

NGO/INTERNATIONAL AID & DEVELOPMENT ORGANIZATIONS

RISK & INSURANCE BENCHMARKING REPORT

2023

AHT
INSURANCE
A BALDWIN RISK PARTNER

With expert content from our partners at BDO





2023 NGO/International Aid & Development Organizations Risk & Insurance Benchmarking Report

REPORT SUMMARY

The eighth Annual Risk and Insurance Benchmarking Report for International Development organizations encompasses the second half of 2022 through the end of Q2 2023. This time span presented especially complex challenges for the International Development community – from the ongoing conflicts in Ukraine and Sudan, civil war in parts of Ethiopia, coups in the Sahel and floods in Pakistan. These events, as well as the continued resumption of full program operations coming out of the COVID-19 pandemic, have prompted organizations to review and adapt their approaches to risk management. These global events are also contributing to an uncertain insurance market where clients can expect 10+% rate increases in some lines of coverage.

The intent of this report is to provide the International Development community with data to make actionable decisions about risk management approach and insurance program structure. The specific areas this report seeks to address:

- Peer buying patterns for limit and coverage
- Peer risk controls
- International Development community claims trends
- Recent risk management best practice trends

It is our hope that the data contained within will help organizations better manage risk to enable programs and ultimately better fulfill the mission or the organization.

Sincerely,

The AHT International Development Practice Group

PURPOSE OF RISK & INSURANCE BENCHMARKING REPORT

AHT's NGO and International Aid & Development Organizations (IADO) Risk and Insurance Benchmarking Report was founded on the premise that true empirical insurance benchmarking data for the NGO and the International Development community was challenging to obtain via existing third-party resources. Recognizing that key stakeholders desired this data to inform their larger risk transfer philosophy, this report serves to fulfill that key function but also to highlight key findings, summarize the potential impacts on NGOs and IADOs, and review direct comparisons to last year's results. A complete view of the 2023 survey results, presented as graphics, is upcoming in the report.

When using this report as a part of a decision-making process, it is important to consider:



Your organization's overall tolerance for risk



Any unique exposures faced by your organization that increase or diminish your overall risk and exposure (e.g. mission/nature of work performed, board composition, security conditions in which you operate, etc.)



Any contractual/funder requirements

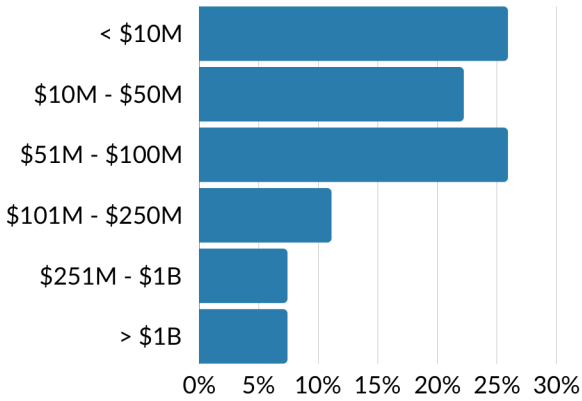


Legal/regulatory landscape of programmatic countries, including requirements for local, compulsory coverage

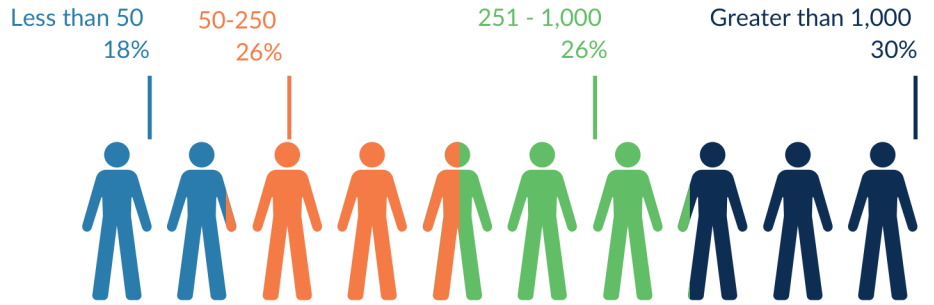
2023 NGO & International Aid Organizations Risk & Insurance Benchmarking

