HUB 2023

Outlook.

Nonprofit

Economic headwinds, labor shortages and cybercrime challenge nonprofits.

HUB

Risk & Insurance I Benefits & Retirement I Private Client

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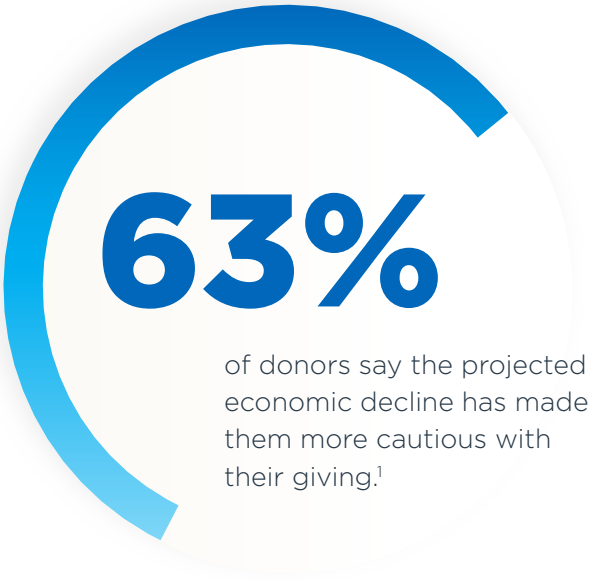
Setting the Scene

Enterprise risk management will strengthen resiliency.

Economic uncertainty and a looming recession will test nonprofits in 2023. Rising inflation will drive up operational costs, while an economic downturn will reduce endowments and government funding. But nonprofits with a solid risk management strategy will be better positioned to survive and thrive.



1. Dunham+Company, "Donor confidence falters in light of economy and inflation," June 20, 2022.

What to Expect in 2023

Labor shortages and inflation present challenges to nonprofits in 2023. Donor hesitancy, rising costs, cyber threats and falling endowments will further test organizations. In the face of such challenges, an enterprise risk management strategy will improve their resiliency.

Increased demand and market instability will test organizations.

Coming out of the COVID-19 pandemic, nonprofits saw much greater demand for services, particularly for health and human services organizations. While some nonprofits saw a surge in revenue from increased public awareness of their missions, others faced funding challenges, and demand for their services is outpacing their finances.[2]

With economic uncertainty and interest rate hikes,[3] individual and corporate donors will be less likely to open their checkbooks. Inflation generated increased costs for transportation, goods and wages, pinching nonprofits' bottom lines. Many organizations don't have the financial flexibility to absorb higher costs.[4]

With these pressures, the nonprofit sector is likely to see more consolidation in 2023. Organizations that align with complementary nonprofits will be better prepared to weather the inflationary environment, maximize their abilities and expand their pool of potential donors.[5]

2. BDO United States, "The Future of Health & Human Services: A Tale of Two Worlds," May 20, 2022.
3. Forbes Advisor, "Recession Tracker: Are We In A Recession?" September 22, 2022.
4. ABC News, "Inflation hits nonprofits' services, ability to fundraise," April 8, 2022.
5. Stanford Social Innovation Review, "Buy to Build: Nonprofit M&A as an Impact Enhancer," February 28, 2022.

Enhanced benefits will attract and nurture employees.

With increased competition in a tight labor market continuing through 2023, nonprofits are embracing a total rewards approach to care for their employees. By creating an employee value proposition supported by total rewards, nonprofits are expanding benefits beyond core health and disability coverages to include health savings accounts, retirement plans, professional development opportunities, hybrid work environments and additional personal time off.

Personalizing benefits to meet individual employee needs creates positive employee experiences — and a benefits strategy centered on delivering quality employee experiences (QEX) helps employers build a workplace that attracts and retains workers.

This approach also sets organizations apart from others in their search for qualified workers. Employment in the nonprofit sector fell by 1.6 million positions during the COVID-19 pandemic, though the sector was on target to return to pre-pandemic staffing levels by mid-2022.

