

# How to Manage Insurance Costs in the Voluntary Sector: Tips and Checklist

**Toolkit**

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The logo for Canada, featuring the word "Canada" in a serif font with a small Canadian flag icon above the letter "a".

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# How to Manage Insurance Costs in the Voluntary Sector: Tips and Checklists

## Introduction

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Nonprofit and charitable organizations in Canada provide a range of valuable programs and services. Many are experiencing rising costs in insurance premiums and difficulty in obtaining coverage.

The tips and checklists contained in this booklet summarize the results of an online national survey on insurance issues in the voluntary sector. The survey was developed by Easter Seals Canada and the Centre for Voluntary Sector Studies at Ryerson University and was conducted between July 2004 and January 2005.<sup>1</sup> Part I of this booklet presents strategies that the organizations that responded to our survey have successfully used to deal with the rising cost of insurance premiums. Part II explains how risk management can reduce an organization's liability and, therefore, its insurance premiums. It includes a series of best-practice checklists that cover the main areas of a voluntary organization's operations.

## I. Strategies to deal with the rising cost of insurance premiums

The following are strategies that have been used by nonprofit organizations in Canada to cope with the rising cost of insurance.

### A. Management strategies to deal with increased insurance premiums

- Conduct a risk management assessment. This can address operational risk exposures including legal risks, safety risks, liability risks, service interruption risks, property damage risks, and public relations risks. (See Part II of this booklet for more information on risk management assessments.)
- Ensure your organization has operational policies that include regular risk assessment for staff and volunteers, of facilities, financial management and program activities.
- Ensure that everyone involved in the organization has read and understands these policies.

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<sup>1</sup> Results of the survey are contained in the report *Island or Iceberg: Liability and Voluntary Organizations*.

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- Seek competitive insurance quotes through an insurance broker. Note: Because of their insurance volume, some brokers may not have access to a large number of insurance companies. If your broker can't offer you a variety of options, contact a broker who can. You can even consider contacting brokers in a larger centre who may be able to provide you with more options (and, hopefully, better prices).
  - Consider increasing your organization's funding to meet the cost of insurance. Funding initiatives can include:
    - ❑ approaching core funders with cost details of containing risk and reducing liability;
    - ❑ hiring fundraising consultants and/or fundraising staff;
    - ❑ incorporating increased insurance costs in annual funding proposals;
    - ❑ raising membership, service, and rental fees;
    - ❑ re-allocating volunteers from service provision to fundraising; and
    - ❑ seeking out corporate partners.

### *B. Ideas on how to work together with other organizations to deal with increased premiums*

- Seek partners for programs to share cost of insurance.
- Share building or office space and insurance cover for these facilities.
- Pool risk by purchasing group or co-insurance.
- Explore self-insurance, i.e., create a reserve budget pool of your own, or partner with another organization to cover small claims. At the same time, purchase insurance with a large deductible for larger claims (this can either be done individually by the organization or collectively with others).
- Join national umbrella groups that offer access to insurance with lower premiums, such as Volunteer Canada's directors and officers (D&O) liability insurance.

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### C. Respond to increased premiums by reducing your organization's liability

- Where coverage is not mandatory (e.g. where activities do not require personal contact with clients), the board of directors should assess whether the level of risk makes the insurance premium a worthwhile expenditure.
- Introduce systems to limit your organization's risk. For example, enhance security measures and display disclaimer notices to reduce the likelihood that a claim will be made or to reduce the size of any claim.
- Ensure that staff and volunteers working on high-risk programs have undergone police checks and appropriate training (e.g., first aid training).
- Ask tough questions: Should the organization reduce or cut the program that poses the greatest risk? If so, what social costs are involved? Is there another way to deliver the program?

It is often more difficult for voluntary sector organizations to get liability insurance than it is to get property insurance. The following issues are important for liability insurance:

#### **Due diligence**

*Organizations are vicariously liable for any misconduct on the part of their staff, and directors are personally liable for any misconduct on the part of the organization; this is why an organization needs general liability insurance for itself and D&O liability insurance for its directors. In any litigation, questions will be about the extent to which the organization and its directors exercised due diligence (i.e., took steps to prevent damage to a third party).<sup>2</sup>*

#### **Complaint management**

*Normally, verbal and written complaints are the first hints that risks exist and the first steps leading to liability lawsuits. Good complaint management can identify weaknesses in an organization's risk management practices and help to protect the organization and its directors from lawsuits. Good complaint management means taking all complaints seriously, investigating them, taking action when necessary and reporting on what action was taken, etc.*

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<sup>2</sup> **Due diligence** (also known as *due care*) is the effort made by an ordinarily prudent or reasonable party to avoid harm to another party. Failure to make this effort is considered negligence. Quite often a contract will specify that a party is required to provide due diligence.