TELL US A LITTLE MORE ABOUT YOUR ORGANIZATION

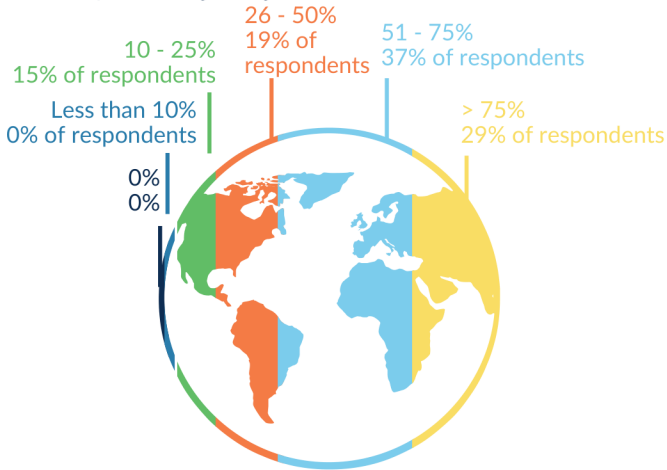
What is your annual budget?



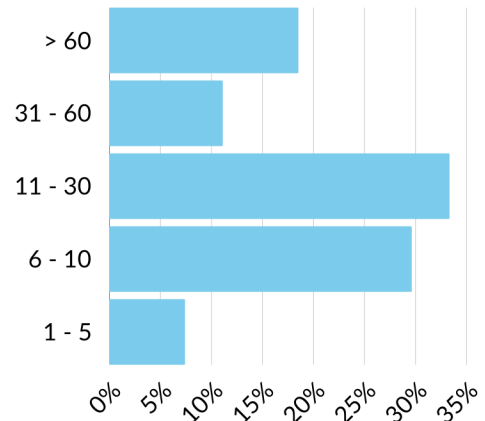
How many employees do you have worldwide?



What percentage of your staff is based overseas?

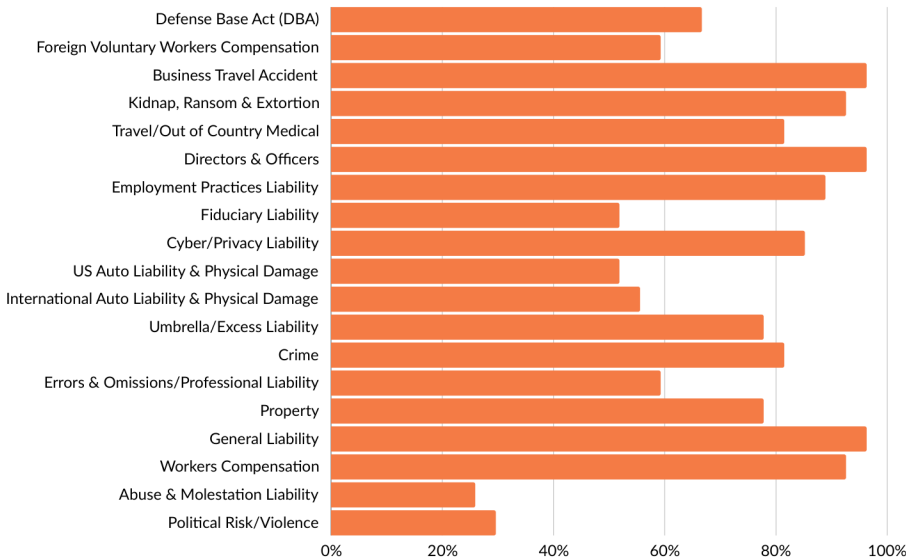


In how many countries does your organization operate?

