Gallagher's Nonprofit Sector
2018 Perspective

Nonprofits and resourcefulness—tailwinds in 2018 and beyond.

GALLAGHER NONPROFIT PRACTICE

Gallagher

Insurance | Risk Management | Consulting

As Gallagher celebrates 90 years of service in 2018 that include from its earliest days serving the nonprofit sector (google "Our Lady of Angels School Fire"), we are committed globally to having our employees give back with a goal of 90,000 hours of volunteer work in 2018.

Gallagher 90 YEARS OF TRUST

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"Marshalling our vast global resources and talent around our nonprofit clients' needs differentiates us in the marketplace. We truly maximize the impact of our specialization."

—Peter A. Persuitti
Managing Director, Nonprofit Practice

About Gallagher

Sustained growth. Steady focus on quality.

Family run

FOUNDED IN 1927

The Gallagher Way

25 tenets that have guided a team-oriented culture for 30+ years

SOCIAL RESPONSIBILITY

Company wide focus on ethical conduct, employee health and welfare, environmental integrity and community service.

$4.6B

Total Adjusted Brokerage & Risk Management Revenues (2017)

26,700+

EMPLOYEES WORLDWIDE

700+

OFFICES IN 33 COUNTRIES

150+

COUNTRIES SERVED

GLOBAL REACH. LOCAL PRESENCE.

Shared Values + Passion for Excellence = Promises Delivered

World's Most Ethical Companies®

Ethisphere® Institute 2012–2018

Nonprofit Practice. Reclaiming dollars for mission.

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As we make our way in to 2018 our Nonprofit consultants around the world share their experiences and insights on the near future for nonprofits—thriving organizations at the center of communities and solutions for improving life for everyone.

We know that nonprofits can't do it alone and, thus, resourcefulness is a key strategy for mobilizing talent and technology to help them achieve their missions. Rewards are witnessed every day in changed lives and empowerment. We all want to be part of that!

And, of course, with these impactful missions there comes tremendous risk along with the rewards. Those of us working in the nonprofit sector for a long time are familiar with the risks and recognize that we can't let these risks impair our efforts to do good, to make a difference. However, we also realize that some of the risks are latent, perhaps not unlike a disease, and as such we must remain vigilant and perform our duty of care in mitigating risks because the rewards and potential for impact are so great and vital.

I have been impressed overall with the way nonprofits have faced head on this concept of risk. Some have exhibited great resourcefulness in reaching out to community partners (first responders, expert volunteers, neighboring nonprofits—schools, churches, sports teams) to work on this from a broader perspective. Others have engaged a deeper analysis of risk (risk register, risk treatment and monitoring). Some have decided to self-insure certain key exposures that they want to control - avoid litigation, fund over time, etc. As a society we want to eradicate such ills as poverty and sickness, and proactively treat mental health and mobilize talent. Nonprofits are front and center of society's interests.

When nonprofits are negatively impacted by risk, reputation may be the first thing harmed. Risk is a strategic value that must be a focus of nonprofit boards, staff and volunteers—both its negative as well as it opportunistic features. In 2017 we saw a refreshing movement to modulate our language from 'risk management' to 'risk leadership'—emphasizing that the technical skill of risk management must be complemented by a intentional focus of the board and leadership—risk should be a standing item on all agendas! I also like Ted Bilich's concept of 'lean risk management' (Risk Alternatives, LLC). There is a sense of 'fitness' and good health to this perspective—an ongoing discovery and awareness that keeps it fresh and front and center. At Gallagher, we have developed a methodology, **CORE**360™, to help nonprofits conduct a broader assessment of risk as well as risk financing (the next evolution from insurance purchase?), coverage analyses and risk mapping exposures.

Nonprofits are seeing mature talent move from roles of success (corporate) to contributions of significance (nonprofits). This talent surge, in interest along with the power of technology (efficiency, collaboration, engagement), bodes well for nonprofits. The corporate movement to social responsible engagement with nonprofits (at Gallagher we have a goal of 90,000 hours of volunteering in 2018) is another resource to help nonprofits thrive.

Yes, we saw significant disorder in 2017 impact nonprofits that are leaders in their field, but we also saw resourcefulness in the way they dealt with the assaults. Converting these maladies with reformed commitment helps remind us all that we need to do all we can to keep the 'risk' discussion alive and vibrant. It will take resourceful nonprofits to successfully navigate the challenges of the future and there are so many signs of learning, conversion, commitment and resourcefulness all around us. We are honored to be able to serve the broader third sector in so many ways, but especially in marshalling our specialized services across the world. We stand as an outlet for their resourcefulness!

Peter A. Persuitti
MD, Nonprofit Practice

Keeping a strategic focus on attracting and retaining employees.

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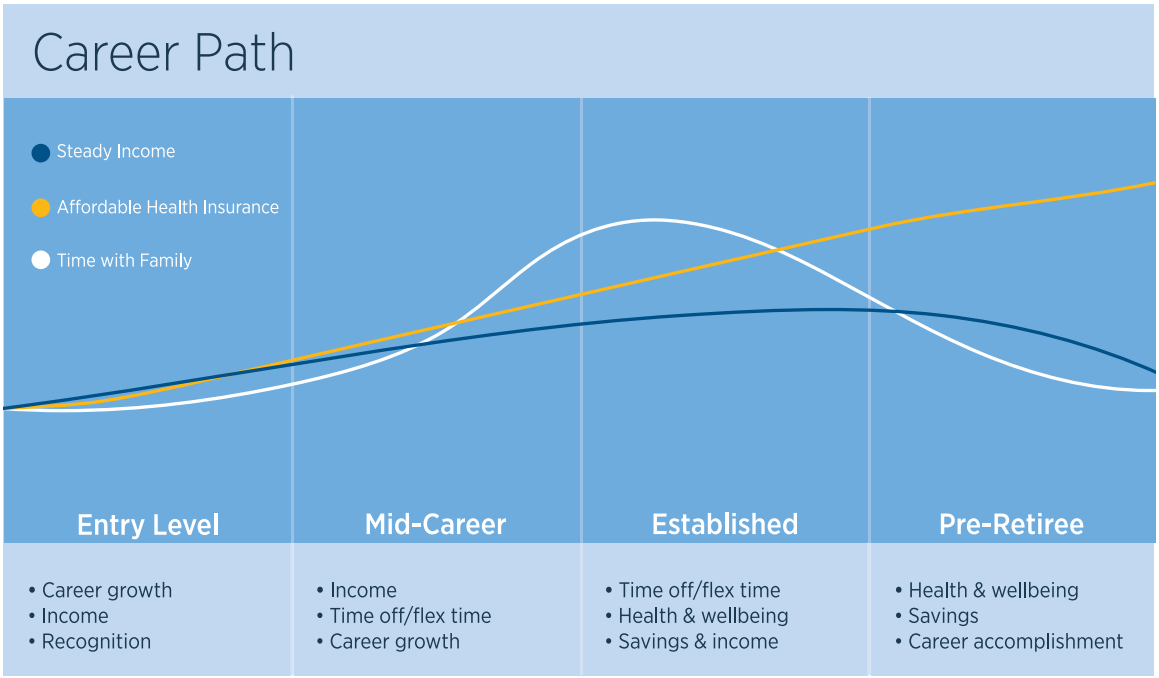
One of the challenges facing nonprofit organizations is walking the tightrope of providing benefits programs that will assist in the attraction and retention of good employees, while at the same time managing the costs of these programs so as to be able to sustain your mission. Gallagher utilizes a proprietary Workforce Evaluation methodology to help organizations assess the effectiveness of their employee benefits program in driving strategic organizational objectives.

While working for mission based organizations has its own set of merits, a Workforce Evaluation offers a new way of looking at an employee population to discern underlying trends that affect employee loyalty, job satisfaction and benefit and compensation costs. This methodology was developed primarily to help organizations fine-tune benefit programs, and delivers valuable observations across the full spectrum of human capital strategy.

An important part of the analysis is determining how different workforce segments are represented in an employer's organization and measuring their relative levels of engagement with the total rewards programs you offer. For the purposes of workforce evaluation, Gallagher identifies four distinct workforce segments based on life and career stages. Each segment is characterized by a set of prevailing needs, financial priorities and learning styles (see Illustration).

Although a nonprofit employer can rely to a degree on drawing talent to work for you based on your mission, nonprofit employers in the reinvigorated U.S. economy are, once again, finding that challenges with recruiting and retaining sought-after talent is a significant threat to their sustainability. Some industries and professions are tougher to source than others. The fastest shrinking jobs require low-to-moderate skills, while the fastest growing jobs require advanced skills. In response to these challenges organizations work to reposition total rewards in a way that improves their ability to attract and retain employees, and allows them to work within persistent budgetary constraints lending sustainability to their organization.

