ANTICIPATING CHANGE

A Nonprofit Leader's Guide to Managing Regulatory, Fiduciary and Governance Risk

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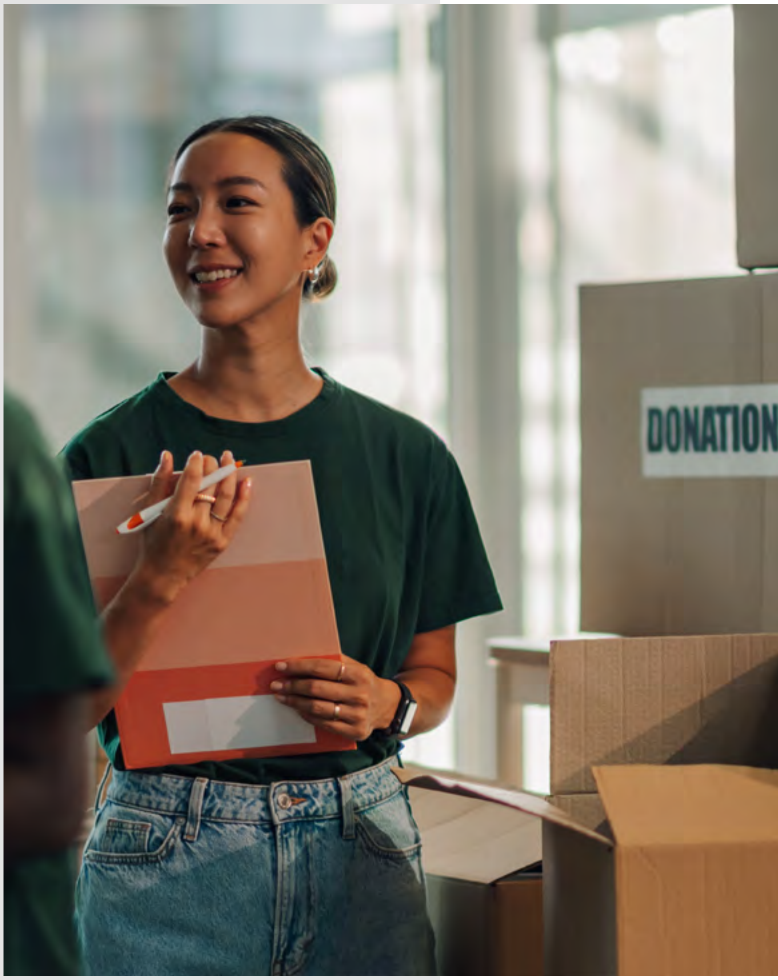
Risk & Insurance | Employee Benefits | Retirement & Private Wealth

Nonprofit organizations face an increasingly complex and evolving risk landscape. Navigating changing regulations and heightened scrutiny while ensuring they remain true to their mission and in compliance — often with limited resources and expertise — is a significant challenge.

Nonprofit leaders must ensure they meet their obligations both as charitable organizations and as employers. From evolving retirement plan requirements to increased oversight of executive compensation and expanding liability exposures, these interconnected risks demand careful attention and strategic action.

There are five critical areas that require proactive risk management from nonprofit leaders:

- Professional and management liability exposures
- Oversight of people and culture
- Employee benefits responsibilities and compliance
- Retirement and asset management governance
- Proactive insurance protection and risk mitigation strategies



By taking an integrated approach across these areas, nonprofits can strengthen their risk posture and protect their organizations, boards and missions while weathering uncertainty and continuing their vital work.

Managing Professional Liability and Governance Risk: Safeguarding Leadership and Program Integrity

Whether your organization provides healthcare or social services, operates educational programs, offers transportation or distributes food, increasing regulatory scrutiny is expanding liability exposures that could potentially compromise the ability to do your work. Complying with sector-specific requirements has never been more critical.

