutions to the 'liability crisis'.

NOTES

1. 113th Maine Legislature, LD 1752, June 5,1987
2. Pamela Davis, Nonprofit Organizations and Liability Insurance: Problems, Options and Prospects,Conrad Hilton Foundation, February 2, 1987, p. 9.
3. ibid., p.9.
4. ibid., p.10
5. ibid., p.10.
6. Michael Brennan, Correspondence, November, 1987.
7. ibid.,
8. ibid.,
9. ibid.,
10. Nancy Remson, State's Insurance Crisis Eases, Bangor Daily News, December 14,1987, pp.1-3.
11. General Assembly of Virginia, House Bill 1631, Compacts Regarding Withdrawal of Insurance Companies; Reinsurance,1-27-87.
12. Gail Jaspen, Phone conversation with Assistant Attorney General of Virginia, October, 1987.
13. R. Bradley Johnson, Risk Management Guide For Nonprofits, Publc Risk and Insurance Management Association, Washington ,D.C., 1987, pp.9.
14. ibid., p.9
15. Richard D. Given, Correspondence concerning Insurance Company questionnaire, 12-2-87.
16. Edward J. Legere,Correspondence concerning Insurance Company questionnaire, 12-7-87.

2887m

1987 SESSION

LD6905440

p85

HOUSE BILL NO. 1631

Offered January 27, 1987

A BILL to amend the Code of Virginia by adding in Chapter 10 of Title 38.2 an article numbered 6.1, consisting of a section numbered 38.2-1044.1, relating to interstate compacts regarding the withdrawal of insurers; reinsurance.

Patrons—Cohen, Woodrum, Forehand, Putney and Plum

Referred to the Committee on Corporations, Insurance and Banking

---

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Chapter 10 of Title 38.2 an article numbered 6.1, consisting of a section numbered 38.2-1044.1, as follows:

Article 6.1.

Compacts Regarding Withdrawal of Insurance Companies; Reinsurance.

§ 38.2-1044.1. Compacts entered into by Governor; policy as to compact.—A. The Governor may, with the advice of the State Corporation Commission, enter into interstate compacts on behalf of the Commonwealth with the appropriate authorities of any other state of the United States, with respect to requiring any insurance company which threatens to withdraw from a particular market in one state to withdraw from the same market in all states who are members of the compact. The compact may also permit the establishment of a joint reinsurance program in which the member states may participate. As used in this section, the word "state" shall mean, in addition to any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico or a territory or possession of the United States.

B. The Governor may, with the advice of the State Corporation Commission, agree to such terms and conditions as in his judgment are best calculated to promote the interests of the Commonwealth.

C. All agreements entered into by the Governor pursuant to this section shall be reduced to writing, and a copy shall be furnished to the Secretary of the Commonwealth and the State Corporation Commission.

Official Use By Clerks

Passed By The House of Delegates		Passed By The Senate	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐
Date: ____________		Date: ____________	
Clerk of the House of Delegates		Clerk of the Senate	

APPENDIX B: NONPROFIT QUESTIONNAIRE

SENATE

RAYNOLD THERIAULT, DISTRICT 1, CHAIR
BEVERLY MINER BUSTIN, DISTRICT 19
DONALD F. COLLINS, DISTRICT 2

JERI GAUTSCHI, LEGISLATIVE ANALYST
SANDRA CHESLEY, COMMITTEE CLERK

HOUSE

CHARLENE B. RYDELL, BRUNSWICK, CHAIR
PHYLLIS R. ERWIN, RUMFORD
HERBERT E. CLARK, MILLINOCKET
P. KELLEY SIMPSON, CASCO
ROBERT J. TARDY, PALMYRA
RICHARD H.C. TRACY, ROME
JOHN C. BOTT, ORONO
MARY C. WEBSTER, CAPE ELIZABETH
PHILIP E. CURRAN, WESTBROOK
JOSEPH A. GARLAND, BANGOR

STATE OF MAINE
ONE HUNDRED AND THIRTEENTH LEGISLATURE
COMMITTEE ON BANKING AND INSURANCE

November 3, 1987

To: Questionaire Recipients

From: The Joint Select Committee on Banking and Insurance

Re: Liability Insurance and the Non-profit sector

In June of 1987, the Maine Legislature directed the Joint Select Committee on Banking and Insurance to study the relationship between non-profit service agencies and professional liability and other hard-to-obtain lines of liability insurance.

