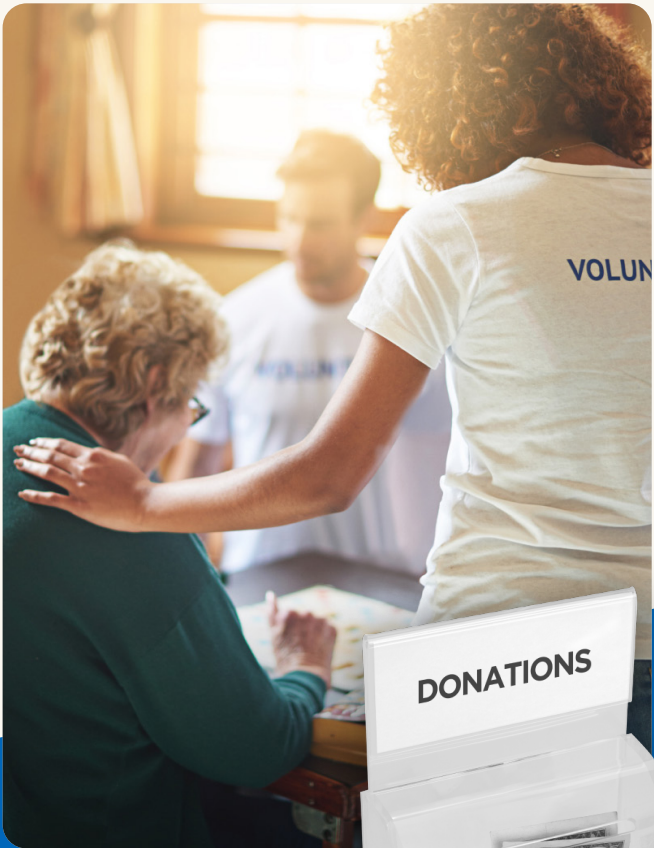


HUB 2023

Outlook.

Nonprofit



Economic headwinds, cybercrime and labour shortages challenge nonprofits.



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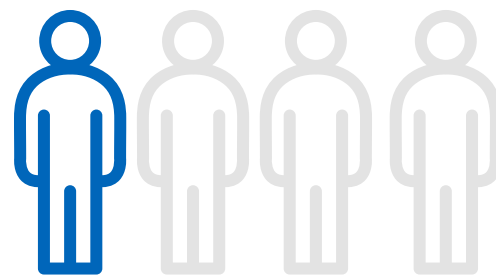
About HUB

HUB Nonprofit

Setting the Scene

Nimble nonprofits embrace enterprise risk management.

Economic uncertainty and a looming recession will test nonprofits in 2023. Rising inflation will drive up operational costs, while an economic downturn will reduce endowments and government funding. But nonprofits with a solid risk management strategy will be better positioned to survive and thrive.



One in four Canadian donors expect to give less in 2022 than they did in 2021.¹

1. Canada Helps, "2022 The Giving Report," accessed October 21, 2022.

What to Expect in 2023

Labour shortages and inflation present challenges to nonprofits in 2023. Donor hesitancy, rising costs, cyber threats and falling endowments will further test organizations. In the face of such challenges, an enterprise risk management strategy will improve their resiliency.



Economic volatility will put organizations to the test.

Coming out of the COVID-19 pandemic, nonprofits saw greater demand for services, particularly for health and human services organizations. While some nonprofits saw a surge in revenue from increased public awareness of their missions, others faced funding challenges, and demand for their services is outpacing their finances.

More than half of nonprofits reported lower revenues in 2021 compared with 2019, and 23% said their revenues dropped by more than a quarter.²

With economic uncertainty and interest rate hikes,³ individual and corporate donors will be less likely to open their cheque books. Inflation generated increased costs for transportation, goods and wages, pinching nonprofits' bottom lines. Many organizations don't have the financial flexibility to absorb higher costs.⁴

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said their revenues dropped by more than a quarter.²

These pressures are prompting some nonprofits to consider mergers or amalgamations.⁵ Organizations that align with complementary nonprofits will be better prepared to weather the inflationary environment, maximize their abilities and expand their pool of potential donors.⁶

2. Imagine Canada, "[Priorities and Challenges for Nonprofits in the First Quarter of 2022](#)," March 9, 2022.
3. RBC, "[Proof Point: Canada's recession to arrive earlier than expected](#)," October 12, 2022.
4. Imagine Canada, "[Inflation Driving up Demand and Costs While Creating Desperation](#)," July 25, 2022.
5. Calgary Herald, "[New horizon for affordable housing as two Calgary nonprofits set to merge](#)," July 27, 2022.
6. Stanford Social Innovation Review, "[Buy to Build: Nonprofit M&A as an Impact Enhancer](#)," February 28, 2022.