Fueled by the social change and technological progress of the recent decade, workforce dynamics have changed more rapidly than at any other time since the Industrial Revolution. Today's workers have varied and distinctive work styles, career aspirations and financial needs. Forward-thinking companies now recognize that catering to these different needs and styles is the key to engaging and motivating talent. This insight has given rise to a sharper strategic focus in designing total rewards.



Resourceful governance: leveraging board talent.

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Resourceful organizations require resourceful managers and boards to thrive in our current uncertain US and international political and economic landscapes. Resourceful in our new reality means recruiting and developing board members who exhibit attitudes and actions that enable the capacity for mission pursuit by meeting and mastering challenging difficulties and opportunities with creativity and agility.[1] This agility and innovativeness is now particularly important for nonprofit organizations.

Nonprofit organizations have proven essential to the vitality of communities. They enrich quality of life, epitomize the highest societal values and strengthen democracy. Volunteers, board members and employees become involved with a nonprofit because of the organization's public benefit mission.[2]

Unfortunately, as divisiveness and resource scarcity squeeze the vitality of nonprofit organizations, the boards of these third sector organizations (in Europe, UK and US we refer to not-for-profit organizations that are neither governmental nor commercial as functioning in the third sector)[3] require an accelerated journey of resourcefulness if they are to successfully achieve their missions.

But how can these boards best make this journey into resourcefulness? A good roadmap can be found in a recent guide for nonprofit organizations that describes 11 accountability principles, with 192 practices to evaluate and improve their operations, governance, human resources, advocacy, financial management and fundraising.[4]

Risks of not being resourceful?

As we work with the governing bodies of nonprofit organizations across the US, the UK and Europe, we have identified five risks that become evident when board members fail to be resourceful as they exercise their fiduciary duties of care, obedience and loyalty:

- **Risk 1: Money:** An erosion of revenues from constrained service delivery weakens the capacity of nonprofits to secure staff, technologies, and facilities needed to accomplish their mission.
- **Risk 2: Advocacy:** Weak advocacy disrupts the adoption of policies by the nonprofit's stakeholders needed for mission accomplishment.
- **Risk 3: Volunteers-Staff:** Unresponsive talent development erodes morale.
- **Risk 4: Litigation:** Disgruntled beneficiaries are more likely to sue.
- **Risk 5: Regulators:** Poor compliance erodes tax-exempt status.

Characteristics of Resourceful Boards:

To avoid or mitigate these risks, wise directors and trustees of nonprofits will find it useful to collaborate with their executives and risk managers to invest in board development initiatives that nurture five essential characteristics of resourceful boards:

- Embrace Generative Thinking
- Engage Stakeholders
- Earn New Revenues
- Empower Management
- Enhance Decision-making

1. Embrace Generative Thinking

To embrace "Generative Thinking"[5] (a cognitive process for generating consensus about what to pay attention to, what it means, and what to do about it)[6] for bolder, more creative and agile strategies to accomplish their strategic plans, resourceful boards should consider three key actions:

a. **Scan Environment:** Community leaders and managers frame

1 See: https://nonprofitquarterly.org/2014/07/28/nonprofit-leadership-theory-and-organizational-culture/
2 http://www.minnesotanonprofits.org/PrinciplesPractices.pdf, page 3
3 See: https://www.nao.org.uk/successful-commissioning/introduction/what-are-civil-society-organisations-and-their-benefits-for-commissioners/
4 Ibid. Note: The Minnesota Council of Nonprofits (MCN) is a statewide association of more than 2,000 Minnesota nonprofit organizations. See: http://www.minnesotanonprofits.org/

5 See: http://www.trowerandtrower.com/about-us/three-aspects-of-governance/
6 See: http://www.pewtrusts.org/~/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/pew_fund_for_hhs_in_phila/governance20as20leadership20summary20finalpdf.pdf

trends and descriptions of alternate future scenarios, and then explore the possible implications of each on the organization's capacity for success.

b. **Unleash Mission Moments:** Turbulent times require boards to continuously ground their work at the beginning of each meeting with a story or message that illustrates the value of the organization's mission to the people they exist to serve.

c. **Vitality Visioning:** Organizational vitality is catalyzed by inspiring statements that define how the board believes organizational success should look and behave in the future.

2. Engage Stakeholders

To engage increasingly more diverse stakeholders in the pursuit of their organizational mission, resourceful boards should consider three key actions:

a. **Diverse Partners:** As our communities become more demographically and culturally diverse, organizations need not only more diverse board members, more diverse alliances and partnerships that shape and help fund the strategies and tactics of their organizational plans.

b. **Strategy Charrettes:** High performance organizations design and conduct eclectic, inter-disciplinary and intergenerational planning retreats that have the innovative and iterative characteristics of Charrettes.[7]

c. **Sustained Relationships:** Resourceful nonprofit organizations cannot just delight their beneficiaries/clients once, but must meet their needs continuously over long periods. Stakeholder relationship management programming and infrastructure are imperative to sustained mission achievement.[8]

3. Earn New Revenues

To earn new revenues when competition for philanthropy and government grants are being squeezed, resourceful boards should consider three key actions:

a. **Probe Costs:** There are never enough resources for sustained mission achievement. Negative costs via re-designing, reducing, and re-allocating operating costs convert into positive "new" revenues. Effective boards collaborate with their managers to create organizational cultures that embrace the lean, cost-effective use of scarce resources.

b. **Beneficiary Value:** When clients and beneficiaries see value from your services and programs, you optimize your ability to collect fees, secure philanthropic support, and harness needed political resources for organizational success.

c. **Balance Revenues & Philanthropy:** Earning steady gains in fee based revenues reinforces your attraction of public and private philanthropy and in-kind-resources. Resourceful boards establish a creative reliance on financial plans for a balance of earned revenue and earned philanthropy.

7 See Charrette techniques and resources here: http://charretteinstitute.org/
8 See: https://www.salesforce.com/

Resourceful:

Synonyms: talented, able, imaginative, adroit

4. Empower Management

To empower and support their management colleagues, resourceful boards should consider three key actions:

a. **Mutual Expectations:** Clear metrics that define shared performance expectations for the board and the CEO are the central elements of what can be referred to as "a compact"[9] forged annually between those who govern and lead the organization.

b. **The Q Factor:** Smart boards ask questions of their management team that cannot be answered by yes or no; they ask questions that stimulate meaningful thought and conversations such as, "Why are we?" "What can we?" "How should we?" inquiries.[10] Questions that engage and unleash stakeholder insights for success help foster their ownership for sustained organizational vitality.

c. **Performance Incentives:** Leadership teams are more likely to stretch their performance and creativity when recognized and rewarded by boards for work that excels beyond routine results. Resourceful boards need to create cultures of celebration.[11]

5. Enhance Decision-making

To enhance the effectiveness and efficiency of their governance decision-making, resourceful boards should consider three key actions:

a. **Strategic Roadmaps:** Creative journeys to high performance require clear strategies and budgeted resource utilizations mapped to the mission and vision of the organization.

b. **Performance Dashboards:** Dashboards and balanced scorecards[12] that define the essential goals of the organization, help focus and monitor the talents and work of the board,

c. **Board Portals:** To facilitate agile and effective board, committee, and stakeholder decision processes, modern governance participants need information that is now available 24/7 on secure board portals.[13]

9 See: https://thefutureorganization.com/social-service-level-agreements-social-crm/
10 For Q factor insights, see: http://www.criticalthinking.org/files/SAM-Questions2005.pdf
11 For modern recognition programs, see: http://www.maritz.com/incentives-and-rewards-solutions
12 See: https://www.idashboards.com/scorecard/?keyword=balanced&_bk=balanced%20scorecard&_bt=76622251572286&_bm=e&_bn=o&utm_source=bing&utm_medium=cpc&utm_campaign=Scorecard&utm_term=balanced%20scorecard&utm_content=balanced%20scorecard
13 See example here: http://www.boardeffect.com/board-portal/

Next Steps:

While resourceful board work is essential to organizational vitality in this era of uncertainty, rising consumer expectations, and constrained resources, stimulating and supporting such work is not easy. The disciplined actions outlined above can help guide your journey into sustained positive results.

Shedding new light on your data.

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An ever-emerging topic of importance in the effective management of risk arena, is the concept of "big data" analysis.