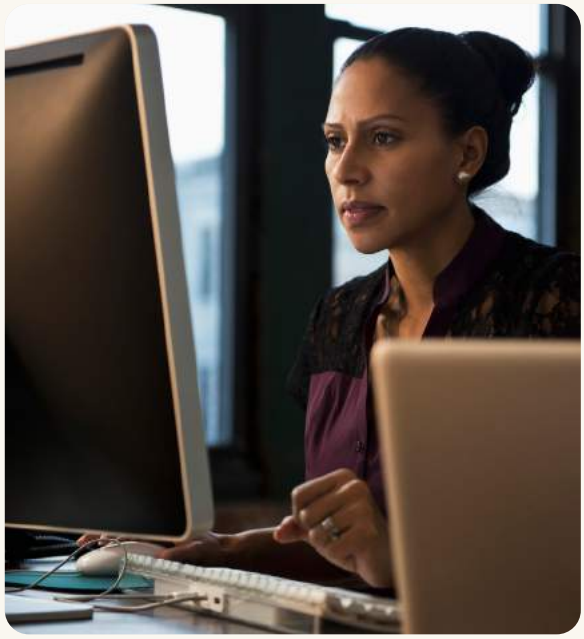
However, volunteers have not returned in the same numbers.[6] Fewer adults say they have time to contribute, and those who volunteer feel disconnected from their organizations because of a shift to virtual events.[7] These challenges may force nonprofits to develop focused volunteer training programs that accommodate individuals' lack of time.

Employment in the nonprofit sector fell by 1.6 million positions during the COVID-19 pandemic.

6. Northern Express, "Where have all the volunteers gone?" September 10, 2022.
7. Independent Sector, "Health of the U.S. Nonprofit Sector," October 2021.

Enterprise risk management will help nonprofits remain viable.

Few nonprofits had adequate contingency plans to cope with a global shutdown and its aftermath, leaving many cash-strapped. However, the pandemic is prompting more organizations to adopt an enterprise risk management (ERM) approach to risk. ERM is a business strategy that uses methods and processes to identify and manage risks to an organization.



Whether it's a disaster, violence, data breach or pandemic, recognizing threats to organizational resiliency and taking steps to mitigate those risks will be key for nonprofits' longevity. This ERM approach should extend to donor communications. With scarce resources and fewer donors, nonprofits need to better convey their stories to the public, accentuating measurable outcomes that help them stand out from other causes.

Using social media to share testimonials from real people whose lives were changed because of the nonprofit's work will be one approach to drive this communication in 2023. Social platforms also will be leveraged to highlight how donors can further a nonprofit's accomplishments.

But the increased use of technology brings cyber risks, which remain a significant concern for nonprofits. Cyber insurance rates will rise 20% to 40% in 2023, and safeguards – such as multifactor authentication (MFA), endpoint detection and response and background screening – will be imperative. Managing third-party vendor contracts with access to data can further offload risk and protect the organization in the event of a breach.

Reduced government funding, endowments and donations will affect financing.

Continued high inflation in 2023 will hurt nonprofits' finances, regardless of whether the organization relies on government funding, endowments or donations. While 2020 was a record year for giving, overall charitable donations in the U.S. were flat in 2021[8] and college endowments dropped 10%.[9] With fears that inflation will further erode giving, nonprofits that rely on philanthropic donations may struggle to stay within their budgets while continuing to offer the same level of services.

With government contracts set at rates that don't account for inflation and seldom cover an organization's full indirect costs, nonprofits relying on those agreements will struggle financially as costs skyrocket for transportation, operational expenses and administration. Shrinking government funding — due to static contract amounts and budget cuts — will further affect organizations, despite increased demands for services.

However, nonprofits will be able to lean on technology to operate more efficiently[10] and create additional giving opportunities. For example, nonprofits that leverage their donor data can identify the most involved benefactors and find new ways to target those donors and increase engagement with the organization.

In 2021, college endowments dropped

10%

8. Indiana University, "Giving USA: Total U.S. charitable giving remained strong in 2021, reaching $484.85 billion," June 21, 2022
9. Bloomberg, "College Endowments Post Biggest Losses Since Financial Crisis," August 9, 2022.
10. BDO, "How tech & culture support sustainability," June 30, 2022.

Make a plan

HUB can help develop a strategy that will protect the bottom line, support your workforce and build resiliency for 2023. Here are some initial considerations:

Take a Total Rewards approach to your benefits.

Give your employees the ability to personalize their benefits. The big differentiators are retirement benefits, mental health benefits, flex time, employee value proposition and a clear career ladder.