Stronger benefits packages will attract and nurture employees.

With increased competition in a tight labour market continuing through 2023, nonprofits are embracing a total rewards approach to support their employees and aid in recruitment and retention efforts.

More than a third of nonprofits said that finding qualified workers was a significant challenge; 32% cited retention of skilled workers as a top concern.⁷

Many organizations are creating an employee value proposition supported by total rewards, which benefits workers and aids nonprofits in their recruitment and retention efforts. By expanding benefits beyond core health and disability coverages to include health savings accounts, retirement plans, professional development opportunities, hybrid work environments and additional personal time off, organizations are creating a loyal workforce and setting themselves apart from others in their search for qualified workers.

Organizations also are struggling to reclaim volunteers that have dropped off since the pandemic.⁸ More than 24 million individuals donated about 5 billion hours to Canadian nonprofits in 2021.⁹ But fewer adults say they have time to contribute, and those who volunteer



feel disconnected from their organizations because of a shift to virtual events.¹⁰ These challenges may force nonprofits to develop focused volunteer training programs that accommodate individuals' lack of time.

7. Imagine Canada, "[Priorities and Challenges for Nonprofits in the First Quarter of 2022](#)," March 9, 2022.
8. CTV, "[Low volunteer turnout has local non-for-profits feeling the pinch](#)," August 15, 2022.
9. Foundation, "[Volunteerism: Where do we stand? And what's next?](#)" August 30, 2022.
10. Independent Sector, "[Health of the U.S. Nonprofit Sector](#)," October 2021.



A shift to enterprise risk management will support the bottom line.

Few nonprofits had adequate contingency plans to cope with a global shutdown and its aftermath, leaving many cash-strapped. However, the pandemic is prompting more organizations to adopt an enterprise risk management (ERM) approach to risk. ERM is a business strategy that uses methods and processes to identify and manage risks in an organization.

Whether it's a disaster, violence, data breach or pandemic, recognizing threats to organizational resiliency and taking steps to mitigate those risks will be key for nonprofits' longevity. This ERM approach should extend to donor communications. With scarce resources and fewer donors, nonprofits need to better convey their stories to the public, accentuating measurable outcomes that help them stand out from other causes.

Using social media to share testimonials from real people whose lives were changed because of the nonprofit's work will be one approach to drive this communication in 2023. Social platforms also will be leveraged to highlight how donors can further a nonprofit's accomplishments.

Recognizing threats to organizational resiliency and taking steps to mitigate those risks will be key for nonprofits' longevity

But the increased use of technology brings cyber risks, which remain a significant concern for nonprofits. Cyber insurance rates will rise in 2023 — with healthcare nonprofits facing increases as high as 300%. To just obtain coverage, safeguards — such as multifactor authentication (MFA), endpoint detection and response and cybersecurity screening — will be imperative. Managing third-party vendor contracts with access to data can further offload risk and protect the organization in the event of a breach.



Inflation, reduced giving will affect financing.

Continued high inflation in 2023 will hurt nonprofits' finances, regardless of whether the organization relies on government funding, endowments or donations. The percentage of Canadians who give has declined 6% in the past 15 years, and overall donations dropped an estimated 12% between 2019 and 2021.¹¹ This trend of fewer Canadians donating less of their income each year is projected to continue.¹²

With fears that post-pandemic inflation will further erode giving, nonprofits that rely on philanthropic donations may struggle to stay within their budgets while continuing to offer the same level of services.

With government contracts set at rates that don't account for inflation and seldom cover an organization's full indirect costs, nonprofits relying on those agreements will struggle financially as costs for transportation, operational expenses and administration skyrocket.

However, nonprofits will be able to lean on technology to operate more efficiently¹³ and create additional giving opportunities. For example, nonprofits that leverage their donor data can identify the most involved benefactors and find new ways to target those donors and



increase engagement with the organization. Nonprofits also are embracing crowdfunding technology as a convenient fundraising tool.