The four pillars of professional liability negligence risk

Professional liability claims against nonprofits can be significant in terms of reputational damage and cost. They most commonly arise from four types of negligence:

- **Negligent hiring –** Failure to properly vet employees, contractors or volunteers
- **Negligent retention –** Keeping individuals in positions despite known performance or conduct issues
- **Negligent supervision –** Inadequate oversight of staff and volunteer activities
- **Negligent entrustment –** Allowing unqualified individuals to perform sensitive duties, operate equipment or act on your behalf, including contractors and vendors engaged without adequate vetting or oversight

Some of the most common professional liability risks nonprofits face today include:

- **The scope challenge: When mission meets liability**
  One of the most significant risks facing nonprofits stems from mission creep, where organizations begin offering services beyond their core expertise, such as a disaster relief organization that begins offering counselling services, or a food pantry that expands into basic healthcare. While these service offerings are well-intentioned, they can inadvertently create substantial liability exposures for nonprofits without proper credentialing, training, oversight and risk controls in place. Before venturing outside their areas of competency, organizations must have the necessary skill sets and safeguards in place.

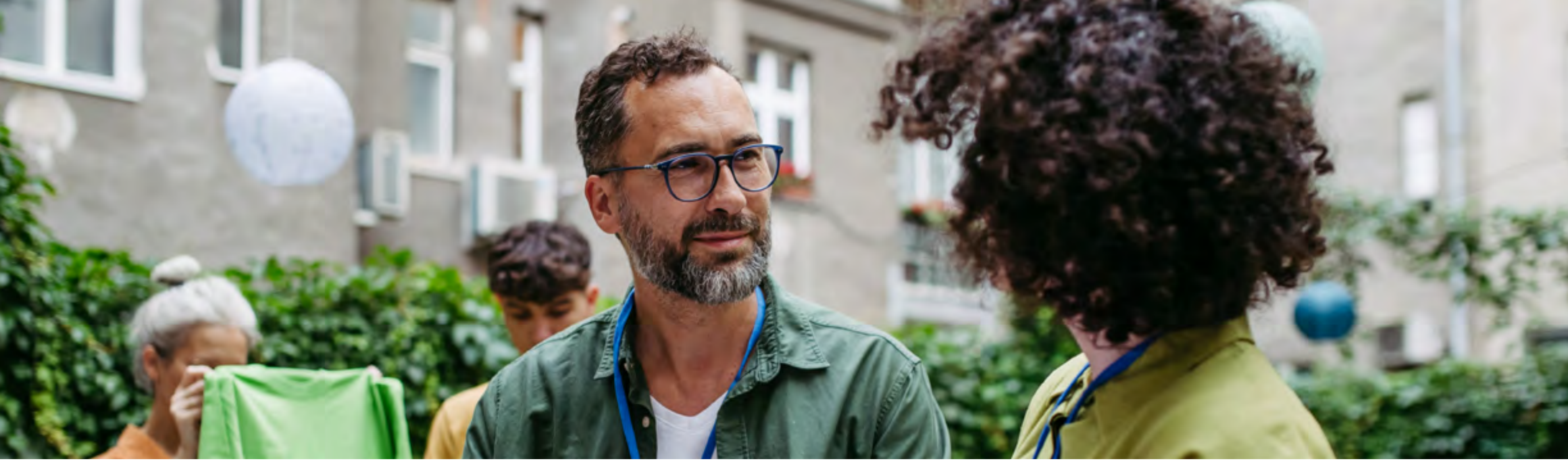
- **Extended liability from sexual abuse and molestation claims**
  A majority of Canadian provinces have effectively eliminated statutes of limitation for sexual abuse and molestation claims.[1] This creates long-tail exposure requiring nonprofits to retain employment records, background check documentation and training records well beyond the standard required for tax purposes if not indefinitely. Organizations working with vulnerable populations, including children, individuals with intellectual disabilities or elderly adults, must implement comprehensive prevention protocols to minimize these risks. Such protocols should include the rule of three (ensuring another person is present during sensitive interactions) and maintaining detailed documentation of all screening and training activities.

- **Strong cybersecurity practices are no longer optional**
  For nonprofits handling personal identifiable information (PII) or protected health information (PHI), cybersecurity has evolved from a technology issue to a fundamental compliance requirement. A breach as simple as a lost laptop containing client information can trigger mandatory notification protocols and potentially significant response costs. Under federal and most provincial guidelines, employers remain ultimately responsible for protecting employee data.[2] Employers can still be held liable if a breach occurs at a third-party vendor like retirement plan or benefits administrators. Nonprofits should review their coverage to ensure they are protected from cyber breaches, including proper breach response services, and that they have coverage for third-party vendor breaches.