For many non-profit organizations in Maine, obtaining affordable liability coverage is either an impossible or improbable task. Faced with spiraling premium costs, threatened coverage reduction or policy cancellation, organizations are increasingly forced to make choices between necessary liability coverage and agency programming and staff. This study will focus on the extent of these problems and their possible solutions.

The Committee must report back to the full legislature in the upcoming session. We ask for your help in solving this most immediate of problems.

Please take a couple of minutes to fill out the enclosed questionnaire and return it to us by November 23. Your answers could provide the information that we need to solve the crisis at hand.

Thank you.

2549m

STATE HOUSE STATION 115, AUGUSTA, MAINE 04333 TELEPHONE: 207-289-1314

LIABILITY INSURANCE AND THE NON-PROFIT SECTOR
TOWARD A SOLUTION

Please take a moment to fill out the attached questionnaire. The availability of affordable liability insurance exists as a major concern for the modern nonprofit agency. Self- insurance, risk pooling and other alternatives to the commercial market are being utilized to counteract the high costs. Through your completion of this questionnaire the Maine Legislature hopes to find some answers that will give a better understanding of the crisis and to identify solutions to the problem. Please complete and return by November 23.

Agency Name: ____________________

Address: ____________________

City: ____________________ ZIP: ____________________

Person Completing Form: ____________________

Title: ____________________

Phone Number: ______________ Are you nonprofit ? () Yes () No

Operating Budget: $______________ for Fiscal Year 19______

In what year did your agency begin operations ? ______________

1) Please check any or all boxes as they apply to the organization's liability insurance needs:

TYPE OF INSURANCE	NO POLICY PURCHASED: NOT REQUIRED	NO POLICY PURCHASED: REQUIRED BUT UNAVAILABLE	NO POLICY PURCHASED: AVAILABLE BUT PRICED UNREASONABLY	POLICY PURCHASED: REASONABLE WITH RESTRICTIONS	POLICY PURCHASED: REASONABLE WITH NO RESTRICTIONS	NA	BLANK
GENERAL LIABILITY INSURANCE	4/2.2	0/0	26/14	83/46	50/28	13/7	4/2
DIRECTORS-OFFICERS LIABILITY	18/10	7/4	37/21	63/35	29/16	22/12	4/2
OTHER (SPECIFY ____________)	1/1	1/1	11/6	39/22	21/12	104/58	3/2
OTHER (SPECIFY ____________)	0/0	1/1	4/2	11/6	10/6	151/84	3/2

DON'T KNOW 2/1 176/98 2/1

2) Are you familiar with the Federal Risk Retention Act ?

16	145	12	5	2
() Yes	() No	() Don't know	No Answer	Blank
8.9	80.6	6.7	2.8	1.1

3) If yes, is there a risk retention group that you could join ?

5	5	68	100	2
() Yes	() No	() Don't know		
2.8	2.8	37.78	55.56	1.1

4) Have you ever considered or attempted self-insuring your organization :(Check all that apply)

	ATTEMPTED		CONSIDERED		NEITHER		DON'T KNOW		NA	BLANK
Alone	5 ()	2.8	19 ()	10.6	97 ()	53.89	16 ()	8.9	41/22	2/1
In Risk Pool	3 ()	1.7	11 ()	6.11	93 ()	51.67	19 ()	10.5	52/29	2/1
In Risk Retention Group	1 ()	.56	6 ()	3.33	96 ()	53.33	21 ()	11.7	54/30	2/1
Other	2 ()	1.11	8 ()	4.44	74 ()	41.11	16 ()	8.89	78/43	2/1

4a) If yes, why ? (Check all that apply)

28/12.9	() Unavailability of reasonably priced liability insurance
12/5.53	() Policy cancellation
9/4.15	() Increased deductible
24/11.06	() Increased premium
5/2.3	() Other (Specify)__________
7/3.23	() Don't know
132/61	() No Answer

4b) If no, why ? (Check all that apply)

27/12	() Availability of reasonably priced liability insurance
7/3.1	() Member of a group insurance plan
36/16	() Too risky
67/29.78	() Unfamiliar with the Federal Risk Retention Act
4/1.78	() Do not need liability insurance
14/6.22	() Other (Specify)__________
12/5.33	() Don't know
58/25.78	() No Answer

5) Have you experienced a midterm cancellation of liability insurance ?