As our society has moved more and more into the computer and paperless environment, and as time passes by, incredible amounts of data are being captured with each passing day. Companies who've been around for a while very likely have data that goes back 30, 40, 50 years or more. How do we harness and take advantage of all of this data sitting on a computer somewhere? The answer is the concept known as "big data analytics." Big data analytics is the examination of large amounts of data in an effort to uncover hidden patterns, correlations, and other insights. By capturing all this data that flows through their business on a regular basis, they can take that data and apply analytics to gain significant value and insight from it.

In its simplest form, and for those of us who can remember getting their first computer at some point in their career, big data analysis is a computer generated accumulation and analysis of all of the data we used to track on a spreadsheet and try to sort and analyze ourselves looking for insights and trends that would bring value to our organization's decision making for the future. Organizations who recognize the power of big data, will realize a true vision into the future by enabling themselves to gain real time data analysis, gain the insights that are important to their success, and make immediate decisions as necessary with a greater possibility of creating a competitive edge along with the ability to work faster, more efficiently, and ultimately reduce costs.

At Gallagher Bassett, we are combining the best of data analytics with the best computer platform available to provide our clients with as much value as possible. Gallagher Bassett has been in the claims administration business for over 50 years. While able to analyze all lines of business, the regulatory reporting requirements specific to workers compensation, and by the volume of claims administered over the years, our data is extensive in this area. We recognized the importance of big data analytics and have made, and continue to make, significant investments in our systems year after year. We are proud to have created the platform our clients will have access to and will rely upon to make those informed decisions through the analysis of their data. **Luminos** is the name of the platform our clients utilize that allows them to **"shed light"** on their data. Luminos is powered by Origami Risk, who recently received the highest net promoter score in the 2018 RMIS Report which is an accumulation of feedback and rankings solicited from the different system platform customers.

If you haven't discovered the opportunities and insight that big data analysis can provide, I invite you to take a step out of the dark, and into the light of Luminos.

Tony McLaughlin leads Gallagher Basset Services nonprofit practice.

Being resourceful is good for cyber hygiene.

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So many nonprofit organizations are overwhelmed by the largess and complexity that is cybersecurity. Undoubtedly, cybersecurity warrants great concern and even greater attention so as not to put an organization in a position of embarrassment and/or financial vulnerability. However, it is a reality that budgetary constraints and competing priorities will continue to place pressure on operations; with cyber concerns dominating conversations at all levels, including at the board level.

Like a spotlight shining brightly, resourcefulness in cyber has never been so important yet easier to achieve than one might think. There are many avenues to leverage cyber resourcefulness. With a network of support and guidance, achieving meaningful cyber resiliency, in an otherwise difficult environment, can be accomplished. Several resourceful ways to introduce good cyber hygiene into an organization:

1. Build an Incident Response Plan
2. Leverage Technology Services and Products:
   - Membership/Parishioners/Alumni: Volunteer to provide or generate donations for Information Technology services and technology
   - Board of Directors deep involvement in their own Information Technology programs can bring a deeper understanding of cyber concerns to encourage better information sharing and meaningful solutions
   - Third-Party Universally Recognized Technology Standards
     - Download and implement the free Benchmarks configurations from the Center of Internet Security (CIS) which is a useful management tool that can be used to harden technical controls
     - ISO and NIST
   - Deploy technology detection and prevention solutions
   - Network Assessments
3. Third party, non-technical frameworks, such as the Gallagher Cyber Due Diligence, which is resourceful by providing complimentary and meaningful tasks and guidance to measure cyber hygiene and track progress
4. Employee Awareness Training
5. Vendor Risk Management
6. Policies and Procedures

"Effective leaders are open to new models, new ideas, and new initiatives regardless of where in the world they come from." — Frances Hesselbein

Healthcare reform continues to impact employee benefits.

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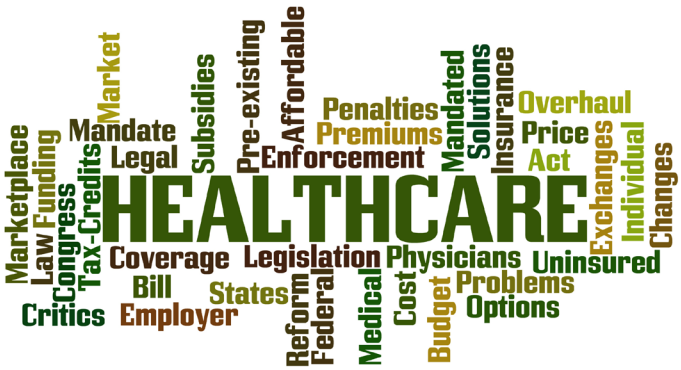
Like many other sectors, the nonprofit sector has been challenged in the past twelve months to stay abreast of healthcare reform. Early 2017 saw numerous efforts to repeal the Patient Protection and Affordable Care Act ("PPACA"). After those efforts failed, administrative orders, regulatory guidance, and targeted legislative activity began to chip away at parts of the law. In addition, judicial intervention resulting in nationwide injunctions against the guidance released by the agencies in charge of PPACA have also slowed the implementation of PPACA. The result is an atmosphere of push and pull, leaving many organizations confused or undecided as to whether compliance with the law is necessary.

Resourceful nonprofit organizations can survive this challenging atmosphere by being proactive, strategic, and nimble.



Be proactive. Expectations that legislation may be repealed or delayed by a court decision can cause an organization to put off compliance. However, foregoing compliance efforts can force an organization to scramble when such efforts fail to result in the anticipated outcome. Many of PPACA's requirements require employers to maintain extensive data—such as IRS reporting—or conduct advance planning—such as determining which plan design changes will trigger a change in a Summary of Benefits and Coverage. Thus, as tempting as it may be to ignore compliance obligations in the current climate, it would behoove an organization to continue proactive compliance in order to avoid the increased risk of error or failure to comply that can accompany scrambling to meet a PPACA requirement.

Be strategic. While the uneven implementation of healthcare reform can lead to frustration, prudent organizations will approach guidance and legislative activity with an eye toward the bigger picture. Employee benefits are intended to attract and retain the best talent for your organization, and while healthcare reform may impact overall benefits costs, prudent ongoing compliance efforts can reduce the risk of draining resources and dollars away from providing those benefits. Strategic efforts should include an overall communication plan, multi-year benefits planning, and a means to monitor healthcare reform developments to minimize the risk of disruptions to your employees and your strategic objectives.

Be nimble. The constant flux of healthcare reform requires organizations to remain nimble in order to timely respond to new guidance. The ability to be nimble requires a resourceful organization to stay abreast of current developments and periodically assess how changes impact the organization. For example, the repeal of the individual mandate may trigger a decrease in plan enrollment and will certainly result in a change to Form 1095 reporting requirements. Although the individual mandate remains in effect for 2018, it is not too early to consider how the organization will change its benefits strategy or administrative efforts in response to the repeal. As other developments arise during the coming year, similar flexibility and planning will be in order.

Gallagher's Benefits and HR Consulting legislative compliance team works hard to keep the nonprofit sector informed about healthcare reform and provide tools and resources to enable organizations to proactively comply with PPACA's requirements. Further, Gallagher's Healthcare Reform Update focuses on important developments under PPACA and serves as a resource to help nonprofits organizations be proactive, strategic, and nimble.

> *"Start a new conversation; refresh your approach; create a revitalized vision by learning from your experiences and putting new ideas into action." — Debbe Kennedy*

Property & casualty market conditions.

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What a difference a year makes! When we set about writing last year's Property & Casualty Market Conditions Report it had been 12 years since a major hurricane impacted the United States and total insurance carrier surplus had reached approximately $680B. Unfortunately in 2017 the United States mainland was impacted by hurricanes Harvey and Irma, while Puerto Rico and the Caribbean where pounded by Maria. Additionally, wildfires scorched the Western United States including densely populated areas of California impacting 281,893 acres and damaging over 1343 structures. It is still early in the claims process for these events but the total insured loss is already expected to wipe out about half of the insurance industry's surplus.

The catastrophic events of 2017 will have a significant impact on rates for primary insurance as well as reinsurance, financial mechanism insurance carriers use to temper the risk they take, as we proceed through 2018. This report will focus on the impact you can expect on your primary Property & Casualty Coverages—Workers Compensation, Automobile, General & Umbrella Liability and Property insurance.

General & Umbrella Liability

The impact of recent catastrophic loss events is expected to have a somewhat muted impact on General & Umbrella Liability. The bigger issues for these coverage lines are the impact of medical inflation on bodily injury claims and current litigation trends.

The impact of medical inflation on general liability claims is similar to that in auto but, due to the abundance of prolonged tort activity on larger claims, it takes longer for these medical costs to impact the rate making process. Some in the industry opine that the general liability loss picture may be worse than automobile in the long run.

