



An Insurance Primer for Board Members

The following information is part of the Alberta Voluntary Sector Insurance Council's "Insurance Toolkit for the Voluntary Sector."

As a Board member for a nonprofit, charity, or other voluntary sector organization, you have certain duties and responsibilities. In your role as a Board member, you should understand your organization's risks and liabilities, and how these are being reduced or eliminated through risk management activities, or addressed through insurance coverage.

Buying insurance is one way your organization can spread your risk and help protect against financial losses. Although it can be challenging for organizations with limited budgets to find the funds needed for insurance, having the appropriate coverage can help ensure your organization survives any unforeseen losses.

What is Risk Management?

Risk management is a structured approach organizations can use to identify the risks and liabilities connected to the organization's operations and create and implement a plan to reduce or eliminate the risk. Insurance is one of many risk management tools that can help protect your organization against financial losses.

Just buying insurance is not risk management. A risk management plan is comprehensive and includes a variety of proactive and preventative steps to avoid risk. For example, a risk management plan may include a combination of internal policies and procedures and the appropriate types and amounts of insurance coverage.

Your Organization's Insurance

Depending on the risks and liabilities connected to your organization's operations, various types of insurance may be required. As a Board member, you should be aware of the types and amount of insurance coverage that are in place.

Insurance and a Board Member's Personal Liability

There are two different liability policies that address the Board members' personal liability:

- Directors' and Officers' liability policies (D&O) that deal with alleged 'wrongful acts' that result in financial loss to the claimant, and
- Commercial General Liability policies that deal with alleged 'wrongful acts' that result in bodily injury or property damage loss to the claimant.

TIP

Risk management addresses many risks that can't be insured such as damage to your organization's reputation or, in the case of a charity, the loss of your charitable tax status.

BOARD DUTIES

Under Canadian legislation, court decisions, laws and statutes, Board members have two basic duties:

Duty of Care: Act reasonably, in good faith, in the organization's best interest; carry out their due diligence.

Duty of Loyalty: Place the interests of the organization before their own; act honestly and in good faith.

For more information about Board duties, see [Industry Canada's Primer for Directors of Not-For-Profit Corporations](#).

Directors and Officers (D&O) Liability Insurance

D&O coverage typically protects against risks that are not included under general liability coverage, such as claims arising out of Board decisions or omissions, or out of actions or activities performed directly under the auspices of the Board or Directors.

Commercial General Liability

General liability coverage protects your organization against third party legal liability related to property damage or bodily harm, such as injuries sustained during your organization's programs, or damage to property that the organization does not own or rent. It automatically covers Directors and employees while they are acting in the scope of their duties.

Using Bylaws to Protect Board Members

By "indemnifying" its Board members in its bylaws, an organization agrees to pay the costs associated with a claim related to a Director's service on the Board.

While indemnification helps protect Board members, many nonprofits and charities do not have the money in reserve to pay the costs associated with a claim. D&O insurance covers the financial requirements of indemnification.

Checklist

INSURANCE CHECKLIST FOR BOARD MEMBERS

The following are some questions Board members should ask about their organization's risk management and insurance activities:

- Has your organization assessed the risks and liabilities connected to your operations?
- Have you undertaken measures to reduce or eliminate the risks?
- Do you have the appropriate insurance coverage to protect against financial loss in all areas of the organization's operations?
- Does your Board get regular updates from staff or volunteers about risk management activities?
- Do your organization's bylaws include a Board indemnification clause?
- Does your organization have D&O insurance in place to support indemnification?

RESOURCES

RESOURCES FOR MORE INFORMATION

"Directors' Liability: A Discussion Paper on Legal Liability, Risk Management and the Role of Directors in Non-Profit Organizations." Volunteer Canada www.volunteer.ca

"Primer for Directors of Not-For-Profit Corporations." Industry Canada <http://strategis.ic.gc.ca/epic/internet/incilp-pdci.nsf/en/c100689e.html>

Insurance Bureau of Canada online risk management tips for Boards www.ibc.ca

To download a pdf of the full "Insurance Toolkit for the Voluntary Sector," visit www.volunteeralberta.ab.ca.