

LEGAL AND COMPLIANCE

Insurance Guide for Social Impact Organizations



A STEP-BY-STEP GUIDE

Looking to learn about your legal insurance requirements and other coverage options? Find out more



FSI

FOUNDATION FOR SHARED IMPACT

Introduction

A social impact organization is a term that includes a large variety of business models with a common purpose to serve a social mission. It can be a charity organization, a non-profit organization (NPO), a non-governmental organization (NGO), or a social enterprise.

As a legal entity, social impact organizations have employees, board of directors, and clients. They may own goods, equipment, and/or data. They may have an online presence in the form of a website and/or social media channels. They may sell goods through their website. They may provide advice and services. They may sign contracts with their suppliers, partners, and their landlords.



The above activities generate risks that can trigger financial losses for the social impact organization. An employee injured in a work-related activity will need to recuperate at home but will still need to be paid their wages. A burst pipe may flood a warehouse and damage the inventory or equipment of the organization or of a neighboring business. A photo on the organization's website may breach intellectual property rights.



Insurance can help your organization manage these risks and mitigate the impact of these events. While often seen as an unnecessary expense, in reality, insurance can give an organization financial security in case of unexpected events.

This guide will touch on the following commonly asked questions.

1

Are there any insurance packages dedicated to social impact organizations?

2

What are the necessary insurance coverage?

3

Are any of the above insurance mandatory by law or by contract in Hong Kong?

4

What is the best way to insure your organization?

5

What to do in case of a claim?

Are there any insurance packages dedicated to social impact organizations?

The Hong Kong insurance market considers social impact organizations as commercial clients and insurance coverage could therefore be found through non-life insurance companies through traditional channels. There are no standard insurance packages or products specific to social impact organizations, though one can be customized.

The term “social impact organization” encompasses several different legal entities (e.g., charities, nonprofits, NGOs etc.) and the nature of these organizations varies. It is essential to communicate with your insurance advisor (an insurance broker or agent) the nuances of your organization and the work that you do.

For example consider the following:



What is the extent of your organization’s resources?

In addition to having a financial goal, your organization has a social mission and may have limited resources. Understanding your organization’s capacity will help you determine the right insurance plan for your organization.



Do you have a governing board?

Members of the governing board are legally liable for their conduct and fiduciary duty, potentially placing their personal assets at risk if a claim is brought against them.



Do you engage volunteers in your organization’s work?