23	145	1	7	4
() Yes	() No	() Don't know	No Answer	Blank
12.78	80.56	.56	3.89	2.22

6) If yes, did you (Check all that apply)

19/82.6	() Find another insurance carrier
0/0	() Self-insure
6/23.07	() Go without liability insurance
0/0	() Cut back on services
2/7.6	() Other (Specify)__________
0/0	() Don't know
154/85.1	() No Answer

7) Has your insurance company refused to renew a policy that was in force ?

55	113	1	8	3
() Yes	() No	() Don't know	No Answer	Blank
30.56	62.78	.56	4.44	1.67

8) If yes, did you (Check all that apply)

46/83.64 () Find another insurance carrier ?
3/5.55 () Self-insure ?
7/12.73 () Go without property- casualty insurance ?
0/0 () Cut back on services ?
9/16.36 () Other (Specify)_______________?
0/0 () Don't know
69/51.49 ( ) No Answer

9) Has your insurer reduced your coverage ?

43	118	5	12	2
() Yes	() No	() Don't know	No Answer	Blank
23.89	65.56	2.78	6.67	1.1

10) If yes, in what ways ? (Check all that apply)

24/55.81 () Limited the kinds of areas covered
20/45.65 () Reduced dollar amount of coverage
12/27.93 () Instituted a deductible
23/53.49 () Increased the deductible
4/9.3 () Other _______________
1/.23 () Don't know
133/61.29 () No Answer

11) Has your insurance company instituted an increase of your liability insurance premiums ?

122	31	12	13	2
() Yes	() No	() Don't know	No Answer	Blank
67.78	17.22	6.67	7.22	1.11

11a) If yes, how much ?

From: $__________ To: $__________

11b) If yes, how did your agency deal with the higher premium cost ? (Check all that apply)

62/50.81 () Asked funding source for increase
26/20.3 () Cut back services
9/7.3 () Cut back staff
34/27.80 () Raised fees
11/9.0 () Lowered coverage limits
12/9.84 () Raised deductibles
33/27.00 () Other (specify) _______________
2/1.6 () Don't know
54/30 () No Answer

12) Do you favor the enactment of a state law to provide for risk pools as alternatives to commercial liability insurance ?

90	4	75	9	2
() Yes	() No	() Don't know	No Answer	Blank
50	2.22	41.67	5	1.11

13) If such a measure were enacted, would you participate ?

44	6	117	11	2
() Yes	() No	() Don't know	No Answer	Blank
24.44	3.33	65	6.11	1.11

14) How many volunteers do you use ?

28/16 () 0 | 30/17 () 1-5 | 13/7 () 6-10 | 24/13 () 11-20 | 31/17 () 21-50 | 15/8.33 () 51-100
() over 100 28/15.56 | () Don't know 3/1.67 | () No Answer 6/3.33 | () Blank 2/1.11

15) How many paid (including part time) employees are there on staff ?

3/1.67 () 0 | 36.20 () 1-5 | 19/10.56 () 6-10 | 38/21.1 () 11-20 | 30/16.7 () 21-50 | 20/11.11 () 51-100
() over 100 28/15.56 | () Don't know 0/0 | () No Answer 4/2.22 | () Blank 2/1.11

16) How many clients do you serve ?

2/1.11 () 0 | 29/16.11 () 1-50 | 18/10.0 () 51-100 | 14/7.78 () 101-200 | 26/14.44 () 201-500
()501-1000 13/7.22 | () over 1000 68/37.78 | () Don't know 4/2.22 | () No Answer 4/2.22 | () Blank 2/1.11

17) Check the one box that indicates the number of sites from which you provide services.

54	72	22	25	1	4	2
() 1	() 2-5	() 6-10	() 11 or more	() Don't know	NA	Blank
30.0	40.0	12.22	13.89	.56	2.22	1.11

18) What is the age of most of your clients ?

25/13.89 () 0-5 | 17/9.44 () 6-17 | 72/40.0 () 18-59 | 13/7.22 () 60 and over
() Evenly spread among all ages 38/21.11 | () Don't know 7/3.89 | No Answer 6/3.33 | () Blank 2/1.11

19) At what income level is the majority of your clients ?

114	37	2	18	7	2
() Low	() Middle	() Affluent	() Don't know	No Answer	Blank
63.33	20.56	1.11	10	3.89	1.11

20) Does your agency have a risk prevention or safety program ?