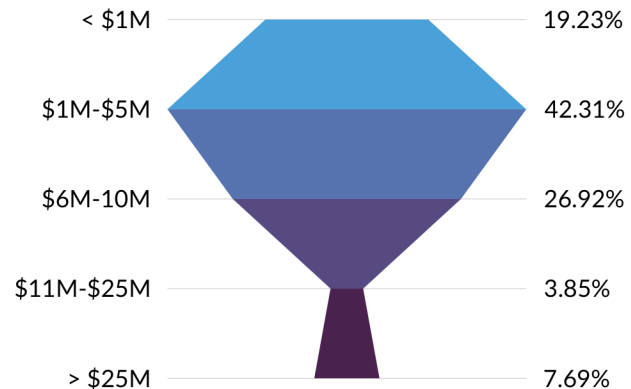


INSURANCE LIMITS

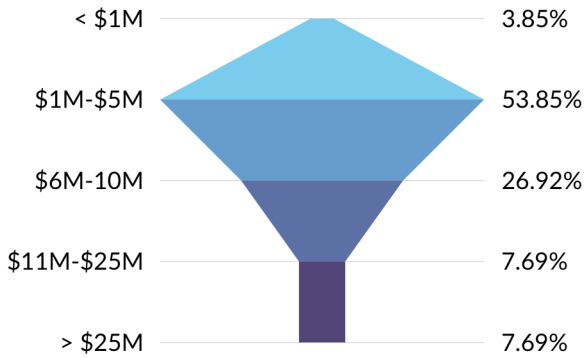
What types of insurance does your organization currently purchase?



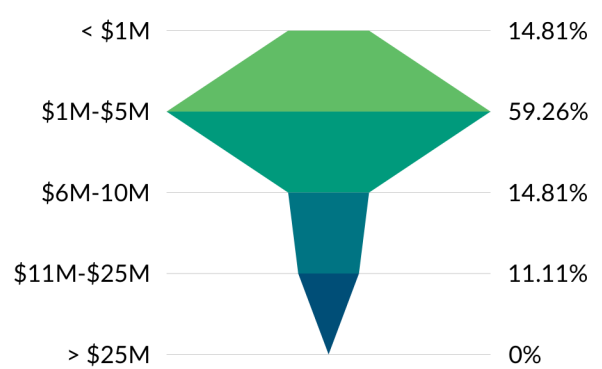
What is our organization's current Umbrella/Excess Liability limit?



What is our organization's current Director and Officer's Liability limit?

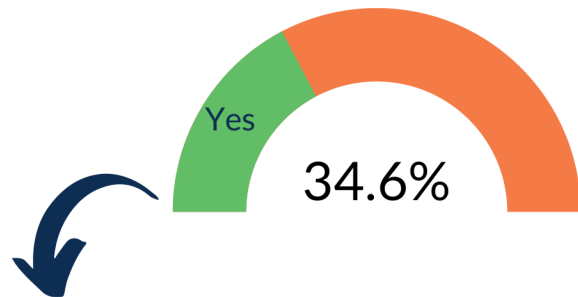


What is our organization's current Cyber/Privacy Liability limit?