There is evidence that plaintiff attorneys are using two strategies to try to inflate settlements, Life Care Plans and allegations of Traumatic Brain Injuries (TBI). Life Care Plans have commonly been used to price catastrophic bodily injury claims by establishing a settlement value that addresses the claimant's medical needs throughout their lifespan. Attorneys are now attempting to take the same tactic and push it down to far less serious injuries in an attempt to increase case values. Asserting a TBI is another way to increase claims values. One of our nonprofit clients was recently involved in a claim involving a minor child who fell from a bunkbed at a camp. Unfortunately, the beds did not have protective roll railings and the plaintiffs' attorney was able to present enough evidence to justify a TBI claim. The claim is currently in settlement status pending court approval—settlement is in the low six figures range.

Merriam Webster definition of *resourceful:*
able to meet situations : capable of devising ways and a means · a resourceful leader

In the near term we expect flat to +3% rates on most General and Umbrella renewals. This prediction could worsen over the course of 2018 based on loss trends and the potential impact of increases in reinsurance pricing.

Property

The property line of coverage will clearly take the brunt of 2017's catastrophic losses. Years of premium rate decreases had already resulted in sharp declines in profits for property insurance carriers in the first half of 2017. Their profit situation became even more tenuis with the chain of natural disasters that started with the landfall of hurricane Harvey on August 25, 2017 and ended with Ventura and Santa Barbara Counties in California on fire in December.

Swiss Re, a leading primary and reinsurance provider, recently predicted that the combined ratio (as defined in the Auto section of this report) for the United States property insurers will rise to 109% for policy year 2017 from 101% in 2016. They also predict that the same measurement for global reinsurance will grow from 92% in 2016 to 115% in 2017. Even with the current vibrant investment climate investment returns will not be adequate to make up for these negative underwriting results.

What this means to the nonprofit insurance buyer is:

- Underwriting discipline will increase resulting in more scrutiny of the risk profile of each individual account. Timely and adequate response to risk control recommendations will be critical. Revisit and reintroduce the Organization's Safety Plan.

- The years of rate reductions for property coverage are over.
- Deductibles, limits, flood & earthquake coverage, and other policy terms will become less customer friendly.
- Brace for 5% to 20% rate increases with the lower end of the range being common to all risks and the upper end applying to risks that are exposed to catastrophic loss and/or have undesirable risk characteristics.

In summary, 2017 will be one of the more challenging years in recent history for property & casualty insurance. The rate level climate will be fluid and could worsen as 2017 losses develop. It will be a good year to seek alternatives to your current insurance program to assure you are getting the best combination of coverage and pricing available in the marketplace.

Automobile

Over the last few years, when the market was categorized as "soft," automobile insurance was the exception to the attractive pricing buyers enjoyed on other lines of coverage. The increasing cost trend for this line of business will continue in 2018.

Since 2011 the Insurance Industry's Automobile Combined Ratio, the measurement of total losses and expenses as a percentage of premium, has been 100% or greater and it reached 110% in 2016. Automobile losses in 2016 grew by 13% over 2015. This trend continued into 2017 and it is expected to extend into 2018.

Distracted driving continues to be a growing problem and is one of the leading factors contributing to the poor automobile loss history. According to the National Highway Traffic Safety Administration, in 2015, 3,477 people were killed and 391,000 were injured in motor vehicle crashes involving distracted driving. Other factors that are leading to increases in loss frequency and severity include:

- An aging driver pool with related reactionary challenges and a propensity for greater accident related bodily injury
- Rising employment and declining gas prices resulting in more miles being driven
- Medical cost inflation
- Increased onboard vehicle technology which increases accident related repair costs

We expect risks with good loss histories to still expect low to mid-single digit rate increases in 2018. Risks with average to poor loss histories should expect to see 10%-20% increases in rates. Insured's should consider revisiting their Fleet Management & Safety Program to assure they are meeting or exceeding their company's requirements and reintroduce these requirements to employees.

Workers Compensation

If there is a silver lining to be found in the 2018 insurance market it may be found in the workers compensation line of business. The National Council on Compensation Insurance (NCCI), a nonprofit who acts as an industry data collector and rate maker, sites improvements in workplace safety and regulatory reforms as both have positively impacted this coverage line. These trends have contributed to driving down claims frequency and severity. NCCI is responsible for filing premium rates in 38 states, and filings for 2018 for 36 of those states were for total overall rate decreases. It is important to note the rate filings include all workers compensation classification codes and some code can show rate increases while others show reductions.

Actuarial firm Towers Watson has made a 2018 rate change prediction for workers compensation ranging from -2% to +2% when compared to 2017 rates. Anecdotal data on accounts with a January 1, 2018 renewal date, marketed by Gallagher, suggests there is still stiff competition for the workers compensation line of business for accounts with strong safety programs and good loss results.

There are a few trends that could ultimately undo the positive news on workers compensation, including:

- Medical care costs increases that continue to outpace inflation
- A push by plaintiff's bar to try to remove attorney—fee caps on a state-by-state basis
- Opioid use for pain is leading to longer periods of disability, and user dependence

We will need to keep an eye on these developments as the year progresses but, for now, workers compensation is still generally a buyers' market with the advantage to best in class accounts.

> *"It's not the will to win, but the will to prepare to win that makes the difference."*
> *— Bear Bryant*

Finding resourceful approaches to your retirement program.

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Nonprofit organizations continue to meet their goals and challenges through the hard work of their employees. It is not surprising that Gallagher's 2017 National Benchmark Survey indicated that seeking and attracting a competitive workforce as their top Human Resource priority followed closely by controlling the cost to provide benefits to employees. While these two priorities seem to be at odds with each other, they are in fact closely related. Interestingly, most non-profit employers only plan for these priorities on a year to year basis vs a multi-year strategy. Resourceful employers will seek ways to identify the segments of their workforce in order to gain a better understanding of how this important benefit program plays a vital role in attracting and retaining a competitive workforce but needs to be balanced with operating in a cost efficient manner.

Resourceful employers will couple the knowledge they extract from the way the workforce currently utilizes the retirement program and leverage creative plan design elements to increase the effectiveness of the plan.

Accomplishing this requires a multi-year strategy that establishes an understanding of the current situation in connection with the retirement program and puts target metrics of success in place, such as:

- Participation rates
- Income replacement ratios
- Financial wellness indicators (eg: balancing savings for established employees and student loan repayment programs for millennials)
- Employer match/contribution gaps

Gallagher Retirement Plan Consulting Services can assist your organization to maximize the effectiveness and cost efficiencies of your 403(b), 401(k) or Defined Benefit/Pension programs.

You've frozen your pension plan...now what?

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With the growing trend across industries, including the nonprofit sector, many organizations have opted to freeze their defined benefit retirement plans in favor of defined contribution 401(k)/403(b) plans or similar arrangements.

Once an organization makes the decision to freeze their pension plan, they need to re-evaluate how well-suited their plan professionals are (Investment Consultant, Actuary and ERISA Counsel) and what resources are available to assist the organization in managing the liability of a frozen plan. Whether plan termination is imminent or is in the distant future, it's critical to engage plan professionals with the expertise and ability to develop and implement a strategy that minimizes market and interest rate volatility/risk, remains compliant with government regulations and enhances your participant's experience.

The following examples demonstrate important activities you may want to consider when re-evaluating your plan professionals ability to assist the organization in managing your frozen plan.

- **Investment Consultant:** When considering the resources of an investment consultant, particularly in regard to a frozen pension plan, it may be prudent to outsource the investment responsibilities to a discretionary investment consulting firm. Giving the consultant discretionary authority over the portfolio(s) takes some of the burden and risk away from finance and the investment committee, allowing the consultant to take pro-active actions depending on market conditions. Often referred to as an ERISA §3(38) investment manager, the consultant takes on fiduciary responsibility in managing the plan assets and executing the strategy set forth

in the plan's investment policy. Additionally, your investment consultant should be able to recommend an asset allocation glide path, which ties to the plan demographics and actuarial liability of the plan. Your investment consultant should have the ability to both recommend and implement these strategies.