74	82	15	7	2
() Yes	() No	() Don't know	No Answer	Blank
41.11	45.56	8.33	3.89	1.11

21) What steps has your agency taken to reduce its risk ? (Check all that apply)

106/48.85 () Identified potential risks to agency
63/29.03 () Set up safety program
3/1.38 () Reduced programs
1/.46 () Reduced staff
2/.92 () Closed down operations
34/15.67 () Other (Specify)______________________
8/3.69 () No Answer

22) Check the one box that best describes the services provided by your agency.

() Adult care
() Child care
() Camping Services
() Counseling and-or therapeutic services

CONTINUED

() Cultural Service Organization (Include performing group, sponsor, museum, gallery, etc.)
() Home repair and-or weatherization
() In-home services (chore, home health, food preparation)
() Nursing and-or custodial care
() Nutritional services (chore, home health, food preparation, etc.)
() Medical care
() Case management
() Transportation
() Job-employment training (including work experience and job clubs)
() Physical fitness (swimming, aerobics, weights, jogging, gymnastics, etc.)
() Product manufacturing-preparation (includes sheltered workshops)
() Residential care (includes child and adult group foster care, emergency shelters, halfway houses, etc.)
() Youth character building
() Other (specify)________________________________
____

23) Comments: ____
____
____
____
____
____
____
____
____

Thank you for your time.

Liability Insurance Percentage Increases
Sorted by Type of Organization

Record #	Agency Name	Year 1	Year 2	Percentage Increase
** Type : 01				
11	BANGOR YMCA	19000	38000	100.00
30	POTTLE HILL INC.	450	900	100.00
33	AROOSTOOK AREA AGENCY ON AGING	288	3000	941.67
41	UPLIFT, INC.	1070	6750	530.84
49	CREATIVE WORK SYSTEMS	2500	5000	100.00
52	GREEN VALLEY ASSOC.	593	887	49.58
53	N. AROOSTOOK ALTERNATIVES	107	774	623.36
54	AROOSTOOK MENTAL HEALTH SER.	11000	36000	227.27
98	BANGOR/BREWER YMCA	13000	17000	30.77
113	ELMHERST ASSOC. /RETARDED CIT.	9000	12000	33.33
116	TOGETHER PLAN	800	1500	87.50
120	COMMUNITY HEALTH/COUNSELING SV	7276	14403	97.95
121	YORK HOSPITAL	80000	120000	50.00
127	SO ME AREA AGENCY ON AGING	12211	30639	150.91
145	TRI COUNTY MENTAL HEALTH SVS	25990	28812	10.86
** Type : 02				
5	CAMP FIRE HITINOWA COUNCIL,INC	10000	15000	50.00
13	PORTLAND YMCA	40000	60000	50.00
17	CATHERINE MORRILL DAY NURSERY	2245	2875	28.06
55	ST. JOSEPH DAY CARE CENTER	690	2450	255.07
72	CHILD HEALTH CENTER	7045	15598	121.41
76	S. KENNEBEC CHILD DEVEL. CORP.	1300	9500	630.77
85	ACTION OPPORTUNITIES, INC.	1200	5900	391.67
94	ST.ELIZABETH'S CHILD DEVEL CTR	387	455	17.57
100	FRANKLIN COUNTY C.A. COUNCIL	6707	7663	14.25
101	LIGHTHOUSE DAY SCHOOL & DAY CR	1776	2782	56.64
103	ANDROSCOGGIN COUNTY HEAD START	1824	8100	344.08
112	SUNSHINE CHILD CARE CENTER	350	400	14.29
125	CHILDREN'S CIRCLE	200	800	300.00
126	QUALITY DAY CARE INC.	350	1100	214.29
159	PEOPLE PLACE	812	1500	84.73
160	MID-COAST HUMAN RESOURCES CNCL	11500	14500	26.09
177	EAST END CHILDREN'S WKSP	750	1500	100.00
** Type : 03				
165	YMCA	250	1200	380.00
** Type : 04				
31	NEW HOPE FOR WOMEN	250	272	8.80
45	MAINE CENTER FOR THE BLIND	8200	10000	21.95
58	BB RAPE CRISIS HOTLINE	500	750	50.00
59	WASHINGTON CNTY CHILDREN'S PGM	280	293	4.64
65	YOUTH AND FAMILY SERVICES, INC	950	13000	1268.42
68	WESTERN MAINE COUNSELING SVS	1700	10750	532.35
84	BB MENTAL HEALTH ASSN.	16000	30000	87.50
90	MID-COAST MENTAL HEALTH	3500	18000	414.29
135	THE CRISIS AND COUNSELING CTR	1656	8041	385.57
140	HOME COUNSELORS, INC.	1396	2875	105.95