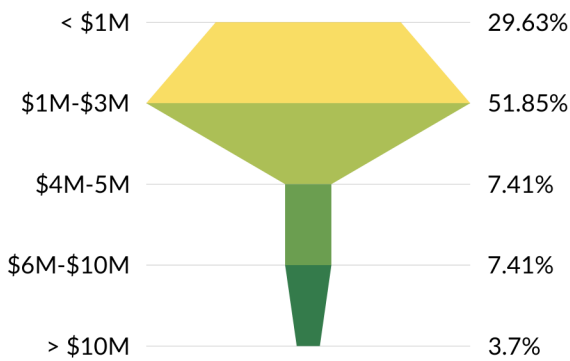


RISK MANAGEMENT SYSTEMS

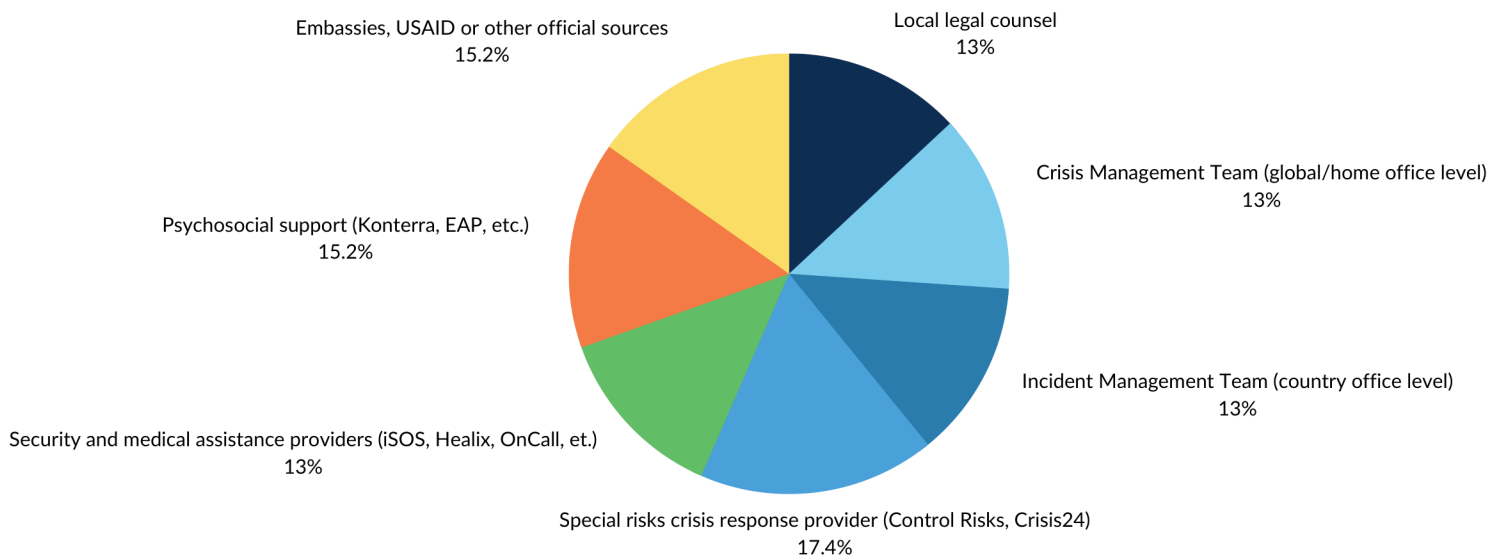
Has your organization experienced a wrongful detention or expulsion of team members?



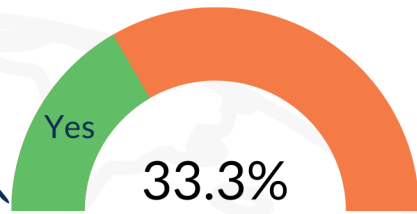
What is our organization's total current Crime limit?



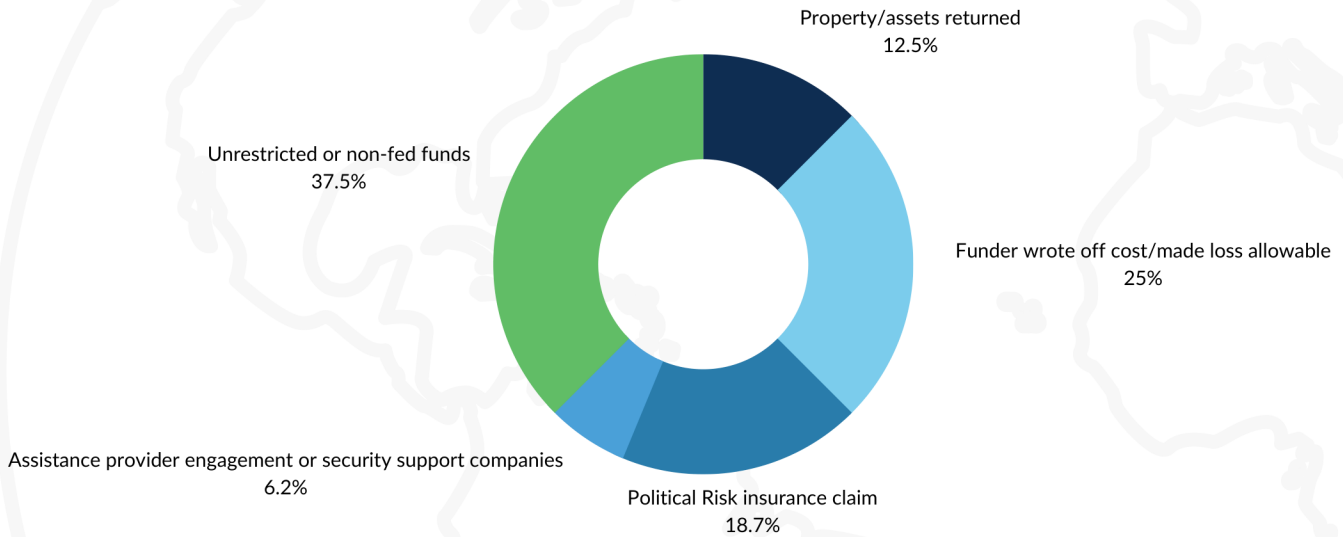
Which resources were important in managing the response?