Addressing these risks requires rigorous processes for credential verification, background checks and documented oversight — not just for employees, but for independent contractors and volunteers as well.

[1]McKiggan Hebert Lawyers, "Statute of Limitations in Canadian Sexual Abuse Claims," July 23, 2019.

[2]Office of the Privacy Commissioner of Canada, "PIPEDA requirements in brief," accessed April 13, 2026.



People and Culture: Managing Workforce Complexity

The foundation of nonprofit risk management rests on an organization's people and culture.

Today's nonprofit workforce looks dramatically different than it did a decade ago. Organizations now manage a complex mix of grant-funded and government-funded positions with specific compliance requirements, independent contractors, volunteers and remote or hybrid workers. Each of these positions brings its own regulatory considerations around classification, wage and hour rules and oversight.

Often, nonprofit HR departments are resource-constrained, with individuals wearing multiple hats across finance, HR and operations. This can blur accountability and increase exposure if it is unclear who's doing what or if people are not properly trained for their position.

The volatility of the current environment creates another opportunity for risk as many organizations are struggling with staffing shortages that lead to burnout and turnover, resulting in the loss of institutional knowledge. When policies and procedures aren't properly documented, critical compliance knowledge walks out the door with departing staff.

Proper compensation alignment

When it comes to nonprofit governance, executive compensation is often scrutinized. Provincial law permits a nonprofit to provide "reasonable compensation" to executives for services provided to the charity.[3]

The standard for "reasonable compensation" is not as clear as a specific number or target relative to the market but depends on multiple factors, including executive compensation philosophy, job duties, organization size, performance expectations, geographic location and cost of labour.

[3]Government of Canada, "Directors/Trustees: Summary policy," accessed March 21, 2026.

For Canadian registered charities, this assessment carries additional legal weight: Under the Income Tax Act, a charity that confers an undue benefit on any person, including compensation that exceeds the fair market value of services provided, is liable to a penalty of 105% of the benefit amount, increasing to 110% for repeat infractions within five years.[4] The assessment requires a competitive market analysis using benchmarking data from comparable organizations, factoring in both compensation and benefits.

To demonstrate compliance, organizations should establish a legally defensible methodology that includes:

- Independent third-party compensation assessment on a defined schedule
- Market benchmarking from credible data sources
- Total compensation analysis
- Board review and approval documented in meeting minutes

Even when compensation is entirely reasonable and properly approved, public perception of executive compensation matters. Having a documented, defensible process in place protects against both regulatory penalties and reputational damage.

Culture, governance and leadership to stay true to the mission

Strong nonprofit culture requires leadership to stay aligned with the mission and avoid becoming too business focused. This balance is critical because it affects every aspect of operations, from hiring decisions to resource allocation.

To ensure nonprofits align their day-to-day work with their mission, leaders should:

- Maintain clear accountabilities and reporting structures
- Perform annual to biennial policy reviews (more frequent than for-profit organizations given higher regulatory scrutiny)
- Document and consistently update policies, procedures and job descriptions
- Provide ethical leadership development and ongoing training

Prepare for organizational changes

Organizations contemplating mergers, acquisitions or significant restructuring should invest heavily in upfront due diligence rather than trying to fix problems after the fact. This includes thorough compliance reviews, compensation equity analysis (with careful attention to gender pay equity) and cultural integration planning.

[4] Canada.ca, "Undue benefits," accessed April 14, 2026.

Meeting Employee Benefits Obligations with Limited Resources

Employee benefits compliance represents one of the most complex and rapidly evolving risk areas for nonprofits. Understanding the regulatory environment, demographic pressures and available solutions is essential for HR leaders and executive teams.

Nonprofits must currently navigate multiple compliance obligations:

- **Paramedical coverage –** Ensuring employees have appropriate coverage for mental health challenges, including disability
- **Evolving provincial legislation –** Updating HR policies and benefit plans to comply with new legislative requirements
- **Human Rights Tribunal concerns –** Creating HR policies relating to issues of discrimination and inclusivity
- **Transparency requirements –** Pay disclosure in job postings

Aligning benefits offerings with workplace needs

Nonprofit workforce demographics create unique benefits pressures. Approximately one in four nonprofit employees is over age 55,[5] and the average age of executive directors is 52.[6]

Many employees work beyond their planned retirement years due to financial necessity, which in turn drives higher benefits utilization and increased costs for organizations.