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## II. Managing risk to reduce liability

An effective risk management program can help an organization reduce risk and liability and, therefore, keep insurance costs in check.

### What is risk management?

Risk management is the identification and management of threats that could severely harm or even destroy an organization. Generally, risk management involves reviewing the operations of the organization, identifying potential threats and the likelihood of their occurrence, and taking appropriate steps to address the most likely threats.

Traditionally, risk management was thought to consist primarily of getting the right insurance. Insurance coverage usually came in standard packages, so people tended to not take risk management seriously. However, this view of risk management has changed dramatically. With the recent increase in rules and regulations, employee-related lawsuits, and reliance on key resources, *risk management is becoming a management practice that is every bit as important as financial or facilities management.*

### Conducting a risk management assessment

Organizations should regularly undertake a comprehensive, focused assessment of potential risks to the organization (see section II). This assessment should be done at least twice a year by a team of staff members representing all the major functions of the organization. It should be carefully planned and documented and methodically carried out.

The checklists that follow can help organizations do a quick review of some areas of their operations to ensure a well-run and highly protected organization. Other areas, where volunteers and staff meet clients personally to assist on a one-to-one basis, require more careful review. Remember: *Efforts undertaken to manage an organization well also contributes to sound risk management.*



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## A. Checklist for boards of directors

A fully attentive board of directors with a wide range of skills may be the most important protection against major threats to an organization.

The risks that an organization faces depend on its size, the nature of its programs and services, and the state of its finances. The board of directors is responsible for the general administration and running of the organization. It has a duty to safeguard the organization and its property; this includes ensuring good management, instituting personnel policies, and purchasing appropriate insurance coverage.

A thorough risk management policy can address operational risk exposures, including legal (regulatory) risk, safety (personal and process) risks, liability (internal and third party) risks, service interruption risks, property damage risks, and public relations risks. It can also ensure that an organization's board of directors assesses potential liabilities and losses and makes informed decisions about insurance coverage.

Here is a checklist you can use to make sure that your board of directors has fulfilled its obligations with regard to risk management:

- ❑ The board of directors has developed and implemented a strategy to assess, analyze, and manage risk.
- ❑ The board has taken steps to ensure that *everyone* involved in the organization – volunteers, staff, and directors – understands the risk management policies and implements the strategies accordingly.
- ❑ The board has taken steps to ensure that the risk management strategy is monitored regularly.
- ❑ The organization has insurance to cover against loss or damage (e.g., buildings insurance, contents insurance, events insurance, etc.).
- ❑ The organization has insurance to cover it against liability (e.g., professional indemnity insurance, employer's liability insurance, public liability insurance, etc.).

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## B. Checklist for volunteer management

This checklist and subsequent ones in this toolkit incorporate some information from *The Canadian Code for Volunteer Involvement*, and the findings from our research. Volunteer Canada's document is designed to help an organization discuss how their volunteers are engaged and supported, and the role volunteers can (and do) play in helping an organization achieve its purpose or mission.<sup>3</sup> It consists of three important elements:

- values for volunteer involvement,
- guiding principles for volunteer involvement, and
- organization standards for volunteer involvement.

This checklist combines both our findings and elements of the Volunteer Canada code. Use it to make sure that you have in place volunteer management policies that will minimize risk for your organization:

- The organization has clearly defined the role of volunteers within the organization.
- The organization has job descriptions for all of its volunteer positions.
- The organization has a well-defined, widely communicated volunteer management plan that includes a recruitment policy, written description of all volunteer positions, an application and interview process, a written policy on stipends and reimbursements, a reporting structure for volunteers, and written policies on any other aspects of volunteer management that it deems necessary (e.g. policy on management and assessment of volunteers who work one-on-one with clients).
- The organization has a volunteer recruitment policy that does not discriminate against any recognizable group that respects, encourages, and represents the diversity of the community.
- The organization provides appropriate training and orientation to assist volunteers in the performance of their volunteer activities. Volunteers are offered training with staff in areas such as cultural sensitivity.
- The organization is respectful of volunteers' abilities and time commitments and has various positions available to accommodate these needs. Tasks are not given to volunteers simply because they are considered to be a poor use of paid staff's time.

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<sup>3</sup> Volunteer Canada (n.d.). *The Canadian code for volunteer involvement*. Last retrieved March 7, 2006 from : <http://www.volunteer.ca/volunteer/pdf/CodeEng.pdf>

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## C. Checklist for facilities management

The organization does volunteer performance appraisals periodically and communicates to volunteers how well they are doing and whether they need to pay particular attention to certain areas. Volunteers are also asked to review and evaluate their involvement in the organization and the people they work with and to suggest areas for improvement.

