



Society Strategies

Federation of Genealogical Societies

P.O. Box 200940 Austin TX 78720-0940

Series Set IV Number 2

September 2001

Set IV Strategies for Treasurers

Does Your Society Need Insurance?

by Gary Mokotoff

Supplemental Page

This strategy paper, written some years ago, is an FGS *Classic* that contains ideas and strategies still relevant today in society management.

This paper covers answers to the question: Does your society need insurance? Considerations are: claims of personal injury on property, dishonest officers, and protection against lawsuits.

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Set IV Strategies for Treasurers Does Your Society Need Insurance? by Gary Mokotoff

INTRODUCTION

Societies should consider a number of insurance plans to cover the risk of loss of society-owned property, protection against claims of injury by persons attending a society function, dishonesty protection, and protection of board members against certain law suits. Does your society need any of these types of insurance? The answer is “maybe.”

Insurance is meant to cover the financial consequences of unforeseen events. You should evaluate the insurance plans offered based not on the risk of such an event happening but on the consequence of not having the insurance. To think in terms of risk—such as the risk is low that a tornado will hit downtown Salt Lake City—is not wise. Risk is difficult to predict: after all, a tornado did damage downtown Salt Lake City in 1999. Instead, if you decide to turn down insurance, do so because the consequence of something happening will have little financial impact on your society. Let's look at some insurance plans in terms of risk and consequence.

COMPREHENSIVE GENERAL LIABILITY (CGL)

This policy will protect the society and members from actions brought against them from a third party for bodily injury or property damage. Bodily injury may come in the form of injuries sustained by a guest of the society. An example is a speaker who, while presenting to your society, trips over the microphone cord and breaks an arm.

Property damage may manifest itself as a claim brought against the society for alleged destruction to a facility in which a meeting was held. For example, while bringing a movie screen into the building for a society seminar, the volunteer accidentally smashes the screen into a glass door and breaks the glass.

In these two examples—bodily injury and property damage—the society and its members would be protected by a policy up to the limits of coverage, which are generally \$1,000,000 per occurrence and \$2,000,000 in the aggregate.

Does Your Society Need Insurance?

In most cases the Comprehensive General Liability (CGL) policy will also include coverage known as medical payments with a limit of \$5,000. This coverage is provided in the case of a minor injury that occurs to a guest or visitor to a society function and/or meeting and allows for a “no-fault” reimbursement of their medical costs up to the limit for this coverage part.

Another coverage part of the CGL policy concerns itself with personal injury and advertising liability. Personal injury is defined in the policy as “injury, other than bodily injury, arising out of oral or written publication of material that slanders or libels a person, invasion of privacy,” and other similar types of offenses. This would include a possibly libelous statement about an individual that is made in one of your publications.

The advertising liability section in the CGL policy is defined as “advertising injury caused by an offense committed in the course of advertising your goods, products, or services.” Of all the insurance, this is perhaps the one most important in this litigious society of ours. Perhaps it could be argued that if such a suit was brought and the plaintiff won the case, the assets of the society are so small that you would just go out of business and restart as a new society. But for most societies, their preference would be to have the insurance if the cost is not burdensome.

Check with your insurance agent to confirm that all the coverage described above is part of the CGL insurance you are buying.

PROPERTY LOSS

This protects you against loss of property owned by your society. This can include such items of property as general contents, furniture, fixtures, the society's use interest in tenant's improvements and betterments, and the property of others that is being held in the

care, custody, and control of the society and for which the society has a responsibility.

This definition includes a library consisting of books and manuscripts, which can be considered as “all other personal property owned” by the society. It is wise to insure these items on a replacement cost basis, which is the reproduction cost of an item without depreciation. Obviously when dealing with a library of older books and papers, it is difficult at best to apply a reasonable value for the replacement of these items. One might wish to retain the services of a competent appraiser in an effort to establish values.

In all cases, evaluate the consequence of the total loss. If you own \$1,000 worth of books that are kept in a closet at the place that you meet, what would be the consequence to your society if they were stolen? If the answer is that your society would just get its members to donate the books again, then perhaps you do not need the protection.