Liability Insurance Percentage Increases
Sorted by Type of Organization

Record #	Agency Name	Year 1	Year 2	Percentage Increase
152	DOWNEAST HEALTH SERVICES	2100	2400	14.29
3	FOR DEVELOPMENTAL RESOURCES	6780	8841	30.40
8	S. COASTAL FAMILY PLANNING	835	2000	139.52
14	ME INDEPENDENT LIVING CTR, INC	2000	5000	150.00
109	GOOD SAMARITAN AGENCY	3651	4934	35.14
111	FAMILY PLANNING ASSOC. OF ME	1800	3200	77.78
117	CUMB.CTY CHILD ABUSE/NEGLECT C	450	900	100.00
123	NE HEARING AND SPEECH CTR.,INC	668	1274	90.72
150	LOOKING UP	1200	3700	208.33
156	AROOSTOOK COUNTY EMS COUNCIL	3201	5100	59.33
179	AROOSTOOK COUNTY ACTION PGM	42013	51665	22.97
** Type : 07				
154	S PORTLAND HEALTH SERVICES	2273	2750	20.99
** Type : 08				
158	KNO-WA-LIN COMMUNITY HEALTH SV	3000	9000	200.00
16	ALPHA ONE	10000	18000	80.00
75	MOBIUS, INC.	3543	3898	10.02
89	KEN-A-SET ASSOC./RETARDED, INC	3000	7200	140.00
110	THE PROGRESS CENTER	870	2277	161.72
147	UNITED CEREBRAL PALSY/ N. ME	1156	1358	17.47
** Type : 09				
9	MEALS FOR ME, INC.	1714	2566	49.71
93	MAINE HEALTH INFORMATION CTR.	777	2300	196.01
** Type : 10				
20	FOUNDATION FOR BLOOD RESEARCH	1010	5923	486.44
51	AROOSTOOK VALLEY HEALTH CTR.	4618	7044	52.53
105	WALDO COUNTY GENERAL HOSPITAL	44552	130769	193.52
122	BATH MEMORIAL HOSPITAL	100648	123801	23.00
171	SACOPFEE VALLEY HEALTH CENTER	834	4650	457.55
176	SACOPEE VALLEY HEALTH CENTER	834	4500	439.57
22	CTR FOR COMM DENTAL HEALTH	2900	8000	175.86
** Type : 11				
2	OPPORTUNITIES	500	10000	1900.00
67	GOODWILL INDUSTRIES OF ME,INC.	38000	50000	31.58
143	EASTERN AREA AGENCY ON AGING	995	6762	579.60
27	CEREBRAL PALSY CENTER	700	3000	328.57
60	COASTAL ADOPTION PLACEMENT SVS	800	3000	275.00
78	PENQUIS C.A.P., INC.	2000	9400	370.00
** Type : 12				
149	ST. CROIX BUS SERVICE	730	3300	352.05
** Type : 14				
69	KENNEBEC VALLEY YMCA	9000	17000	88.89
124	BATH AREA FAMILY YMCA	7400	9800	32.43