[5]Statistics Canada, "Non-Profit Organizations and Volunteering Satellite Account: Human Resources Module 2010 to 2021," accessed March 19, 2026.

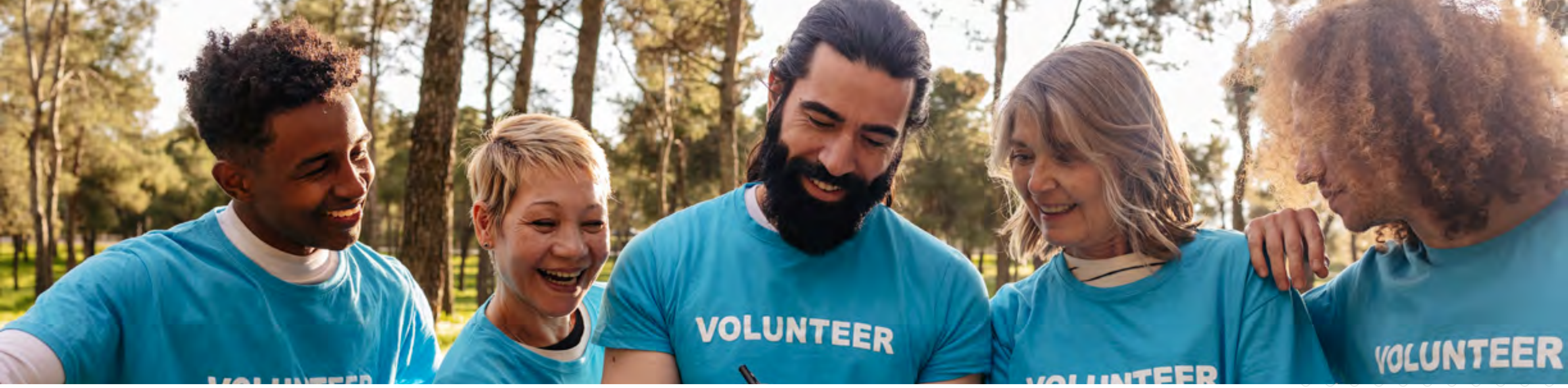
[6]Statistics Canada, "Diversity of charity and non-profit boards of directors: Overview of the Canadian non-profit sector," accessed March 19, 2026.

Understanding the challenges of nonprofit work and ensuring benefits are responding to those challenges should be another focus area for organizations. A 2025 study found that more than 90% of nonprofit leaders expressed concern about staff burnout.[7] The sector also experiences higher long-term disability incidence and chronic illness rates compared to for-profit organizations, driven by the inherent stress of mission-focused work with limited resources.

Mental health benefits utilization has increased significantly, partly due to telehealth making services more accessible. Organizations are responding with multiple approaches:

- **Employee assistance programs (EAPs) –** Though historically underutilized, virtual access has improved engagement
- **Digital platforms –** Solutions for virtual primary care access, online pharmacy and iCBT
- **24/7 virtual counselling –** Expanding access beyond traditional business hours
- **Wellness and personal spending accounts –** Supporting physical activity, yoga and gym memberships
- **Flexible work arrangements –** Many nonprofits now offer hybrid or remote options

[7]The Center for Effective Philanthropy, "State of Nonprofits 2025: What Funders Need to Know," accessed January 29, 2026.



Knowing Your Organization's Fiduciary Duties of Retirement and Asset Management

Retirement plan governance represents one of the most regulated areas of nonprofit operations. Understanding fiduciary duties remains a critical compliance requirement.

One fundamental principle of an organization's fiduciary duty that is often misunderstood is that it cannot be "hired away." In other words, even when organizations engage investment advisors and other experts, the board retains fiduciary responsibility and oversight obligations.

Many organizations address this by establishing investment and retirement committees composed of board members with relevant expertise. Whether oversight is conducted at the full board level or through specialized committees, those responsible must understand investment decisions, fee structures and the rationale behind recommendations. This oversight responsibility includes ensuring appropriate expertise is in place, whether through committee composition, advisor engagement or ongoing education.

