RISK Nonprofit INSIGHTS

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Inadequate Risk Management

Risk identification and management are essential for any organization, but they are especially important for nonprofits. With such a slim margin of error, nonprofit organizations cannot afford to overlook any of the numerous and unique risks facing the industry.

Surprisingly, the majority of U.S. nonprofit organizations are ill-prepared to identify and manage risks, according to Crystal & Co.'s June 2013 study, Survey of Nonprofit Risk Management. The following provides an overview of the survey and several strategies for nonprofit leaders to mitigate the ubiquitous risks of the nonprofit industry.

Survey of Nonprofit Risk Management

Crystal & Co., a strategic risk and insurance advising firm, surveyed 116 U.S. nonprofit organizations from all sectors of the industry for its Survey of Nonprofit Risk Management. These organizations' annual revenues range from $20 million to more than $500 million. Based on the organizations' responses, the survey identified three main findings: a strong disconnect between organizations' strategic challenges and insurance portfolio, a general absence of dedicated risk managers and an overall failure to allocate enough money for proper insurance coverage.

Disconnect Between Strategies and Coverage

Fundraising is necessary for the success of most nonprofits. Perhaps because of this, "diversifying revenue streams" emerged as the most-cited current and future strategic challenge of the surveyed organizations. Nonprofits must compete for the same resources from a limited pool of grants, donations and government contracts. Diversified revenue streams can reduce organizations' reliance on that limited pool and give them some breathing room.

As the nature of philanthropy changes towards an increased presence and reliance on social media, nonprofit organizations must apply more concerted efforts to attract donations across multiple platforms. Accordingly, the second- and third-most-cited strategic challenges to surveyed organizations were "market positioning and competition for funding" and "establishing and managing external partnerships," respectively.

> Only 36 percent of surveyed organizations had assessed their risks within the past year. As new challenges arise, so do new risks. Ensure your organization is ready.

However, Crystal & Co. noted a strong disconnect between organizations' strategic challenges and their insurance coverage. While organizations see the need to diversify revenue streams, which will surely involve enhanced fundraising efforts with online media, they do not recognize the need to safeguard themselves against additional risk.

Network security and privacy liability (cyber risk) and media liability, although necessary for organizations' diversification, are ranked in the bottom five types of insurance currently in nonprofits' portfolios. While

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organizations forge ahead to meet their strategic challenges, they leave themselves vulnerable to cyber and media risks.

As a nonprofit leader, ensure your organization is poised to meet its future goals while protecting itself against any added risk. For example, if your organization uses social media to launch a new initiative toward spreading awareness for its cause, make sure it is protected against social media's risks. Any drive to meet and surmount challenges must be matched by a drive to identify and manage extra risk. Only then will organizations be fully prepared for a successful future.

Absence of Dedicated Risk Managers

One reason for this significant disconnect could be that 78 percent of surveyed organizations do not employ a dedicated risk manager. Most organizations responded that risk management is handled by their finance team, which may not have the necessary expertise or experience to competently address and manage risk.

Although 80 percent of surveyed organizations reported undertaking an independent assessment of their corporate risk and insurance programs in the last three years, without a dedicated employee continually assessing risk, a three-year-old assessment has little bearing on current risks.

Habitual risk assessments are beneficial, but make sure your organization is reaping the full benefits of such an assessment. If you do not plan on employing a dedicated risk manager, consider additional training for the department that handles risk management. Identifying your organization's risks is futile unless you have employees who can craft a solid plan to manage and mitigate risk in the long-term.

Failure to Purchase Adequate Coverage

Crystal & Co. discerned an alarming trend of organizations recognizing the attendant risks of their evolving industry without purchasing adequate coverage to protect against those risks. The majority of survey respondents are underinsured, dedicating only 0.25 percent of annual revenue to corporate insurance.

Ideally, organizations should be spending about 1 percent, meaning the majority are purchasing only minimum coverage and exposing themselves to risk. This trend is most prevalent in the smaller surveyed organizations, which need the most coverage due to lack of resources.

The failure to purchase adequate coverage has the potential to stunt an organization's growth. Because they typically obtain only the most basic coverage, organizations are underprepared to tackle current risks. This means that risks on the horizon, spurred by organizational growth, are not being mitigated in advance. These unmitigated risks have the potential to halt an organization's growth with a single incident—an incident which could be easily alleviated with adequate coverage. Make sure your organization is not unintentionally hindered by insufficient insurance coverage.

Contact BCG Advisors, Inc. today at 201-435-4500 to ensure your organization can mitigate these risks and plan for a successful future.