But charities utilizing crowdfunding platforms should know that Parliament has budgeted funds to increase scrutiny of these platforms to combat money laundering and terrorist actions.¹⁴

11. CBC, "[Charities in Canada stretched thin as donations drop, demand rises, report says](#)," April 5, 2022.

12. CTV News, "[Charitable donations on the decline in Canada: Fraser Institute Report](#)," December 9, 2021.

13. BDO "[How tech & culture support sustainability](#)," June 30, 2022.

14. Imagine Canada, "[Priorities and challenges for nonprofits in the second quarter of 2022](#)," May 9, 2022.



Make a plan

HUB can help develop a strategy that will protect the bottom line, support your workforce and build resiliency for 2023. Here are some initial considerations:



Embrace Total Rewards in your benefits approach.

Give your employees the ability to personalize their benefits. The big differentiators are retirement benefits, mental health benefits, flex time, employee value proposition and a clear career ladder.



Leverage the power of analytics.

Your broker can help you make objective, defensible decisions about coverage limits and how much risk to absorb through deductibles and self-insured retentions. Analytics goes well beyond benchmarking to take the guesswork out of your insurance coverage and give you actionable insights.



Find face-to-face time with your underwriter.

Understand the root cause of your large losses and loss trends and let carriers know what you're doing to prevent future losses. A personal conversation that enables you to tell your story and explain how you approach risk management makes a positive impression that will serve you well when it comes to securing favourable treatment.



Transparency with your broker is key.

Let your broker know what changes you've made to the organization throughout the year, so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, allowing your broker extra time to identify the best options.



Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for Canada.

On the next page is our outlook on insurance rates in Canada for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.



Rate Outlook — Canada

| Coverage | 2023 Canadian Rate Outlook | Insights |
|----------------------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Automobile | ↑ 5% | <p>Automobile rates in Canada will slightly increase. Fleets may expect to see more aggressive pricing by new entrants to the marketplace.</p> <p>Quebec policyholders may see more favourable rates and better terms.</p> <p>Rates for policyholders in provinces with public auto will remain mostly flat.</p> |
| Liability | ↑ 5% to 10% | <p>Policyholders could see increases of up to 10% in general liability depending on class and loss experience. Companies with good loss experience may see rate reductions.</p> <p>An increasingly competitive medical malpractice marketplace has driven down rates. Policyholders are likely to see flat rates or small drops.</p> |
| STRATA/Condo | ↑ 5% to 10% | <p>Property valuations are rising 7% to 10%, and although insurance rates remain relatively flat, the increasing valuations may lead to rate hikes of 5% or more to account for rising claims costs.</p> <p>Capacity has historically been limited, but more competition is entering the marketplace. However, this may be short lived with the market for catastrophe reinsurance hardening.</p> <p>Quebec policyholders will see rate increases of 5% to 10% as capacity remains limited.</p> |
| Umbrella & Excess Liability | ↑ 5% or higher | <p>Rates will increase 5% or more depending on class and loss experience. Best-in-class policyholders will see flat renewals or slight rate upticks based on increased exposure.</p> |
| Property | ↑ 10% or higher | <p>Best-in-class insureds will have more modest increases, with escalating competition for new business commercial property (Class A & B).</p> <p>Quebec insureds will see 5% increases but can expect better terms.</p> <p>Insurers are focused on insurance to value with rising inflation; clients will experience higher premiums due to an increase in building values.</p> |
| Directors & Officers | ↑ 5% to 10% | <p>Rates will depend on the strength of an insured's financials and industry outlook. Clients that restructure placement may be able to secure premium reductions.</p> <p>Quebec insureds will see rates of 15% or higher due to legal defense cost payouts.</p> <p>D&O coverage will be challenging for healthcare and particularly long-term care. Insureds in those sectors can expect rate increases of 10% to 20%.</p> |
| Cyber Liability | ↑ 10% or higher | <p>Rates will increase from 10% to 200% based on cyber controls, loss history and industry.</p> <p>Healthcare will see rate increases for cyber coverage of 200% to 300% as carriers reduce capacity.</p> |
| Environmental | ↑ 5% to 10% | <p>Capacity restrictions for certain risks and increasing claim severity remain a challenge.</p> |
| Inland Marine | ↑ 5% to 10% | <p>Rising accident frequency and severity will prompt continued rate increases in this sector.</p> |