Liability Insurance Percentage Increases
Sorted by Type of Organization

Record #	Agency Name	Year 1	Year 2	Percentage Increase
174	MOTIVATIONAL SERVICES, INC.	10888	14322	31.54
** Type : 15				
28	GROUP HOME FOUNDATION	1000	7000	600.00
** Type : 16				
44	MILESTONE FOUNDATION, INC.	2000	4000	100.00
130	YOUTH ALTERNATIVES OF SO ME.	3000	6000	100.00
180	HOPE HOUSE INC.	3300	13000	293.94
** Type : 17				
47	OLD TOWN- ORONO YMCA	2700	7300	170.37
63	BOYS & GIRLS CLUBS OF GR. PORT	23000	27500	19.57
70	BIG BROTHERS/SISTERS OF S. ME	2000	2700	35.00
71	KENNEBEC GIRL SCOUT COUNCIL	8127	8500	4.59
** Type : 18				
1	PASSAMAQUODDY TRIBE	6500	25000	284.62
29	PENOBSCOT COUNTY	9000	20000	122.22
169	ANDR. VALL. COUNCIL OF GOV'S	3957	4352	9.98
172	TOWN OF GRAND ISLE	4500	7000	55.56
** Type : 19				
19	ARTHRITIS FOUNDATION-MAINE CH	150	200	33.33
42	UNIVERSITY OF NEW ENGLAND	6700	39900	495.52
128	KENNEBEC VALLEY VTI	300000	800000	166.67
137	MVTIS	300000	800000	166.67
** Type : 20				
56	LEGAL SERVICES FOR THE ELDERLY	3400	4000	17.65
167	PINE TREE LEGAL ASSISTANCE	24541	29229	19.10
** Type : 21				
146	GRACE EPISCOPAL CHURCH	500000	1000000	100.00

Liability Insurance Percentage Increases
Sorted by Type of Organization

Record #	Agency Name	Year 1	Year 2	Percentage Increase
** Type : 01				
53	N. AROOSTOOK ALTERNATIVES	750	2226	196.80
** Type : 02				
177	EAST END CHILDREN'S WKSP	3500	6000	71.43
** Type : 04				
45	MAINE CENTER FOR THE BLIND	700	7780	1011.43
152	DOWNEAST HEALTH SERVICES	55	1000	1718.18
111	FAMILY PLANNING ASSOC. OF ME	3200	3575	11.72
** Type : 10				
20	FOUNDATION FOR BLOOD RESEARCH	16342	24000	46.86
51	AROOSTOOK VALLEY HEALTH CTR.	100	200	100.00

This list represents those organizations within the sample which reported increases to more than one policy held by the agency.

APPENDIX D: INSURANCE COMPANIES QUESTIONNAIRE

SENATE

RAYNOLD THERIAULT, DISTRICT 1, CHAIR
BEVERLY MINER BUSTIN, DISTRICT 19
DONALD F. COLLINS, DISTRICT 2

JERI GAUTSCHI, LEGISLATIVE ANALYST
SANDRA CHESLEY, COMMITTEE CLERK

HOUSE

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MARY C. WEBSTER, CAPE ELIZABETH
PHILIP E. CURRAN, WESTBROOK
JOSEPH A. GARLAND, BANGOR

STATE OF MAINE
ONE HUNDRED AND THIRTEENTH LEGISLATURE
COMMITTEE ON BANKING AND INSURANCE

November 17, 1987

To: Insurance Carriers

In June of 1987, the Maine Legislature directed the Joint Select Committee on Banking and Insurance to study the relationship between non-profit service agencies and professional liability and other hard-to-obtain lines of liability insurance.

For many Insurance Companies, providing affordable liability coverage is either an impossible or improbable task. The availability of reinsurance, risky lines of coverage, self-insurance, risk pooling and other alternatives to their services as well as an uncertain investment climate have all contributed to the present conflict in the liability market. This study will focus on the extent of these problems and their possible solutions.

The Committee must report back to the full Legislature in the upcoming session. We ask for your help in solving this most immediate of problems.

Please take a few minutes to fill out the enclosed questionnaire and return it to us by November 30. Your answers could provide the information that we need to prevent future crises.

Thank you.

Sincerely,

Ray Theriault

Raynold Theriault
Senate Chair

Charlene B. Rydell

Charlene Rydell
House Chair

2686m

STATE HOUSE STATION 115, AUGUSTA, MAINE 04333 TELEPHONE: 207-289-1314

LIABILITY INSURANCE AND THE NON-PROFIT SECTOR
THE PROPERTY- CASUALTY CONNECTION

Please take a few moments to fill out this questionnaire. For non-profit organizations, the availability of affordable liability insurance exists as a major concern. Because of their budget inflexibility, they often have difficulty absorbing the increased costs associated with proper coverage. Through your cooperation in filling out this questionnaire, the Maine Legislature hopes to better understand the situation and identify possible solutions to the problem. Please complete and return by November 30.

Company Name: ______________________________

Address: ______________________________

City: ____________________ ZIP: ____________

Person Completing Form: ______________________

Title: ______________________________

Phone Number: __________

1) Do you insure non-profit organizations in Maine ?

() Yes () No

2) If yes, how many Maine non-profits do you insure ?

