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The Committee on Financial Services
United States House of Representatives

Hearing:
"Examining Insurance for Nonprofit Organizations"

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Mr. Chairman, Ranking Member Cleaver, and Members of the Subcommittee:

Thank you for the opportunity to testify as part of the Subcommittee's Hearing on "Examining Insurance for Nonprofit Organizations" in favor of the Nonprofit Property Protection Act which would permit a certain subsection of established Risk Retention Groups to offer property and auto physical damage insurance to their members. I am the President/CEO of The Cothron Group, Inc. (TCG) dba Southeast Nonprofit Insurance Programs.

Southeast Nonprofit Insurance Programs is an Insurance Placement service that specializes in coverages for 501(c)(3) Nonprofits in North Carolina, Georgia and Florida. We perform no direct sales, but work through independent insurance brokers. We currently have over 200 nonprofits insured but have had difficulty in finding property insurance. I appreciated this hearing on the Nonprofit Property Protection Act as passing this would provide more insurance options for nonprofits who are members of Risk Retention Groups.

I have been in the insurance industry for over twenty years and have worked with 501(c)(3) nonprofits throughout the Southeast for over ten years. We have had a crisis in trying to secure property coverage for 501(c)(3) nonprofits and with the recent Hurricanes of Harvey and Irma, this will only become more difficult. I work extensively with a Risk Retention Group (RRG) for liability insurance for nonprofits but unfortunately the RRG is prohibited from being able to provide property insurance.

At this time in most states, a commercial insurance company, insurance mutual, a captive or even an insurance trust can provide all lines of commercial insurance coverage to customers. Only an RRG is prohibited from providing property coverage.

The challenge 501(c)(3) nonprofits that are members of an RRG have in securing property insurance is that they have to rely on commercial insurance companies to provide that coverage. These insurance companies typically will only provide the property insurance along with the liability insurance creating a package policy. A package policy means that overages are bundled together on an all or nothing basis, meaning that the property cannot be purchased from the insurance company unless the liability is also purchased from the same insurance company.

While, I never work with RRGs or commercial insurance companies that claim to always offer the lowest price, I have done many comparisons that demonstrate that when a nonprofit is forced to purchase a package policy on an all or nothing basis from a commercial insurance company, the nonprofit is typically paying a higher price in annual liability premium in order to get the property coverage.

Over the years, I have collected various data regarding the difficulties 501(c)(3) nonprofits member of RRGs have had obtaining standalone property coverage and in turn, the need for this legislation. Listed below are several examples in which a nonprofit was put in a position of purchasing a more expensive liability insurance policy in order to be able to purchase the property insurance they needed.

Ronald McDonald House: The RRG provided a very affordable liability insurance quote, but an insurance carrier provided a package quote including the property on an all or nothing basis. The nonprofit had to have property and had to take the more expensive liability coverage as part of the package.

Boys & Girls Club: The RRG provided a less expensive liability insurance option, however, the carrier only offered to provide the property if the liability was also purchased at the same time. The nonprofit was not able to take advantage of the pricing and services offered by the RRG.

Heartland for Children: Once again the RRG liability quotes were actually lower than the insurance carrier's, but the carrier's quote was on an all or nothing basis.

Alzheimer's Association and Related Disorders: Once again, a package quote from a commercial insurance carrier was offered only as a package policy. Although the liability quote from RRG was better. They went with an insurance carrier on a package program, which required combining the property and the liability.

Center for Drug Free Living: This multi-location nonprofit was anxious to be able to utilize the services and competitive pricing that the RRG offered. However, they had to go with a commercial insurance carrier that offered Property with their package program.

Seminole County Victims' Rights Coalition: The property values represented over 50% of the insurance premiums this nonprofit was paying. The RRG provided a very cost effective liability quote. However the insurance carrier refused to offer the property coverage on a stand-alone basis. Since the RRG could not provide property, the nonprofit had to go with the more expensive package quote from the commercial insurance carrier.

Goodwill of the Gulf Coast: In this bid process the RRG delivered the best liability quotes of all submissions. However the best property quote was delivered by an Insurance Trust who refused to provide the property on a standalone basis. The RRG could not offer a property quote. The nonprofit had to select the higher premium liability quote from the Insurance Trust in order to obtain the property coverage.

The combined increase in annual liability premium paid by these nonprofits listed above exceeds $150,000. Because they had to purchase a package policy that required purchasing the liability and property together rather than being able to select the best pricing on each of the coverages from different companies. Most of these nonprofits are small to midsized. The additional expense they incur with their insurance premiums will negatively impact the services they provide in their communities. These nonprofits were put in the position of paying the higher premiums on the liability because the insurance carrier gave them an all or nothing option with their policy program.

Most nonprofits I work with have limited operating funds and are receiving some or all of their funding from state, federal or local government. A nonprofit entrusted with the tax-payer's money should not have to spend an unnecessary high amount on insurance. That undue expense in turn negatively impacts the amount of services they can provide to their communities. By allowing an RRG the ability to provide property insurance, the nonprofit will receive more competitive pricing from all of the insurance options that are available and still be able to benefit from the specialized coverages and services they value.

I have worked with nonprofits for over a decade. I believe that insurance is more than just a piece of paper with coverage terms on it. I believe that insurance is a service industry and working with RRGs it has been my experience that:

- RRGs specialize and know their markets exceedingly well. The one I am most familiar with insures the 501(c)(3) nonprofit marketplace.

- RRGs provide liability insurance with broader and specific coverages tailored to the specialized needs of their limited market segment.

- RRGs provide a host of safety, risk management and loss control services for their member-owners.

- RRGs tend to be specialized value driven service based companies sensitive to the needs of their members-owners, whereas the typical insurance company is more likely to offer a basic one size fits all policy with added services that are more generic and not aspecifically tailored to that market segment.

- RRGs in many cases offer better coverage, service and pricing, however they cannot provide a "package program" as they are prohibited from providing property coverage. In nonprofits' case, this is a significant disadvantage because of the requirement in the commercial market that nonprofits purchase package policies. Insurance companies are aware of this and utilize this unfair competitive advantage to make the nonprofits who would like to benefit from coverage from their own RRG, instead forgo the additional services offered by the RRG so they can get property coverage, even if it means paying more for liability coverage.

I work with dozens of brokers and I can state without hesitation that we need RRGs for nonprofits to be able to provide property to serve the small to mid-sized nonprofits that choose to be members of an RRG and benefit from their strong niche focus and loss control resources. These RRGs are already providing coverage for the difficult liability exposures. RRGs are presently able to provide multi-million dollar limits for a van full of children, but are prohibited by federal law from providing coverage for a dent in that van. There is no reason RRGs should not be able to provide property and auto physical damage coverage, particularly with the strong consumer protections that are included in the Nonprofit Property Protection Act.

I strongly support the Nonprofit Property Protection Act and ask that you please pass this bill as soon as possible.

Thank you.