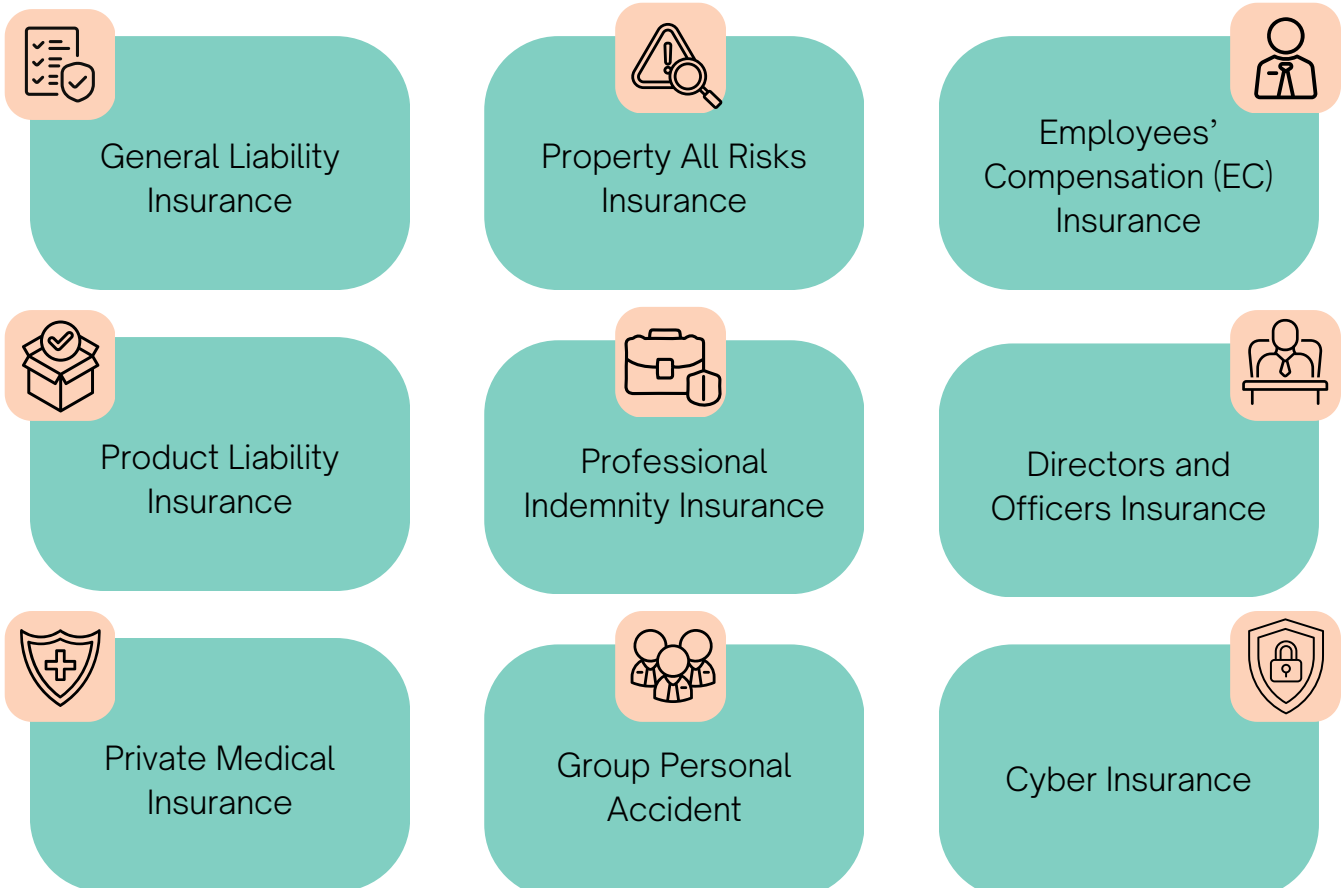
In the event of a work-related accident, volunteers are not covered within the Employees Compensation Insurance as they don’t have a work contract and do not receive a salary. It is important to mention the participation of volunteers to the insurance advisor so that they can extend the Public Liability Insurance to volunteers, in case they cause a damage to a third party while representing your organization.

What are the necessary insurance coverage?

The necessary insurance coverage addresses three main areas of risk:

1. The **liability risks** of the organization.
Since the organization is a legal entity, it is liable under common law for negligence or breach of duty toward third parties such as employees, clients, members, participants, landlords, and any other third party. In case a third party suffers damage, it is entitled to sue the organization and ask for financial compensation.
2. The **risk of losing the tangible assets** of the organization from a theft, a fire, or a natural catastrophe (e.g. typhoon).
3. The **risk of the staff being injured at work or falling sick**.

To protect your organization against these main areas of risks, you can consider the following nine types of coverage:



General Liability Insurance

It covers the financial compensation your organization may be asked to pay in case of an accident caused by your negligence to a third party. General Liability Insurance (sometimes called Public Liability Insurance) will include the legal cost of defending the claim.

If you rent your premises, the General Liability Insurance must include the tenant's liability extension which covers your organization against liability if you cause, by accident, damages to the landlord's property.

Accidents that can be potentially applied to General Liability Insurance happen every day in Hong Kong and could result in legal claims against your organization. Below are some examples:

- A visitor comes to your office or premises, falls down the stairs, and breaks their arm.
- One of your staff visits a client and spills some water on someone else's laptop.
- The flowerpot on your office balcony falls and hurts a pedestrian passing by and a car that was parked underneath your window.
- One of the water pipes in your office breaks and floods your neighbor's premises.
- A short circuit due to a defective battery causes a fire to your premises, damaging not only your property but also the landlord's property.