- **Actuary:** Your plan actuary plays an important role in determining current and future liabilities. In collaboration with your investment consultant, your actuary should be able to model future asset needs and exposures to risks such as interest fluctuations, PBGC premium increases, and demographic shocks. Understanding the balance sheet implications of different termination strategies can greatly impact both the success of a termination as well as the organization's financial ability to keep on track with the termination. Your actuary should also be well versed in government regulations relating to the termination. As regulations change and evolve, windows to implement certain strategies may no longer be available in future years. Therefore, the ability to proactively bring forth and execute a strategy in short order can have a meaningful impact on the total cost of the termination to the organization.
- **ERISA Counsel:** As your investment consultant and actuary work together to create the appropriate strategy to maintain your plan, your ERISA counsel plays an important role in guiding a prudent governance structure as well as providing legal counsel on the appropriateness of and ability to execute the strategy within the governing regulations and case law. Counsel experienced with frozen plans and plan terminations should be able to articulate the legal risks or support for certain strategies. When combined with the numerical analysis of your Investment Consultant and Actuary, the compliance evaluation provides your team with the necessary information to make educated decisions on the future of your plan.

Using these outside resources to their fullest potential frees up valuable time and internal resources to focus on the mission of the organization while following best practices. In addition, expertise and proactive advice can greatly diminish the risks/costs to your organization while improving the ability of your participants to meet their financial goals and well-being.

Just because you have frozen your pension plan, doesn't mean it's "forgotten."

> *"Efficiency is doing things right; effectiveness is doing the right things."*
> *— Peter Drucker*

Resourcefulness: rewarding millennial performance when budgets are scarce.

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A woman graduated from Harvard cum laude with a degree in Social Studies. Her areas of study included government, economics, sociology, philosophy and anthropology, so she could select whatever career she desired. Her expectation was to attend law school but her heart found its way to educating children and giving back to the community. She is happily spending her days supporting early childhood teachers and her leisure is spent on the board of the local foodbank making sure that the youngsters in the urban core have enough to eat. Millennials are finding careers in non-profit organizations and are delighted to give back to the community. However, they want to be recognized for their contributions.

Finding additional funds can often be tough for nonprofit organizations. It is not uncommon for funds to be spent on the organization's purpose and not necessarily the staff. Being resourceful and finding a way to retain and reward key talent, especially millennials, requires nimbleness.

First and foremost, develop an effective performance management system that will foster implementation of your strategic priorities. Use the system as a communication tool to keep employees informed of your organization's progress and the employee's role and contributions toward achieving your goals. Millennials want to know that their work is contributing to goal achievement and success. An effective performance management system will keep them informed.

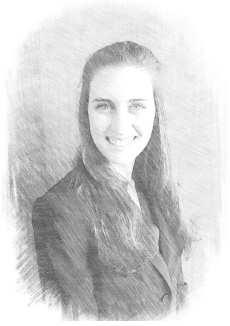
This second suggestion might sound a little old fashion but it works for millennials. Establish an "Employee Recognition" program. Rewards and recognition programs are what they are accustomed to... they have all received ribbons and trophies all their lives. Have a lunch meeting and be specific about why the employees are being acknowledged. They appreciate the praise and it reinforces behavior.

Thirdly, get them involved with and exposed to your core constituents so that they truly understand contextually the entire organization. Give them networking opportunities to attend your "high-dollar" fund raisers, donor activities, etc. This builds greater commitment and pride.

Time-off always works. In lieu of a raise, especially when funds are scarce, offer a flexible work schedule for a given period of time. As an example, you might offer "four-hour Fridays" for the month.

Finally, being resourceful can be as simple as saying "Thank You"! Oftentimes, millennials, like all of us just want to know that you noticed and are appreciative of our contributions.

Experience as a resource.



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It is easy to list resources nonprofit leaders need to best serve their mission: a workable strategy, an engaged workforce, a flexible budget. But we know these are not always easy to come by. We depend on nonprofits to educate, feed, house, rebuild, advocate, unite, and grow the communities we share. Resources drive the mission, and the mission inspires action.

Today, many nonprofits face the challenge of revenue consistency along with growing costs. The trend of rising healthcare costs continues, and the competition for talent is fierce. This is made harder to combat by limited federal and state funding and—due to less tax incentive—a predicted decrease in individual donations to the nonprofit sector. Searching to find dollars in new places, nonprofits ask, "how can we make more out of what we have?"

One solution has been to reallocate investments in ways that will have a greater impact on the retention and engagement of employees. In other words, make each dollar spent work harder. In a similar way, nonprofits have an opportunity to look beyond dollars to find new solutions. By thinking creatively we can uncover value in new and unlikely places.

As someone relatively new to my industry, I have learned volumes from my new experiences. But I have gained nearly as much from the experiences of those who lead me—understanding new situations from their perspective and using their advice to anticipate and overcome unexpected challenges.

Comparatively, nonprofits can use the experiences of others as a resource. Round table discussions have proven to be a great way to foster an environment of collaboration. For example, two groups facing the same issue in employee retention take different approaches to solve the problem. They can come back together over a round table of peers and compare results—finding what worked and what didn't. Participating groups may have different missions, but share a drive to actualize their vision of an improved community.

This collaboration offers nonprofit leaders an opportunity to learn from one another, build a network, and focus on a shared community. Gallagher Nonprofit Practice team members share the experience of more than 24,000 nonprofit clients nationwide so as to better serve our nonprofit partners. Likewise, using experience as a resource to learn from the challenges of others will help nonprofits move faster toward mission.

> *There's such a huge, rich opportunity to bring a great upwelling of new, fresh ideas to the sector.*
> *— Nonprofit leader*

Get the most out of the technology you're paying for.

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Roughly three-quarters of Americans (77 percent) own a smartphone, according to the Pew Research Center. While Pew Research offers many statistics on smartphone usage, I could find nothing to indicate what percentage of smartphone features the typical American uses. No matter, I have a pretty good idea of the answer: few, if any of us, fully take advantage of the capabilities provided by our smartphones. Or, for that matter, our TVs, cars and other technology-enabled tools in our lives.

The same can be said for HR and benefits technology. Often employers don't effectively use the technology that they own and, worse, many don't know about the range of available capabilities. This is proven over and over when a client asks us to source a tool that will do "x, y or z," only for us to discover they already own such a tool. For nonprofit organizations looking to make the most of every dollar, there is significant opportunity to get more bang for your buck by optimizing the technology you already own.

While we often warn employers about being distracted by the "bells and whistles" of HR and benefit technology solutions, and to focus on core needs when buying technology, the bells and whistles are ubiquitous. The dynamic nature of the HR tech industry leads to constant innovation, with new features available with each iteration. Also, the increasing ease of integration between systems allows providers to bundle features for a more robust product without adding substantial development costs. Resourceful HR managers strive to maximize organizational performance by optimizing use of these features and discovering functionality that has been forgotten, or is buried deep within the user guide.

Ready to get more out of one of your technology investments? Consider these three steps to get started:

1. Meet with your technology provider to review your purchase. Introducing new technology into an organization can be a big undertaking, so it's understandable that many opt to focus initially on core functionality. Six months down the road, however, you should be comfortable with the technology and (hopefully) all is going smoothly. This is a good time to meet with your provider and ask to go through all the features of the product again. Now that you're using it, features and functionality that perhaps didn't resonate at the time of purchase or got lost in the shuffle of implementation timing, may now stand out as a valuable resource.
2. Review your current processes and procedures in light of what you learned from the technology review. Many organizations look for technology to fit current processes and procedures. This approach can limit your ability to make the best use of the technology. Instead, consider what the technology can do to help you save time, increase efficiency, support organizational goals, etc., and adapt your processes and procedures to optimize the technology.
3. Organize a project to optimize one or more of the "new" resources you've identified within your current HR and benefits technology system. This could mean making a small change, e.g., melding together two previously separate processes into one, easily supported by available technology; or it could be introduction of a new feature or function to track and leverage information, reduce paperwork, engage employees and more. Once you've successfully introduced new technology (and documented the positive impact), look for the next opportunity.

In 2018, nonprofits will continue to be challenged by limited resources and increased demand on these same resources stemming from increased needs. Within this environment is a changing workplace, especially as it pertains to human capital management. Employees are an organization's biggest asset, so nonprofit employers must be creative and resourceful to attract, retain, engage and manage employees in an environment where consumerism (or, "employeeism") increasingly drives decision-making and strategy.

The good news is that there is a rich pool of technology available to help employers of all kinds navigate these challenges, including the technology you have already purchased. Even fundamental technology tools for small employers now offer bundled solutions that enhance productivity and solve problems you didn't know you had. Take time to explore the technology you already own and to learn about specific features and functionality that can streamline and simplify your HR and benefits administration while supporting organizational goals and objectives.

> *"When we focus on ourselves, our world narrows, and problems and preoccupations loom large. When we focus on others, our own problems drift to the periphery, and we increase our capacity for connection and compassionate action.*
> *— Rick Smith*

Charity global publication—resourcefulness topic.