Look at the big picture.

Instead of looking for piecemeal approaches to address big risks like workplace violence, active shooter or supply chain disruption, ask your brokerage's risk services consultants for a comprehensive plan. An organizational resiliency plan doesn't have to be complex and expensive.

Leverage the power of analytics.

Your broker can help you make objective, defensible decisions about coverage limits and how much risk to absorb through deductibles and self-insured retentions. Analytics goes well beyond benchmarking to take the guesswork out of your insurance coverage and give you actionable insights.

Be transparent with your broker.

Let your broker know what changes you've made to the organization throughout the year, so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, allowing your broker extra time to identify the best options.

Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for the Nonprofit sector.

We expect continued rate increases for nearly all coverages in the Nonprofit sector, as carriers are experiencing rising losses and expenses.

On the next page is our outlook on Nonprofit insurance rates for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.

Nonprofit Industry Rate Outlook — U.S.

Coverage	2023 Nonprofit YOY Rate Outlook	Insights
Automobile	↑ 5% to 10%	Proper onboarding, including driver safety programs, remain vital for reducing accidents, particularly in the challenging labor market. Litigation trends, increased repair costs and medical inflation continue to contribute to poor underwriting performance.
General Liability	↑ 5%	Social inflation and abuse reviver statutes are reducing carrier profitability. Expect meticulous underwriting scrutiny of protocols for mitigating sexual abuse and molestation (A&M) exposure. Telling your story and showcasing risk management strengths is your linchpin in the underwriting process. Premises liability will increase as the industry returns to in-person events and fundraisers, and capacity for liquor liability will remain limited, especially for businesses hosting events.
Workers' Compensation	↔ Flat	Rates are stable, but if injury claims continue to increase, nonprofits will need to pay greater attention to hiring and onboarding of employees and volunteers. Evaluating risk management procedures for ergonomics and maintaining proper workstations should be an ongoing practice.
Umbrella & Excess Liability	↑ 20% or higher	An enterprise-wide risk mitigation initiative and the use of analytics to optimize program structure can sharpen value. However, abuse and molestation (A&M) exposure — when coverage is available — is impacting pricing for umbrella & excess layers from primary policies. This remains a tough class for carriers.
Property	↑ 10% to 20%	Increased underwriting scrutiny on insurance-to-value (ITV) is driving premium and rate increases. Catastrophe-exposed states — those at risk of wildfire, flooding and windstorms — continue to feel the most pressure. Definitive business continuity plans should be highlighted in underwriting submissions.
Directors & Officers (Private Nonprofit)	↔ Flat to 10%	Previous headwinds are tapering, but retentions remain high. Carriers have reduced rates for nonprofits or are offering flat to small increases at renewal.
Cyber Liability	↑ 20% to 40% or higher	Compared with the last two years, rates have begun to ease for clients without material exposure changes or claims who also maintain requisite cybersecurity controls. Clients with substandard controls (e.g., lack of multi-factor authentication (MFA), endpoint detection and response (EDR), and offline backups) will experience difficult renewals and a lack of market competition.

Nonprofit Businesses

Business	2023 YOY Rate Outlook	Insights
Arts & Culture	↑ 5% to 10%	The market is seeing a gradual relaxation of communicable disease exclusions for an additional premium.
Associations & Public Advocacy	↑ 5% to 10%	Organizations with lobbying and political-related exposure, such as 501(c)(6), will struggle to find capacity.
Human Services	↑ 5% to 10% or higher	Human services is the most challenging class in the nonprofit sector, driven by exposure to vehicular risk and abuse/molestation risks. As budgets tighten due to decreased revenue (i.e., donations and funding), insureds have less budget for insurance. Foster and adoption risks will be forced to secure their coverage from the non-standard E&S marketplace.
Religious Organizations	↑ 5% to 10%	Abuse and molestation (A&M) remains a major claims driver for religious institutions. Few markets will offer the coverage; expect underwriting scrutiny on protocols and financials.

NOTE: ***Rate*** is typically defined as the amount of money necessary to cover losses, expenses, and provide an insurance company with a profit for a unit of exposure. ***Exposure*** refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

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When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB nonprofit insurance specialist.

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17,978
nonprofit clients

45,114
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