Industry Perspective Rate Outlook — Canada

| Industry | 2023 Rate Outlook | Insights |
|-------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Agribusiness | ↑ 5% to 10% | Regional mutual insurers are the primary providers in agribusiness. Livestock will see rates rise 10% to 15% at renewal due to decreased capacity and market appetite. |
| Cannabis | ↑ Flat to 5% | <p>For the past four years, rates in this emerging market have been high primarily due to lack of capacity, but in 2023 further rate increases will be minimal.</p> <p>D&O and cyber will remain challenging, with limited capacity due to few carriers writing business in this industry. Although competition in the D&O market is increasing, expect rate increases of 10%, depending on the insured's financial health.</p> <p>Property and liability rates will rise 5% to 10% due to rising construction costs.</p> |
| Construction | ↑ 5% to 10% | <p>Supply chain delays, labour shortages and rising inflation will continue to drive construction costs up for both commercial and residential projects. Rates will rise about 5% depending on risk, largely due to higher property valuations affecting premiums.</p> <p>The lack of skilled workers is likely to result in higher liability rates.</p> |
| Entertainment | ↑ 5% | <p>The industry is facing reduced coverage, increased deductibles and limited coverage options, with rates rising 5% to 10% in 2023. However, rates are beginning to stabilize.</p> <p>In auto (touring), higher levels of claim frequency and severity have resulted in decreased carrier appetite.</p> <p>Larger venues may struggle to find sufficient coverage.</p> |
| Financial Institutions | ↑ 5% to 10% | <p>Rates for general partnership liability coverage will increase 5% to 10%. Portfolio company private D&O renewals will likely have flat to 10% rate increases, although insureds that agree to increase retentions may see rate decreases. Financial institutions with significant long-term debt may see increases at renewals of 20% or higher.</p> <p>Cyber rates will continue their ascent and insureds can expect premium increases of 20% to 40%, although some institutions could see rates rise as much as 300%.</p> |
| Healthcare | ↑ 10% to 20% | <p>Until we see the impact of increasing interest rates, inflation will drive up the cost of premiums. The trend toward adding components of private healthcare will continue to change the healthcare landscape in Ontario, and other provinces may follow.</p> <p>A softening market in senior care will keep property rates flat for that sector. However, inflation will continue to drive up building valuations, increasing costs.</p> |
| Hospitality | ↑ 10% to 20% | <p>Rising building valuations — up 10% compared with the prior year — may continue.</p> <p>Protected property risks will see rates rise 5% while challenged properties can expect rate increases of 10% or greater. The double-digit rate increases in liability in recent years have waned, mostly due to increased risk management protocols by insureds.</p> <p>Capacity for liquor liability continues to be challenging.</p> |

Industry Perspective Rate Outlook — Canada

| Industry | 2023 Rate Outlook | Insights |
|-----------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nonprofit | ↑ 10% to 20% | <p>Supply chain delays, reduced government funding, labour shortages and a potential recession will challenge nonprofit organizations.</p> <p>The availability of liquor liability coverage for hosting private and public events remains limited.</p> <p>Rates for umbrella and cyber coverage are likely to increase in excess of 30%.</p> |
| | ↑ 5% to 10% | <p>All insureds will face increased underwriting scrutiny on insurance to value. Premium costs are increasing due to rising construction costs and supply chain delays. With fewer carriers competing for business, some insureds will need to evaluate their total insurance budget and limits purchased. Best-in-class properties with sound business continuity plans will move to the top of the underwriting pile.</p> |
| Real Estate | ↑ Flat to +10% | <p>Residential and Multifamily: Best-in-class residential realty will find increased capacity in the market and may obtain rate reductions, but underwriters remain disciplined in this industry. Overall premiums are up as insurance to value and reconstruction costs have increased.</p> |
| | ↓ Flat to -5% Best-in-class | <p>Commercial real estate: More insurers have entered this space, and best-in-class-properties can expect rate reductions.</p> <p>Older properties, catastrophe-exposed properties and insureds with poor loss experience can expect high levels of underwriter scrutiny.</p> <p>Deductibles for flood and earthquake exposures will rise to limit carrier exposure.</p> <p>In Manitoba and Saskatchewan, rates for framed realty will rise 10% to 15%, with inflation potentially pushing premiums higher.</p> |
| Sports | ↑ 10% to 20% | <p>Capacity remains limited in the industry. With few new entrants to the marketplace, rates will continue to rise.</p> |
| Transportation | ↑ 5% to 10% | <p>The market is more stable than in the past few years, and best-in-class insureds will see better terms and conditions. However, insurer interest in the trucking segment remains limited across the provinces.</p> <p>Umbrella coverage will remain challenging, particularly for transportation companies with exposure in the U.S.</p> <p>Auto dealerships will continue to struggle for coverage, with rates rising 15% or more in 2023.</p> |

NOTE: *Rate* is typically defined as the amount of money necessary to cover losses, expenses and provide an insurance company with a profit for a unit of exposure. *Exposure* refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

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