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Throughout history, charities have demonstrated that they are resourceful and can be disruptors for positive change—leading society forwards to better living standards and a fairer world. Charities recognise that they need to be nimble and ready to adapt, as well as being ready and able to manage change.

International charities often work in unstable and shifting environments including responding to ongoing in-country issues as well as assisting after natural or man-made disasters. Those that respond successfully operate within established frameworks that are able to flex resourcefully in order to adapt to the 'live' situation they face. It is the established frameworks, whether they are focused on staff security, anti-money laundering, or logistical efficiency, that are the backbone of international charities being able to deliver solutions to the local communities involved.

> *"Remember, the team came together because no one person had all the answers."*
> *— Jay Conger*

Back home, international charities need to be resourceful in terms of keeping pace with changes and adapting. So if EU Aid is a mainstay of a charity's income stream, then should it come under threat from Brexit, the charity needs to already be thinking about what that gap in funding looks like, its impact and most importantly how the gap is going to be replaced. Very often funding is set for years rather than months which provides a reasonable time period for this work to take place.

However, now may be a good time for a charity to consider diversifying income streams to create a better balance or develop new income streams. This spreads your risk and may help a charity to survive when one income stream is hit. This takes planning and innovative thinking but there are clear examples of international aid charities moving into new income streams such as personal and/or corporate donations.

Another potential option may be for charities to merge. Mergers may work where costs could be spread and services streamlined. A leaner and more agile charity may help deliver more to beneficiaries.

Several international charities are moving away from being UK-centric and seeking to enable local country programmes to have more control of their work and finances, as well as a greater say in the overall direction of the charity. This ability to divest authority is another good example of a charity being resourceful and leveraging local knowledge and cultures to good effect.

Much of what I've talked about above relies on sound risk management processes and practices – being able to identify, assess and manage risk is how you will survive and thrive. Gallagher stands ready to help you to do this effectively through the strategic and operational risk support and services that we can provide.

Insurance, too, has a role to play: if your income streams are hit the question is are they insurable? Whilst you cannot insure against losing funding from a major donor or institution, you can insure against a fire impacting your IT infrastructure, leaving you unable to accept individual donations and direct debit payments. Insurance also needs to be considered if you are decentralising your operations – it needs to keep pace with you, to ensure your people and your assets remain protected wherever they are in the world. How that insurance works will vary considerably depending on where and how you operate.

Charities are resourceful and agile. Gallagher can work to help you risk manage change and to ensure that your insurance programme keeps pace with change and remains compliant with local/in-country legislation and regulation as you change.

The IRC story. Are we truly ever ready?

As shared by Peter A. Persuitti, Managing Director, Gallagher's Nonprofit Practice, and retold by our Glendale CA broker team — led by Gallagher's Tim DePriest MBA

I was doing as I typically do on any given day — engrossed on a teleconference, and all of a sudden a handwritten note was quietly slipped in front of me so as not to disturb my call. "You need to get off the phone; we have had an assailant attack at one of our nonprofit client's location."

As I quickly focused on this multi-site large nonprofit

(Inland Regional Center "IRC") that serves individuals with developmental disabilities in San Bernardino and Riverside Counties (and its 44-year history), I was at least familiar with the surroundings due to the fact that I worked for the Sisters of Charity of the Incarnate Word in the city of San Bernardino years earlier.

However, being prepared — we always hope we are — but are we truly ever "ready"? When I asked this of our local Gallagher team on the ground, a quick response came — "We just had active-shooter training last month."

You may recall the story from December 2016 — the conference center was rented out to a County employee event and one of the employees of the County, along with his wife, angrily left a confrontation with a fellow employee, only to quickly return firing

Inland Regional Center, formally Inland Counties Regional Center, Inc., is a government founded not-for-profit public benefit corporation that provides services and programs to more than 33,000 people.
Headquarters: San Bernardino, CA
Founded: August 1971

65–75 rounds into the crowd, killing 4 people and wounding another 21. The IRC employees, all in the two neighboring buildings on the left of the Conference Center, followed training by barricading themselves in their offices and remained in lockdown until fire responders vacated the building.

Our Gallagher local Glendale, California, team actually spoke to the facilities manager during the event. One of the key facts at this point was that our Gallagher team serviced both the P&C and Benefits insurance for IRC. This becomes an important factor in our expeditious support. Within 3 hours our team had a conference call with all of the major carriers involved and was able to loop back with the IRC executive team on the following:

- General liability counsel assigned and on-site the same day at the location
- PR Firm assigned to field all question from the media and prep the executive team
- Workers Comp policy info, claims form and Claims in case anyone wanted to file a claim before they returned to work
- EAP phone number distributed to all staff
- On-site counseling set up for the following Monday (when the building was set to reopen)
- Adjuster on the property assigned to the site
- Gallagher's Claims Advocate and Claims Manager assigned

Over the next 6–8 hours employees were moved in groups to The Rock, a church down the street. While employees were released that evening, many did not have their purses, keys, wallets, etc., (still in lockdown on the site). Even the cars in the parking lot were locked down and it was still unclear when they would be released. Even though we thought that the building would reopen on the following Monday, that was not the case.

In fact, the employees weren't able to get their cars out of the parking lot for another 4 days, and it wasn't until 8 days when the FBI allowed small groups of 7–10 employees at a time to enter the building and get their belongings.

The Executive Directors and Director of HR created a Crisis Response Team, with almost an exclusive focus on the well- being of their staff and the community they serve. Since there was no phone tree in place, communication with staff was the most difficult hurdle during the event. We helped create a one page-document and distributed to supervisions and any known personal email addresses for staff specifying how to reach out for counseling and EAP services. The IT team was able to change the main call-in number to provide information to employees about the EAP services and building reentry as info became available.

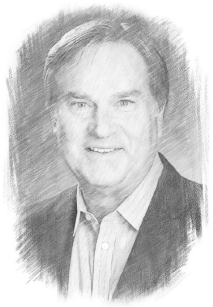
In the aftermath the IRC leadership referenced a second location in Riverside as the "lifeboat that kept them afloat" during the time the building was closed. Our team helped schedule on-site and off-site counselors. Cigna, Anthem and Kaiser all provided counselors — with some even being volunteer counselors! In fact, we calculate the volunteer donated hours to equate to over $226,000!

- We asked our team, "What did we all learn?" They provided the following insights:
- Make sure you as a nonprofit work with a broker and carrier who are service-oriented and are large enough to have the resources to assist you should an event like this ever occur.
- Invite your insurance broker to be a part of your disaster preparedness planning. Plan out scenarios to determine if you have the correct policies in place and how and when those policies will respond
- Some insurance coverage nuances:
  - WC claims typically have a 6–8 week lag time. Events like this can trigger other stressors in employees' lives.
  - Property — Business Income | Extra Expense. With the building "uninhabitable" IRC will not have to rent space. Terrorism was declined on the property — think about that one more carefully.
  - Workplace Violence — this was included in the package policy with a $50,000 limit.
  - Employee Assistance Program (EAP) — in the first 2 months following the incident, the EAP has been the most vital policy in regards to recovering employee well-being.
  - Security — a consulting firm was hired to make recommendations for additional security measures that can be taken to further secure the site in the future.

With 44 years of experience and more than 31,000 individuals with developmental disabilities served and as one of the largest regional center in the state of California, the IRC certainly lived out its core values of independence, inclusion and empowerment in its response to this tragic event. While it will never be the same, we are confident it will rise above the challenges to continue its positive impact in society. We are honored to be part of the comprehensive IRC team!

> *"Creating opportunity for all is a shared responsibility."*
> *— Sheila W. Wellington*

Business continuity and resilience.



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In our increasingly interconnected and interdependent world, crises are more frequent and resulting in more damage than ever before. Following a crisis, executive leadership is increasingly being asked by stakeholders to justify their organization's preparedness and response capabilities:

- Does the risk management approach meet the definition of a good control environment?
- Who in the organization approved the decision to accept the risk of the undesirable incident?
- Why didn't the organization allocate more funds to mitigate or manage this risk?
- Does the organization have a business continuity management program in place?

A recent survey sponsored by CFO magazine suggests that less than a third of senior executives believe their organizations are well prepared to recover from major operational risks.[1] Notably, less than 25% believe they are well prepared to recover from a data breach/cyberattack, supply chain disruption/failure or geopolitical disruption.