The organization does some type of volunteer recognition or commendation periodically, and staff continually demonstrate their appreciation for volunteers and their efforts.

The organization has a process for reviewing and responding to ideas, suggestions, and comments from volunteers.

The organization provides opportunities for program participants to volunteer.

The organization maintains records that document how many volunteers and volunteer hours are allocated to each program area and what responsibilities volunteers have in those areas. (Volunteer hours may be recorded on financial statements as in-kind contributions).

The condition of your facilities can affect both the amount of risk you may incur and the cost of your insurance premium. Here is a checklist you can use to minimize any risk associated with the conditions and use of your facilities.

Your organization always locks its doors after hours and maintains security during working times.

Your organization ensures that its fire protection systems are fully functional by scheduling fire alarm tests twice a year or demanding that your facility's owner tests alarms twice a year. Note: you should also ensure that electrical equipment has protection should sprinklers be activated by a fire.

Your organization conducts facilities inspections twice a year. This should include the following:

**a)** Inspect floors for ripped carpets.

**b)** Take steps to ensure that cables and wires lying on the floor do not constitute a trip hazard.

**c)** Notice any electrical outlets with black soot near outlets and have an electrician check them (such soot indicates electrical shortages).

**d)** Ask all staff if their office accommodations are sufficient, e.g., if their chairs are entirely comfortable (tilted correctly for their backs and at the right heights), if the lighting is sufficient for desk and computer work, etc.

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- e) Move heavy items that are on or near the floor and that staff must continually stoop to lift (e.g., boxes of paper for the photocopier or printers); open boxes before they're set on the floor or stack them in a storage room on a shelf so that people do not have to bend over to pick them up.
  - f) Ensure that all doors have fully functional doorknobs (It's amazing how long people can tolerate something as small as a knob that continually jams, making the door difficult to open).
  - g) Ensure that there is a well-stocked first-aid kit available to all staff.
  - h) Post emergency numbers on the wall near the central phone.
  - i) During the winter, ensure adequate ice removal, e.g., spread sand over ice or use salt to melt ice.
  - j) Schedule time in a staff meeting once a year for the entire staff to reflect on the state of your organization's facilities in order to identify where repair and upgrading are needed.

#### *D. Checklist to assess financial and accounting activities*

Accounting and financial practices can contribute to or help to reduce exposure to liability. Here is a checklist you can use to minimize risk related to your financial and accounting practices:

- The organization follows accounting practices that conforms to accepted standards.
- The organization has systems in place to provide staff and the board of directors with the information they need to make sound financial decisions and to fulfill government requirements.
- The organization prepares timely and clearly stated financial statements, including a balance sheet (or statement of financial position) and statement of revenue and expenses (or statement of financial activities).
- The organization prepares financial statements that include both the budget and the actuals so that everyone understand the financial position of the organization.
- The organization develops an annual comprehensive operating budget that includes costs for all programs, management and fundraising costs, and all sources of funding. This budget is reviewed and approved by the board of directors.

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- ❑ The organization monitors the unit costs of all programs and services by documenting staff time and direct expenses and allocating management, general, and fundraising expenses to each program or service.
  - ❑ The organization prepares cash flow projections.
  - ❑ The organization periodically forecasts year-end revenues and expenses to help the board and staff make sound management decisions throughout the year.
  - ❑ The organization reconciles all cash accounts monthly.
  - ❑ The organization has a review process in place to monitor that it is receiving appropriate and accurate financial information.
  - ❑ If the organization has billable contracts or other service income, procedures have been established for the periodic billing, follow-up, and collection of all accounts, and to ensure that there is documentation that substantiates all billings.
  - ❑ All government contracts, purchase-of-service agreements, and grant agreements are in writing and are reviewed by a staff member of the organization who monitors compliance with all stated conditions.
  - ❑ Payroll is prepared according to organization policy and all appropriate provincial and federal regulations.
  - ❑ People employed by the organization on a contract basis meet all federal requirements for this form of employment. Disbursement records are kept and relevant forms (e.g., T4s) are issued at year end.
  - ❑ Organizations that purchase and sell merchandise take periodic inventories to monitor the inventory against theft, to reconcile general ledger inventory information, and to maintain an adequate inventory level.
  - ❑ The organization has a written fiscal policy and a procedures manual that it follows.
  - ❑ The organization has documented a set of internal controls, including the handling of cash and deposits and approval of spending and disbursements.
  - ❑ The organization has a policy that identifies authorized cheque signers and the number of signatures required on cheques that are in excess of a specified amount.
  - ❑ All expenses charged to the organization are approved by a designated person before payment is made.
  - ❑ The organization has a written policy on investments.
  - ❑ Capital needs are reviewed a minimum of once a year, and priorities are established.