Have any assets or property (vehicles, office space, computeres, etc.) been seized or confiscated by government or defato authorities?



How was the situation resolved?



Does your organization purchase War Risk coverage on Business Travel Accident or other insurance programs?



If yes, it is purchased?

On a case by case basis per location or trip. 53%



Globally on a blanket basis. 47%

UNFRIENDLY HOST GOVERNMENTS - DETENTIONS, PROPERTY CONFISCATION

For NGOs implementing aid and development programs globally, risks come in various shapes and sizes – including those from unfriendly authorities. Whether it's the detention or expulsion of team members or seizure of property, these risks have long been present but political instability, increasing authoritarianism, conflict and a raft of restrictive NGO laws have increased the frequency of these incidents. Our survey found:



1/3 OF RESPONDENT ORGANIZATIONS EXPERIENCED WRONGFUL DETENTION

Defined as detention that is arbitrary, disproportionate or designed to extract political or other concessions, these incidents may be directly related to the work being done by an NGO or related to wider political or geopolitical issues. In recent years NGO staff have been wrongfully detained in Zimbabwe, Russia, Egypt and Pakistan amongst other locations.



MULTIDISCIPLINARY RESPONSE

In keeping with crisis management best practices, organizations reported using a range of resources to help resolve wrongful detention cases including local legal firms, embassies and funders such as USAID, psychosocial support along with crisis and incident management teams.



ROLE OF SPECIAL RISKS RESPONSE PROVIDER

Almost 90% of survey respondents relied on the crisis response provider from their Special Risks/Kidnap, Ransom, Extortion insurance policy to support response to wrongful detention. While this support looks different from that provided for kidnap for ransom, the crisis response consultants can provide invaluable guidance on key topics including internal and external communication, stakeholder engagement, family support and general crisis management.

While “people risks” are primary for most NGOs, seizure and confiscation of property by governments and de-facto authorities occurs at similar levels to wrongful detention. NGOs have had property seized in Egypt, Sudan, Yemen and elsewhere. Respondents dealt with the paying for or replacing seized property in different ways including using unrestricted funds, asking funders to “allow” the costs or relying on political risk insurance.

SEIZED OR CONFISCATED PROPERTY:

44% Funders wrote off or otherwise allowed the cost of the loss to be charged to an award.

65% Unrestricted or non-fed funds to cover the loss.

33% Political risk insurance coverage.


Clients have used a combination of methods depending on the nature of the event.

WAR RISK INSURANCE COVERAGE - MYTHS & REALITIES

Prompted in large part by the conflict in Ukraine, few insurance topics have elicited more questions from NGOs than War Risk coverage.

If War Risk Insurance isn't listed on a schedule of insurance, does it mean there isn't coverage in places like Ukraine? First and foremost, it's important to clarify that War Risk coverage is not a specific line of insurance. The more accurate term is War Risk Exclusion meaning that harm due to war-related events is excluded from a number of policies – most importantly BTA and Int'l Package for NGOs.

With the War Risk exclusion in place, insurance is still in place for non-war related harm. For example, if team members were injured in a road traffic crash in Ukraine coverage (out of country medical, guarantee of payment, medical evacuation, etc.) would be available. However, if those same team members were injured in a missile attack coverage would not be available.