This includes ongoing monitoring of:

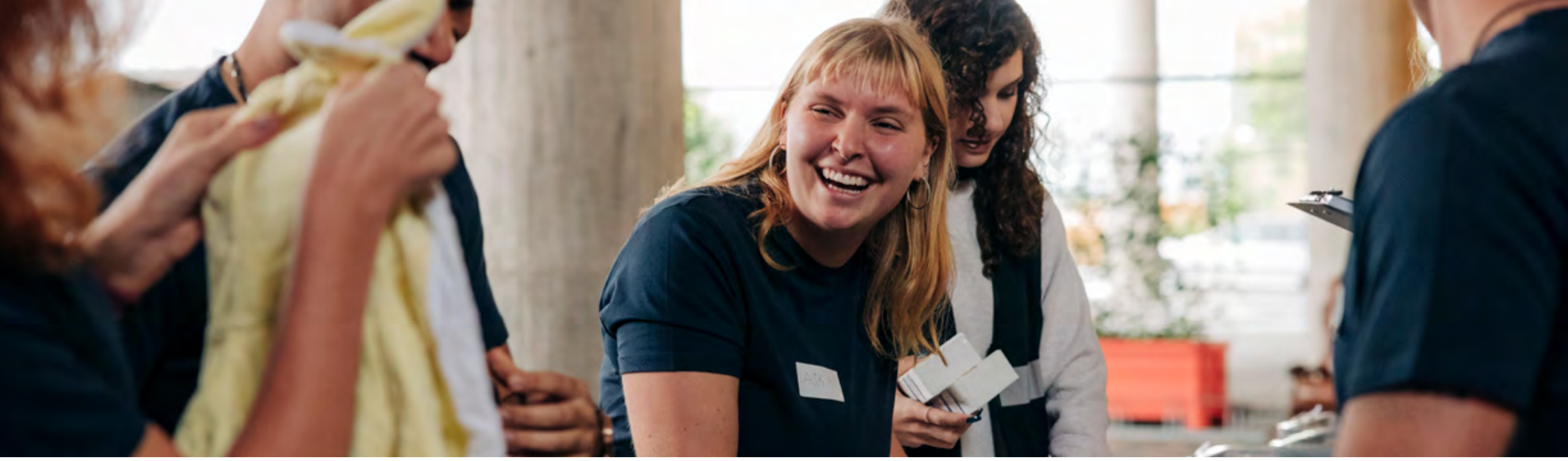
- Investment performance and fee benchmarking
- Plan document compliance
- Service provider oversight
- Legal disclosure notice requirements
- Transaction monitoring and controls

Retirement governance risk is growing

With the updated Canadian Association of Pension Supervisory Authorities (CAPSA) Risk Management Guideline and the updated Guideline for Capital Accumulation Plans (CAPs), along with regulators' commitments to increase plan reviews,[8] sponsors of employee pension and savings plans need to ensure their oversight and governance rise to these new higher bars.

Smaller nonprofit plans can also be reviewed by the regulator, so implementing best practices around documentation, fee monitoring and fiduciary processes is critical.

[8]Blakes.com, "Keeping Up With CAPSA: New Guidelines for Capital Accumulation Plans and Risk Management Released," September 26, 2024.



Deploying a Strong Insurance and Risk Management Strategy to Reduce Nonprofit Risk

Protecting your organization, your board and your mission during uncertain times requires properly structured insurance coverage combined with strong operational risk management practices.

Management liability coverage: The essential foundation

- **Directors and officers (D&O) insurance:** Your D&O policy's claim definition is critical and should include criminal proceedings and regulatory investigations, extradition proceedings and non-monetary relief, including injunctive relief.
- **Employment practices liability (EPL) insurance:** EPL claims represent the largest single source of litigation against nonprofits. Coverage is essential even for organizations with minimal employees because claims can arise from contractor relationships, volunteer interactions and third-party situations.
- **Professional liability/errors and omissions (E&O):** Coverage should address negligence in service delivery, failure to adhere to your stated mission and vicarious liability for unqualified contractors.
- **Cyber and crime insurance:** Essential coverage is recommended.
- **Definition of loss:** The policy's definition of loss should include punitive damages (where insurable by law), exemplary damages, multiplied damages, civil penalties and regulatory fines.