In certain instances larger societies may own a building and for obvious reasons they would need to procure building insurance coverage on a broad perils basis to protect themselves from fire, vandalism, and the perils generally associated with what is known as an “all risk” policy. These policies do have exclusions; the most typical are earthquakes and floods.

If your society's valuables are kept on some premises not owned by your society (as is true for many small and medium-sized societies), see if the owner of the premises has insurance that would cover the loss of your property on their premises. If not, it may even be possible to have a rider added to their policy that would cost less than your own insurance policy.

DISHONESTY PROTECTION

Most businesses today, whether for-profit or not-for-profit organizations, face the hazard of

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employees or volunteers committing acts of dishonesty. These usually take the form of misappropriation of funds or inventories. Since the vast majority of genealogical societies are both nonprofit organizations and have no employees, we are dealing with the activities of the volunteer treasurer or other members of the board of directors with access to money and bank accounts.

To evaluate the need for Dishonesty Protection, the board should ask itself if they are concerned about the treasurer running off to Brazil with the usual \$123.45 in the treasury or the \$11,000 conference seed money it contains once a year. The two most important assurances against this risk are:

1. Know the person handling your funds.
2. Create safeguards to prevent an opportunity for the misuse of funds.

It is worth noting that the principal reason for theft in these situations is not dishonesty but opportunity. If you have a treasurer who is not monitored (audited is the fancy word) on a regular basis, you are giving that person the opportunity to misuse the funds.

Term limits is another safeguard against fraud. If a person is going to be treasurer for only a brief period of time, let's say two years, there is a lower risk of fraud than with a treasurer who has assumed the role for life. Invariably when you read in the news media about fraud against a non-profit such as a church, the story says something like "A person who was a trusted bookkeeper for more than 25 years..." In this situation, the person had the opportunity to steal the money because of the long tenure in the position and the lack of audits.

DIRECTORS AND OFFICERS LIABILITY COVERAGE

This policy provides protection for the directors and/or officers who are accused of

mismanaging the society. Examples of incidents that would be covered by this insurance are: sexual harassment claim against an officer, use of the society's funds in an alleged improper manner, and loss of tax-exempt status due to improper acts.

This is the coverage every society board of directors wants yet it is likely to be the most useless of the coverages. The main protection against individual directors or officers being sued is to incorporate your organization. The one exception would be if it could be proven that the officers deliberately used the corporate protection to perform some act in the belief they could not be individually sued.

There is a second reason Directors and Officers Liability (D&O) coverage is ineffective. The policy would likely not cover you for punitive damages; just real damages. This means, if for some reason the courts did make the officers part of the suit and the plaintiff was awarded \$10,000 in real damages and \$1 million in punitive damages, the insurance would only cover the \$10,000.

Given that the cost for this insurance exceeds \$500, and societies with as much as 200 members have an annual budget of only \$4–5,000, spending a significant portion of the society's annual income on D&O insurance might be grounds for a lawsuit that the officers are mismanaging the funds of the society. Only the largest of societies should consider this coverage.

CONCLUSION

All societies must evaluate the implication of not having Comprehensive General Liability insurance. This insurance protects against negligence on the part of your society that causes injury to a person or property. But property and dishonesty protection should be considered separately. The size, property owned, and net worth are some of the determining factors.

Does Your Society Need Insurance?

Large societies will probably want property insurance to protect what may be thousands of dollars of property. Likewise, if your treasury typically contains tens of thousands of dollars, in addition to having proper auditing procedures, you might consider Dishonesty Protection.

Finally, if you have a surplus in your treasury every year, you might even want Directors and Officers Insurance to give your Board members peace of mind in the event they are made party to a suit brought against your society.

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ABOUT THE AUTHOR

Gary Mokotoff has been on the FGS board for a decade. He has held the positions of director, vice-president-external affairs, and vice-president-development. He served as the Federation treasurer from 1995–1998.



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