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- ❑ The organization has a plan that identifies the actions it will take in the event of a reduction in or loss of funding.
  - ❑ The organization has established, or is actively trying to develop, a reserve fund that will cover at least three months of operating expenses.
  - ❑ The organization has suitable insurance coverage, which is periodically reviewed to ensure that appropriate levels and types of coverage are in place.
  - ❑ Employees, board members, and volunteers who handle cash and investments are bonded to help ensure the safeguarding of assets.
  - ❑ The organization files income tax returns on a timely basis within prescribed time lines.
  - ❑ The organization reviews income annually to determine and report unrelated business income.
  - ❑ The organization has an annual, independent audit of its financial statements, prepared by a certified public accountant (CPA).
  - ❑ In addition to the audit, the CPA prepares a management letter containing recommendations for improvements in the financial operations of the organization.
  - ❑ The board of directors, or an appropriate committee (e.g., an audit committee), is responsible for soliciting bids, interviewing auditors, and hiring an auditor for the organization.
  - ❑ The board of directors, or an appropriate committee, reviews and approves the audit report and management letter and, with staff input and support, institutes any necessary changes.
  - ❑ The audit, or an annual report that includes financial statements, is made available upon request to service recipients, volunteers, contributors, funders, and other interested parties.
  - ❑ Training is made available to board members and appropriate staff on relevant accounting topics and all appropriate individuals.

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## [E. Checklist for Program Management and Evaluation](#)

How your organization manages and evaluates its programs can affect the organization's exposure to liability. Here are two checklists you can use to reduce risk in these areas:

### **Program Management**

- Programs are congruent with the agency's mission and strategic plan.
- The organization actively informs the public about its intended programs and services and provides opportunity for clients and potential clients to participate in program development.
- Sufficient resources are allocated to each program so that it can achieve the established goals and objectives.
- Staff and volunteers have sufficient training and skills to deliver all programs.
- Each program has performance indicators to insure that the program meets its goals and objectives.
- Performance indicators are reviewed annually.
- The organization networks and/or collaborates with other organizations to produce the most comprehensive and effective services to clients that minimise any risk.

### **Program Evaluation**

- The organization evaluates its activities annually to determine progress toward its goals.
- Stakeholders (volunteers, clients, staff and others closely associated with programs) join in evaluating programs so that they are appropriate, effective, and risk is at a minimum for all involved directly in these activities.
- Evaluation includes a review of the organization's programs and systems to ensure that they comply with the organization's mission, values, and goals.
- The results of the evaluation, particularly those relating to risk and liability, are reflected in the revised plan.

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## F. Checklist for Human Resources Management

Your organization's human resources practices can affect the organization's exposure to liability. Here is a checklist you can use to manage and reduce risk related to human resources:

- ❑ The organization has a written personnel handbook and/or policy that is regularly reviewed and updated and that: a) describes the recruitment, hiring, termination, and standard work rules for all staff; and b) ensures compliance with government regulations and legislation, including the *Fair Labor Standards Act*, *Employment Equity Act*, *Occupational Health and Safety Act*, *Employment Insurance Act*, *Canadian Human Rights Act*, etc.
- ❑ The organization has a sexual harassment policy and fosters a respectful workplace by promoting increased awareness and prompt resolution of any form of harassment through early problem resolution and the use of mediation where required.
- ❑ The organization gives members of the board, the executive director, and all staff members a copy of or access to the personnel handbook and/or written personnel policies. All staff members acknowledge in writing that they have read and have access to the personnel handbook and/or policies.
- ❑ The organization has written job descriptions for all employees; these include qualifications, duties, reporting relationships, and key indicators relating to performance, expected outcomes of their activities, levels of risk associated with their activities etc.
- ❑ The organization's board of directors conducts an annual review and/or evaluation of its executive director against a previously determined set of expectations.
- ❑ The executive director's salary is set by the board of directors in a transparent and open way and is in compliance with the organization's compensation plan.
- ❑ The organization requires that employee performance appraisals be conducted and documented at least once a year.
- ❑ The organization has a compensation plan and periodically reviews salary ranges and benefits.
- ❑ The organization has a timely process for filling vacant positions to prevent an interruption of program services or disruption to its operations.
- ❑ The organization has a process in place for reviewing and responding to ideas, suggestions, and comments from all staff members.



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- ❑ The organization provides opportunities for employee professional development and training within their job skill area and areas such as cultural sensitivity and personal development.
  
  - ❑ The organization maintains records that document how much staff time is allocated to each program or service it provides.

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