Strategic risk management beyond insurance

While insurance provides essential financial protection, it works best when paired with proactive governance, clear communication, thorough documentation and robust operational controls.

- **Enterprise risk management (ERM):** Effective risk management extends beyond insurance to scenario planning, board oversight and essential financial controls.
- **Communication and messaging:** Review website content to avoid claims that could attract regulatory attention or concern underwriters and consult with labour counsel on communications around sensitive topics.
- **Documentation best practices:** Maintain comprehensive financial records and keep training records with policy acknowledgements. Document volunteer screening and oversight and vendor contract reviews.
- **Operational controls:** Conduct organizational gap analysis every one to two years and prioritize technology oversight, including data security.

Nonprofit leaders face increasing risks and limited resources. To succeed, they need a clear, integrated risk management strategy that combines insurance, governance, compliance and operational controls.

Coordinating risk management across all teams is essential. Experienced nonprofit advisors can help review your coverage and programs to build resilience and advance your mission. Download this nonprofit insurance checklist to ensure your organization has the right coverage for evolving exposures.

To learn more about protecting your nonprofit in this evolving landscape, **contact a HUB nonprofit insurance specialist** today.

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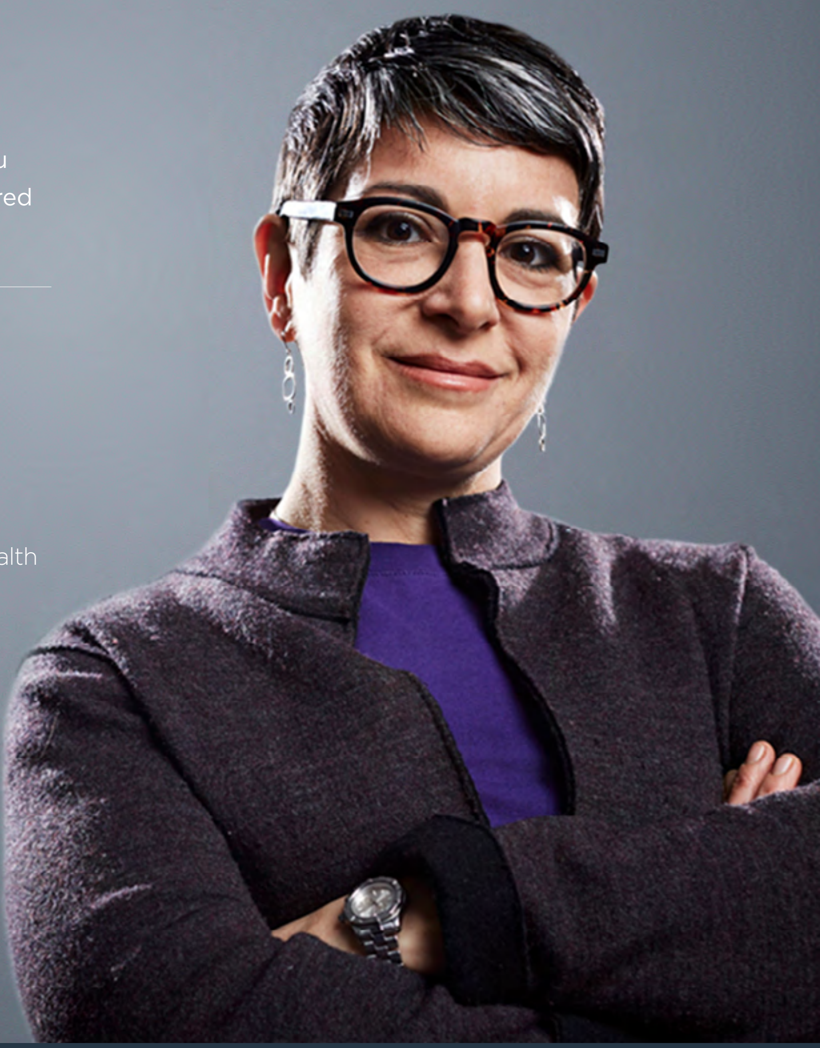

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