____

2a) What percentage of your business in Maine does this figure represent ?

______________ %

3) In the past 12 months, what was the dollar amount of earned premiums for non-profit agencies in Maine ?

$ ______________

4) In the past 12 months, how many claims by Maine non-profits were incurred ?

____

4a) Representing how much in claims ?

$ ______________

RATE INCREASE

5) In the past 12 months have you had to increase rates for property-casualty coverage to non-profits in Maine ?

() Yes () No

5a) If yes, by how much ? _______________%

5b) If yes, what were your reasons ? (Check appropriate box for each line)

	Major Reason	Minor Reason	Not A Reason
Unavailability of reinsurance	()	()	()
Increase in cost of reinsurance	()	()	()
Increase of perceived risk	()	()	()
To provide more coverage	()	()	()
Other (Specify)_______________ _______________	()	()	()
Other (Specify)_______________ _______________	()	()	()

5c) If yes, did you submit a rate filing ?

() Yes () No

POLICY NON RENEWAL

6) In the past 12 months have you refused to renew a policy that was in force to non-profits in Maine ?

() Yes () No

6a) If yes, how many ? _______________

6b) If yes, what were your reasons ? (Check appropriate box for each line)

	Major Reason	Minor Reason	Not A Reason
Cancellation of reinsurance	()	()	()
Increase in cost of reinsurance	()	()	()
Increase of perceived risk	()	()	()
Don't insure in this line anymore	()	()	()
Other (Specify)_______________	()	()	()
_______________	()	()	()
Other (Specify)_______________ _______________	()	()	()

REINSURANCE

7) Has your reinsurer limited the kinds of coverage you can offer to Maine non-profits ?

() Yes () No

8) Has your reinsurer limited the amount of coverage you can offer to Maine nonprofits ?

() Yes () No

9) Have you experienced an increase in the amount you must pay for reinsurance for non-profit agencies ?

() Yes () No

10a) If yes, by what percentage ?

__________________________%

10b) If yes, how did your company deal with the higher reinsurance cost ? (Check all that apply)

() Dropped unpredictable lines of coverage
() Dropped frequent claimants
() Raised premiums
() Lowered coverage limits
() Raised deductibles
() Cut back staff
() Other (specify) ____________________
() Other (specify) ____________________
() Don't know

RISK SHARING

11) If a state law to provide for risk pools as alternatives to commercial liability insurance were enacted, would you:

	Definitely	Possibly	No	Don't Know
Cut back services	()	()	()	()
Cut back staff	()	()	()	()
Raise premiums	()	()	()	()
Lower premiums	()	()	()	()
Lowered coverage limits	()	()	()	()
Raise coverage limits	()	()	()	()
Raise deductibles	()	()	()	()
Lower deductibles	()	()	()	()
Other (specify) ____________ ____________________	()	()	()	()
Other (specify) ____________ ____________________	()	()	()	()

12) If non-profit organizations formed a risk retention group would your premiums:?

( ) Go Up ( ) Stay the same ( ) Go Down ( ) Don't know

13) Would reinsurance rates:

( ) Go Up ( ) Stay the same ( ) Go Down ( ) Don't know

COMMENTS

14) Please add any comments or additional information which would be helpful in our deliberations:

Thank you for your time.

---------To Mail, Please Fold Into Thirds------------------------

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I       I
I       I
I       I
+-------+
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Mail To:

Daniel T. Crocker
Office of Policy and Legal Analysis
State House Station #13
Augusta, ME 04333

CHAPTER 2

WHAT IS RISK MANAGEMENT?

Risk management is not the purchase of insurance.

Although risk management recognizes the importance of insurance, it involves much more than knowing the phone number of the nearest insurance agent.

Furthermore, risk management is not limited to safety programs. These programs are obviously a vital ingredient, but they are only part of a much more comprehensive approach to the risks facing an organization. Safety is merely one of the tools used to deal with risk.

The Framework of Risk Management

Risk management is a structured process designed to protect your organization's assets from loss.

Risk management begins with the realization that an organization will eventually suffer a loss. Whether it is a loss to property, health, or life, or a loss arising from liability to others, all nonprofits may someday be faced with a loss.

Risk management enables you to reduce or eliminate the uncertainty accompanying these losses and minimize their adverse effects. The process boils down to identifying the nature and scope of a problem and deciding on how best to deal with it.