In a BTA policy, the cost of buying back a War Risk exclusion is based – “rated” in insurance-speak – on the principal sum/limit of the Accidental Death and Dismemberment coverage. Buying back the War Risk exclusion provides for the full range of coverages – AD&D, out of country medical, medical evacuation, security evacuation, etc – in a BTA to be applied to harm that results from a war-related risk.

How can the War Risk exclusion be removed? Yes, War Risk exclusions can be removed or “bought back” by paying an additional premium. Cost will vary based on location and exposure and there are generally two approaches used by NGOs for buying back a War Risk exclusion on Business Travel Accident policies:



Policy term (purchased in full). Where the cost isn't exorbitant and travel is frequent (and where allowed by the carrier), buying back the War Risk exclusion for the entire policy term secures the coverage for all travelers and reduces administrative reporting burden.



Trip by trip basis. Where there is limited travel and/or if the cost of coverage is significant, buying back the exclusion on a trip-by-trip basis may make more sense. Typically, this requires notifying the carrier in advance of travel to report trip details. In Ukraine, some carriers have allowed a hybrid approach where NGOs report travel to Ukraine on a weekly or monthly basis and buy back the War Risk exclusion based on that data.

Are there alternatives to buying back War Risk exclusions? Unquestionably the cost of buying back War Risk coverage on a BTA can be exorbitant, especially if there is significant volume of travel to locations like Ukraine. Some NGOs – especially those who can't charge the cost to USG awards – have elected to self-insure a portion of the coverage.



For example: A NGO recently reduced their Accidental Death & Dismemberment (AD&D) limit – aka principle sum – from their global limit of \$250k to \$50k in Ukraine and committed to paying the difference in the event of a claim from unrestricted funds. Of course this option is only available to organizations with sufficient funds to self-insure.



AHT NGO/INTERNATIONAL AID & DEVELOPMENT ORGANIZATIONS – 2023 RISK & INSURANCE BENCHMARKING REPORT

-Written with expert insight by BDO

Addressing Fraud Trends that Affect International Development and Aid Organizations

Allegations of misconduct, fraud, waste, abuse, or other financial anomalies can occur in any organization. For nonprofit organizations, the repercussions of such incidents transcend mere financial loss and can lead to the eroding public of trust, straining of donor relationships, jeopardizing mission-critical initiatives, and the hindering of an organization’s core purpose. More specifically, international aid and development organizations implement programs in some of the most challenging areas in the world. This creates a unique set of risks, such as the difficulties conducting oversight/monitoring in remote areas and increased pressures for “bad actors” to attempt to divert an organization’s precious resources.

Recent Fraud Trends

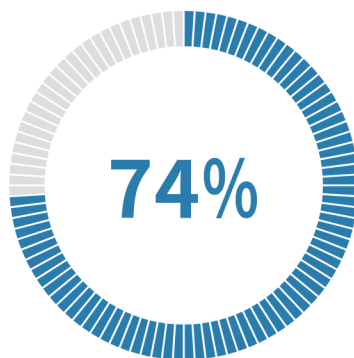
SOCIAL ENGINEERING



Social engineering are techniques designed to deceive a target into revealing specific information or performing certain actions for illicit reasons.



Social engineering continues to be one of the top threat actions used in successful breaches of organization systems (roughly 30% of attacks)[1]. 74% of breaches involve the “human element”, which includes social engineering attacks, errors, or misuse. 50% of social engineering attacks are pretexting incidents (use of stories) – double last year’s total.



74% of breaches involve the “human element”, which includes social engineering attacks, errors, or misuse.

[1] <https://www.verizon.com/business/resources/reports/dbir/2023/introduction/>

RISKS FROM INCREASED USE OF ELECTRONIC PAYMENT/MOBILE MONEY TECHNOLOGY



Electronic payments (E-Payments) allow customers to pay for goods and services electronically. Mobile money is a type of E-Payment financial service that allows users to store, send, and receive money using a mobile phone.



Mobile money is experiencing significant expansion, particularly in Africa, due to factors such as enhanced technology accessibility, challenges in accessing conventional financial services, and a rise in contactless payments associated with the COVID-19 pandemic. Although helpful, the use of technology also reduces the element of in-person verification and creates risks of abuse/misuse by individuals responsible for managing these payments at international aid and development organizations. This can include the paying of ghost payees or even just errors in payments.