Importantly, there is a major disconnect between what senior management believes is needed to be resilient and their organization's current capabilities. More than 86% of senior executives believe their organization will need to be more resilient in the future — but only 46% have developed and tested recovery plans.[1]

Being resilient means being able to adapt to a world in flux because of rapid changes in technology as well as increasing geopolitical instability. Organizations that have their stakeholder radars turned on get a better sense of the changes that are coming, and of the need to manage risks. As a result, management and organizations are more agile when change is imminent and can implement course corrections to ensure they are resilient.

To maintain resiliency, organizations must ensure they have robust business continuity management plans in place that should be tested, exercised and updated regularly. Plan design must be flexible enough to recover from *all hazards;* regardless of their nature or scope.

ERM — the broader horizon of future planning for the nonprofit sector.

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I was intrigued by a recent discussion in a national meeting of nonprofit risk managers. Many of their risk financing programs are very sophisticated with alternative risk vehicles — captives, risk retention groups, trusts — yet enterprise risk management (ERM) seemed to be elusive. ERM is the means to identifying, analyzing and treating the risks that could prevent the organization from achieving its objectives and to further support their fulfillment.

As the conversation developed, I began to see one element of the confusion — the words 'risk management' were in the phrase and in the case of some risk managers, some thought their work of loss control and funding risk might be the key elements of ERM — and they are!

Many in the room commented on the influence and insights coming from their respective board members who represented for-profit organizations, deep in ERM planning, and asking the questions from a governance perspective in board meetings "where are we here with ERM?"

I provided a brief overview of ERM and one of the benefits, access to senior leadership where ERM must reside and "live."

An enterprise approach to risk clearly supports resiliency, and by quantifying the risks of decisions and assessing their most probable paths, it can lead to even greater organizational innovation and agility in responding to opportunities as they emerge. Looking at risk and uncertainty strategically as part of an organization's overall mission, rather than through a more traditional, segregated functional approach, can help any institution preserve the value they have already created and create new value and innovation as risks are understood and measured.

> *"Leaders who can build partnerships for seeing larger systems must also be open to not having all of the answers." — Peter Senge*

One may think that ERM is better suited for the sophisticated, multi-national public company, but a case can easily be made that ERM is needed most for nonprofits. The mission can be extremely important to the public good and the list of stakeholders to that mission can be quite broad. In a for-profit enterprise, stakeholders are primarily those who own stock, employees and customers. In a nonprofit organization, the stakeholders go well beyond those tighter circles to the communities they serve, to nations and perhaps, even to the world.

We are seeing the emergence of ERM in the nonprofit sector, and much can be done to bring these principles into practice. We believe it starts with a recognition of the place of risk in the governance of the organization. There is a strong movement to adding risk and compliance to the title and function of nonprofit board audit committees because of its importance to prudent governing principles.

Risk, including compliance risk, is therefore elevated out of what has been the functional mindset to a seat at the table within the governance structure of the organization. This seat is alongside, and in support of, mission, strategy, stewardship, and quality with audit and assurance as the final piece. Each has its role in making sure the direction of the governing board is realized:

1. **Mission**
   The board sets the overall mission and objectives of the organization and insists that its culture and values are aligned with that mission.
2. **Strategy**
   Senior leadership, in conjunction with the board, develop strategic plans to carry out the organization's mission and objectives.
3. **Stewardship**
   Financial resources are developed and maintained to ensure the mission and strategic plans are adequately funded.
4. **Quality**
   The quality of the organization's programs are planned and tested in order to maintain demand for the product and/or service in the long-term.
5. **Risk**
   Risks to the organization, including threats and opportunities, are identified, assessed and handled.
6. **Compliance**
   Risks to the organization for failing to comply with its legal, regulatory, industry and internal standards are identified, assessed, and addressed.
7. **Assurance**
   A strong management structure and culture is maintained to ensure proper reporting and accountability, and internal and external audits are utilized to bring board assurance.

Internal audit has also been shifting to a risk-based model so that the disciplines of risk, compliance and assurance are all using the techniques of risk identification, assessment and treatment in their plans to help governing boards reduce uncertainty in the meeting of their mission and objectives.

We believe this strategic approach to risk will be a growing element of management's focus in the years to come, and it may come more from board influence and conviction rather than from the sector itself. Whatever the path, ERM brings a holistic discipline and resource to nonprofits that are aligned with mission fulfillment and relevancy in the 21st century.

"Revisit the mission every three years, each time refine or amend it so that it reflects shifts in the environment and the changing needs of the customers." — Frances Hesselbein

A perspective on the black connectional church's growth and sustainability.

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As I extend my ministry of educating churches about nontraditional insurance (risk financing) programs in the black community, I have found many challenges across the spectrum of ethnic groups within the United States. These challenges include growth, sustainability and being underserved by our industry.

I am encouraged by the connectional leaders within the black church and their renewed focus on growth. Growth requires a change in attitude from traditional structured services that will entice Gen X and Millennials to be more open to attending church. The competition for winning young souls, the basis for growth, is great. The traditional black church is competing with technological advancements that satisfy the desire for instant gratification. Online worship services can be viewed at home, streamed on-demand, 24 hours a day, 7 days a week. Using new age ideas to create solutions to stabilize the decline in membership of the black church is critical for its future existence. I have observed the leadership of the connectional church opening up to many new ideas being brought forth by its younger leaders. Services have been shortened, contemporary songs added and the dress code has been relaxed. These changes are good for the connectional church.

Among the connectional church there has also been a greater effort in educating existing members on the values of stewardship and consistent financial giving. The message of tithing is promoted in the black church across denominations. I have seen, through my travels, a core group of tithers in many congregations. Many churches take separate tithing offerings to recognize those members and encourage others to adopt the practice. Tithing as well as stewardship education is being used to sustain the church with current members.

> *"You are not here merely to make a living. You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world, and you impoverish yourself if you forget the errand."*
> *— Woodrow Wilson*

From an insurance industry standpoint, carriers have approached the black church with traditional insurance coverages. The black church has been underserved in its exposure to alternatives to traditional insurance. Most churches have been insured with traditional coverage for years and have built strong relationships with their agents. The trust in this relationship and the experiential understanding of the coverage has caused them to be skeptical about other insurance alternatives.

Disrupting this pattern will assist the black church in gaining greater control of its destiny. Participation in a proven, consolidated alternative risk financing insurance program allows the church to leverage its service, its brand and create a new revenue stream to find resilience in the 21st century. Using the proven methodologies of consolidation, leveraging and spreading risk, along with the advances of technology in actuarial work and underwriting, this alternative gives them greater control of their total cost of risk, and allows them to manage claims with ministry in mind. The primary concept with alternative risk transfer is to retain expected losses as a group (variable cost) rather than giving funds to a traditional carrier as 100% fixed cost. Over time, these programs will accumulate significant cash flow and insightful data on the enterprise and be the keys to responsible stewardship in the 21st century and sustainability long term!

Nonprofit directors & officers liability market update.

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As the U.S. economy continues to improve, so too have many of our nonprofit clients. Nonprofit D&O renewals are generally seeing nominal rate changes from -1% to 2%, whereas previously rate increases ranged from 0% to 5% assuming no change in financial condition, exposures or losses.

Given the broad entity coverage provided under nonprofit D&O policy forms, insurers often find themselves paying more claims and more expensive claims, leading them to be especially concerned with the implications of increasing claim frequency and the long tail associated with these claims. Market pressures, primarily due to significant D&O capacity, have contributed towards abating these concerns and bring downward pressure on D&O rates.

With the softening pricing for D&O, we have also seen many coverage enhancements; some carriers are providing zero-dollar retentions on **D&O Sides B&C** for smaller nonprofits. There has also been a higher frequency of automatic renewals and multi-year policy terms in the small to mid-market space for lower risk and financially stable insureds.

For larger and more complex insureds, underwriters remain disciplined and committed to fully understanding the operations of the organization and the leadership of the organization during the quoting process.

More discussions are also being held with clients regarding the implications of security and privacy liability on D&O as the frequency of cyber liability claims has increased. A cyber claim can cross over into D&O when there are allegations that the directors and officers did not put the proper safeguards or coverage in place. In addition, there are more first-time buyers of D&O due to the heightened awareness of D&O and the ability of smaller organizations to afford the coverage. Many carriers have begun to add a cyber module to their management liability package to address concerns about D&O and cyber crossover claims.

Some classes of business have become more difficult to place, specifically nonprofit organizations and houses of worship. Nonprofit organizations tend to have community outreach programs that perform a variety of services which present a challenge to D&O underwriters.

Overall, more insurers are entering the nonprofit D&O space. The ACE acquisition of Chubb resulted in a drop in the available capacity for primary nonprofit D&O, but other carriers stepped up and are competing for primary D&O layers. Capacity is not a problem in the current market. In fact, the overabundance of capacity has made excess pricing for higher D&O limits quite attractive. Many of our clients are analyzing their exposures to determine adequate limits. We can assist you with this analysis by providing you with proprietary loss modeling and peer data.