Dr. George Head, vice-president of the American Institute of Property and Liability Underwriters and the Insurance Institute of America and the author of numerous publications on the subject of risk management, has noted that risk management is composed of two elements—a "decision" process and an "administrative" process.[1] The decision process consists of a sequence of events designed to "problem solve"—to identify exposures and decide on the best way to handle them. The administrative aspect entails

1. George L. Head and Stephen Horn II, *Essentials of the Risk Management Process,* 1st edition (Malvern, PA: Insurance Institute of America, 1985).

- Planning what needs to be done to protect your organization from loss
- Organizing staff and resources to carry out these plans
- Leading and motivating staff to carry out risk management tasks
- Controlling your program by evaluating its performance and making necessary changes.

For anyone versed in the theory of administration, these processes are familiar. The specifics of each of these processes are discussed in later chapters.

What Risk Management Can Do for Your Organization

Risk management can improve a nonprofit's operations in several ways:

- It can make an organization more competitive in qualifying for insurance on favorable terms. It will also provide an administrator with something in his/her "corner" when approaching an agent.
- It can lower the "cost of risk" a nonprofit faces, thus increasing the amount of money that can go to program areas while continuing to protect against loss.
- It will help identify the most efficient means of financing risk.
- It can take the "fear" out of undertaking new projects.
- It can lend stability and structure to an organization's operations.
- It can help to educate board members and employees about practices that will prevent or reduce serious losses.

Let's consider each of these points in turn. First, through careful assessment of risks and active loss control programs, nonprofits can make themselves more attractive to insurance underwriters—these are the people who decide whether their company will write insurance for you and under what terms. For example, many insurers have the impression that volunteer programs are staffed by unsupervised and untrained personnel. A volunteer training program with clearly defined supervision and training will quickly dispel any such misperceptions about an organization's activities.

Although even the best risk management program cannot guarantee that coverage will be offered, it may enable you to obtain better policy terms when coverage is available. In addition, risk management can help a nonprofit reduce its losses and subsequently improve its claims history—this is always a plus when negotiating terms of insurance. Full awareness of the need to reduce losses can be a valuable tool in negotiations with an insurer.

Second, risk management can lower the amount of resources expended as a "cost of risk," thus freeing resources for vital programs while continuing to protect against loss. Adequate programs and adequate protection against risk are both necessary components for effective nonprofit operations. Good risk management allows both protection and service delivery with the minimum expense of resources for the actual process of managing loss.

Uncertainty about risk or haphazard ways of dealing with it can be extremely expensive, and can prevent an organization from carrying out its task effectively. Organizations whose budgets limit program levels to begin with will find any process that ensures intelligent allocation of limited funds is well worthwhile.

Third, risk management can improve not only where funds are spent, but also how they are spent. Waste and inefficiency are simply not practical in any organization, especially one working with limited resources. In addition, as we will see, there are more efficient alternatives to the purchase of insurance that often go unutilized.

Fourth, risk management can reduce the fear of undertaking new projects. By helping to make future losses less frequent, less severe, or more predictable, risk management will allow a nonprofit organization to obtain the benefits of many programs that may have been judged too "risky" to implement. Such programs may even be funded by the money saved through the reduction in the cost of risk.

By reducing future uncertainty an organization also invites greater public confidence. An organization that actively pursues safety programs, screens its staff, provides good risk management training, and conscientiously undertakes measures to avoid loss will undoubtedly gain public confidence.

Another benefit of risk management is that it lends stability to an organization. Through risk management, an organization can smooth over the bumps in the road caused by the cyclical insurance market. When an organization is aware of the exposures it faces, and when these exposures are managed rationally, the entire organization is better able to insulate itself against outside controlling forces.

By far the most important contribution of risk management, particularly for an organization heavily involved with the public, is that it offers a means of avoiding the types of losses that even unlimited insurance coverage cannot compensate for—serious injury or loss of life. Remember that insurance cannot adequately replace or compensate for these losses.

Risk management can educate your board members and employees about safe practices that will prevent serious loss from ever happening.

Imagine, for example, what it would mean for your organization if an untrained bus driver on your staff with a previous history of traffic violations contributed to an accident that killed or injured several children under your care. The effects would be devastating. If an organization includes background checks in the hiring process and if it trains its drivers in safe practices, it can minimize or prevent needless loss of this type.