***Mobile money expansion | Rise in contactless payments
Creates risks of abuse and misuse.***

CONTINUED REMOTE OVERSIGHT



Site visits, such as headquarters personnel visiting country offices or a prime visiting its subrecipients, allow observation of program operations and compliance with established financial procedures.



As a result of COVID-19 there has been a decline in site visits over the years. This lack of direct oversight has led to an uptick of remote offices/subrecipients who have strayed from their established policies procedures and allowed “bad actors” an opportunity to take advantage of weak controls.

Remote offices and straying from policies have allowed “bad actors” to take advantage of weak controls.



Internal Controls

VALUE OF A ROBUST SYSTEM OF INTERNAL CONTROLS

Establishing and maintaining a robust system of internal controls is still the most effective deterrent of fraud. A staggering 49% of fraud incidents are attributed to either inadequate internal controls or the overriding of existing controls.[2]

Whistleblower hotlines also play a pivotal role, accounting for 42% of fraud detection. Over half of these tips originate from employees. Notably, organizations without such hotlines face a 100% higher median loss and take 50% longer to detect fraud.

Training matters too! An alarming 85% of fraudsters exhibit warning signs and its important staff are trained on these warning signs. According to the Association of Certified Fraud Examiners (ACFE) 2022 Report to the Nations, the two most common red flags continue to include living beyond one's means and financial difficulties. Other warning signs include getting too close to vendors or customers.

STEPS FOR BUILDING A COMPLETE SYSTEM OF INTERNAL CONTROLS



Cultivate. Cultivate a robust control environment (i.e., the set of standards, processes, and structures that provide the basis for carrying out internal control across an organization), encompassing:

- Detailed policies and procedures.
- Strong leadership with an ethical emphasis.
- An explicitly defined Code of Ethics and Conduct that is echoed consistently by management (both verbally and in action).



Risk Assessment. Carry out consistent risk assessments (often done by internal audit/compliance functions) to ensure you understand the risks which are relevant to your organization (including fraud risks). This should include persistent and new risks.



Nonprofits have a median loss of \$60k due to fraud.

[2] <https://acfe-public.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>



Identify. Design and integrate mitigating control mechanisms to address identified risks.



Monitor. Undertake continuous monitoring to evaluate the proper execution of established controls – as you read in the Vegas casino example above, controls mean nothing if not executed properly.



Organizations lose an average of 5% of revenue to fraud annually.

In sum, as the world evolves, so do fraudulent tactics. In order to protect the resources that drive their missions and their reputations, it's imperative for international aid and development organizations to be vigilant, adaptive, and proactive in their approach to countering these threats. Strong internal controls are the linchpin of this endeavor, ensuring mission integrity and continued public trust.

**Thanks to BDO for providing their expert insight and support for the NGO community.*



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BDO supports international organizations through identifying and mitigating risks, quantum analysis, minimizing potential fraud, and audit and assurance support.



IN CONCLUSION

The past months offer ample reminders of the important role risk management plays in enabling international development programs and activities. AHT remains committed to being a trusted partner and resource to help navigate emerging risk trends, as well as the overall insurance market. Our goal is to have this survey serve as a valuable tool for stakeholders to address the risks faced. Risk will continue to be dynamic, the insurance industry will continue to adjust to risks and the associated claims that present, and AHT will remain committed to providing strong and effective insurance and risk management services to the International Aid and Development community. We value our continuing partnership with the community and leveraging all our expertise to bring creative risk and insurance solutions to these changing dynamics.



Our team of NGO/IADO experts provides exceptional knowledge and experience in the industry – affording them the ability to provide solutions for any situation, as they’ve most likely encountered it before.

MEET THE TEAM



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CRM**
Senior Partner

AHT'S INTERNATIONAL AID &
DEVELOPMENT
ORGANIZATIONS TEAM
THANKS YOU
FOR YOUR CONTINUED WORK
TO DRIVE THE MISSION OF
YOUR ORGANIZATION