Barring any unforeseen circumstances or events, we are anticipating that 2017 will bring minimal rate changes (-1% to 2%) assuming no changes in the entity's exposure and less stringent underwriting guidelines for lower-risk insureds. Coverage will remain strong and is expected to improve in most cases. Organizations with past or current claims and/or financial distress should begin the renewal process early and provide a comprehensive submission to alternative D&O carriers.

"Boards need to understand basic strategy, but it's not their job to create it." — Ram Charan

The importance and management of student and athletic accident coverage for nonprofits.

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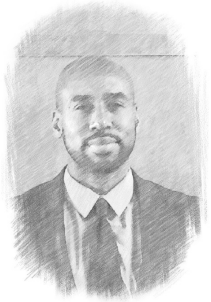
Despite precautions, serious accidents can and do happen in school settings. When an accidental injury does occur, the focus should be on treatment and recovery, not on the financial impact to the injured party.

Student accident coverage is designed to cover out-of-pocket expenses that the family's health insurance does not pay, such as copays, deductibles, and remaining balances. These plans provide first-dollar coverage for treatment and, with our exclusive catastrophic program, up to $7.5 million dollars per injury in the event of a catastrophic injury. This is the highest limit available in the market.

At Gallagher Student Health & Special Risk, we tailor accident coverage programs for our nonprofit clients to ensure the best coverage is provided for the students, athletes, volunteers and other participant groups. By having a comprehensive basic and catastrophic accident program in place, you can have peace of mind that your students are covered for injuries incurred at school, travel to and from school sponsored activities, during athletic competition and practice, as well as any other school-sponsored activities. This strategy also protects your loss fund and the potential out-of-pocket expense.

Our experience and knowledge in this specialized diocesan and parish schools' market, along with our relationships with the top carriers and claims administrators, allow us to place our diocesan clients with the right carrier and claims administrator for their respective programs. Let us take care of the administration so you can have peace of mind that your students are taken care of.

Making the connection — resourcefulness.



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The most recent data from the National Center for Charitable Statics shows there are more than 1.5 million nonprofits registered in the United States. Despite the large number of nonprofits, America's nonprofit sector stands at a crossroads because of an interrelated series of challenges. Government budget cuts, technology, resources, attracting and retaining talent have all had a significant impact on sustaining revenue, growth and have had a direct impact on the effectiveness of the organizational missions. I can hear Peter Drucker's words in my ear, "Why do we call ourselves nonprofit when we must make a profit to sustain ourselves?"

To deal with these challenges, America's nonprofits need the infrastructure, inventiveness and intellectual capital that corporate "for-profit" America can provide to reconnect to its fundraising base and to expand their reach by helping to make their business of philanthropy more functional and current. I applaud the Taproot Foundation and its efforts to marshal pro bono professional services to the third sector!

I have been able to observe many of these challenges, both personally and professionally, through my board involvement and our current nonprofit clients. The great news is there is a new generation of leaders within many of these charitable organizations that have noted the shortcomings and are proactively looking for solutions. Collaboration, alignment, synergy and efficiency are great mindsets that are occupying the nonprofit leaders I know! This situation presents unique timing for our global organization (and many others) because of the implicit link of nonprofit needs and the specialized services that they need and we provide.

My parents got me involved in philanthropy at a very early age, so it's been extremely important for me as an adult to identify organizations that connect with me personally. I currently sit on several boards, ranging from support efforts in our urban communities to health-related organizations. When I am able to find opportunities to support these organizations with my knowledge and background in insurance, it truly allows me to professionally do what I love. How are you doing reaching supporters like me — they are the people you talk to every day!

Here's to making those connections and to a great 2018!

How lucky I am to work with great nonprofit leaders.

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In working with nonprofits for more than 12 years, I have witnessed many individuals leaving corporate America to become part of a nonprofit. Most of the individuals I have seen making this move have a financial background.

Many times in corporate America, a person finds that his or her heart is not in the work. Work can easily become a meaningless chore and just a means to earn a paycheck. Working for a nonprofit will allow you to see, day in, day out how your efforts positively affect people in need. Homeless shelter employees see people sleeping in a warm bed, food pantry employees watch hungry kids bite into their first meal of the day, and the list of heartwarming scenes goes on. Nonprofits are a great place to maximize your cognitive talents and compassion.

When you love your job, it doesn't feel like work. In turn, it is a great personal reward as you will be working for the benefit of the nonprofit and its mission. If you align your occupation with something you are passionate about, your performance on the job will be better than if you were to work in a corporation without that zeal and passion.

It is common for an employee of a nonprofit organization to make less than his or her for-profit counterparts. Yet the nonprofit world has plenty of sought-after jobs. It's been proven that individuals are not just motivated by monetary reward or even recognition, but also by finding purpose in their work. Sometimes, the sacrifice may be a smaller paycheck, but for those in nonprofit careers, it's worth it.

Many times, you must be willing to trade financial gain for seeing human lives overwhelmingly restored. Not many are willing to make that trade, but the ones that do receive a sense of purpose beyond words.

Employees of nonprofits need to be "on top of their game" and forward thinking. Knowing the competition, innovating and budgeting are all part of the job for a nonprofit manager.

"Although relatively new to Gallagher and its Nonprofit Practice, I am excited to extend my former experience as an operational leader of nonprofits for more than 13 years to the consultative side as part of the Gallagher global team and network."
— Bram Bregman, MBA, Ontario Region, Arthur J. Gallagher Canada Limited

Successful nonprofit employees typically possess most, if not all, of the following characteristics:

- Honesty
- Humility
- Trustworthiness
- Dedication
- Conscientiousness
- Sincerity
- Integrity

Whatever the cause, nonprofits exist as a service to society in some way, and they need good people running them. We are lucky to have very talented people leading the nonprofits we serve!

"If you can't afford to hire the right people... there is no way you are going to have the exponential impact that is possible.
– Nonprofit leader

Serving the Nonprofit Sector

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My decision to seek a nonprofit Board seat was one that evolved at a transitional time in my life. I pondered the many responsibilities and obligations and wondered, if indeed, I had the capacity to serve in a meaningful and effective way, while balancing my other work/life responsibilities. It reminded me of Jodi Picoult's quote, "The human capacity for burden is like bamboo—far more flexible than you'd ever believe at first glance."

I knew that fundraising was not going to be my strongest skill set and reflected on how my background and experience could bring value to a growing nonprofit organization.

The most recognizable attribute that I knew I could bring as a Board member was my competence in assessing risk. I hoped that my fellow Board members and our Executive Director would feel that my contributions would be both valuable and substantive. With this in mind, I considered how to identify risks within the organization as well as external risks that could impact our success and then how to raise awareness at the Board level. Were we so focused on our gala and our donation levels that we were losing sight of the risks that could bring our organization down? Could I find meaningful ways to apply the principles of risk management to protect our organization and increase its resilience?

With determination, I began to introduce discussions of risk into our Board agendas and also assumed the role of Chair of the Governance Committee. We discussed policies and procedures, risk transfer, employment issues and other topics that had not previously been part of the agenda. The Gallagher model of collaborative teamwork was easily adaptable to identify those Board members who skills were essential to each of these aspects of risk identification, analysis and treatment. We needed to gather our best resources to tackle the risks, both positive and negative. We were able to create a risk register and proactively identify and prioritize areas that needed review. Through this process we learned that growth in our organization had left us vulnerable in areas where we were operating "by the seat of our pants" from an internal organizational perspective.

I am delighted to say that we have systematically been addressing these issues, through various external resources as well as through our recently formed Strategic Planning Committee and our Board retreats.

I am inspired by the supportive and team-oriented culture that is "The Gallagher Way" and I am proud to have been able to adapt these values to create a positive impact in my service as a nonprofit Board member.

Our nonprofit client's experience.

becoming part of our

24,000+

global nonprofis, NGO's & charities

connecting to a network of Gallagher professionals specializing in this sector

supported by

700+

Gallagher local offices community presence

Reclaiming dollars for your mission.

Our Global Professionals Specialize in:

- Property & Casualty
- Benefits & Wellbeing
- Risk Management
- Alternative Risk Financing
- Claims Administration & Advocacy
- Institutional Investments & Fiduciary Services
- HR Consulting
- Governance
- Enterprise Risk Management (ERM)
- Technology Solutions
- Member Benefit Programs
- Retirement Plan Consulting & Actuarial Services
- International Mission & Travel Solutions

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