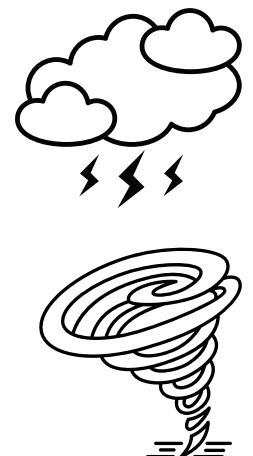


It is important to remember that General Liability Insurance will be limited to your premises. In case you are organizing an event outside your premises, please inform your insurance advisor so that they can suggest a solution to extend liability insurance outside your premises.

Property All Risks Insurance

It covers the physical loss to your organization's assets while on the premises (furniture, fittings, IT equipment, stocks) against several events such as fire, water damage, or natural catastrophes.

Property All Risks Insurance costs a few thousand Hong Kong dollars per year. Annual rates will vary between 0.10% and 0.30% applied to the amount insured. This is a key component of your insurance coverage as it will restore your organization to the same financial position as before the loss.



Provide your insurer with an accurate value of your content and inventory to be insured. Refer to [this post](#) for the steps to calculate the value of your organization's content and inventory. In case of loss, the calculated value is what your insurance expert will refer to. If your organization is underinsured, the insurance company will apply a proportional rule (sometimes referred to as an Average Clause) to your claim.



For example, on the day of the loss, your inventory is worth HKD200,000. The stated value of your inventory in your insurance policy is HKD150,000, therefore your organization is underinsured by HKD50,000 or 25% of the actual value. The insurer will then apply a proportional rule for the percentage in case of a loss, resulting in a diminished indemnity.

Employees' Compensation (EC) Insurance

EC Insurance covers your organization against your liability toward your employees when an employee suffers an injury at the workplace. It will cover the financial compensation due by the employer to the employee in case they sustain an injury from an accident arising out of and in the course of their employment, or in case they suffer incapacity arising from an occupational disease.

The EC Insurance is not Medical Insurance or Employee Benefits Insurance. EC protects the employer's liability and it will pay financial compensation to the employee under the terms defined by the Employees' Compensation Ordinance (ECO).

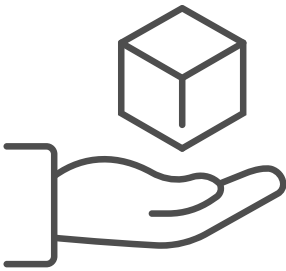
Under this Ordinance, the employer is liable to make the following compensation (among a few others):

- Periodical payments of 80% of the salary for a maximum period of two years
- Payment of medical expenses up to HKD300 / HKD370 per day
- Payment of financial compensation in case of permanent total or partial incapacity (factor of the monthly salary)



These first three lines of insurance (General Liability, Property All Risks, and Employees' Compensation) are often included in a combined insurance policy called **Business Package Insurance**.

Product Liability Insurance



It provides protection against sums that manufacturers or distributors become legally liable to pay because of damages caused by their products to third parties. Products sold or manufactured should be safe to use. Your organization can be sued for financial compensation if such products cause bodily injury or material damage to a third party.

Below are a few examples:

- Food products containing ingredients that cause food allergies that are improperly labeled or are contaminated;
- A defective electrical souvenir (e.g., a power bank) that is gifted at a fundraising event that short circuits, leading to a home fire;
- A defective toy included in a goodie bag that causes an injury to a child

Product Liability Insurance includes financial protection from:

- Legal Fees
- Financial compensation for the material damage
- Financial compensation for medical costs due to an injury

Professional Indemnity Insurance

It is useful if your business provides paid professional services such as consultancy, advisory, education or any other. In this situation, your customers might sometimes express dissatisfaction with the result and ask for financial compensation.



Professional Indemnity Insurance will cover:

- Legal claims against your business for allegedly negligent advice or service:
- Compensation if customers incur a financial loss due to professional negligence

Real life examples of claims:



An organization that holds children's extracurricular activities hands over a child to his or her father despite very strict instructions from his ex-wife not to let the child leave with the father. This situation causes the mother to have a significant stress and consternation resulting in her suing the organization for negligence.

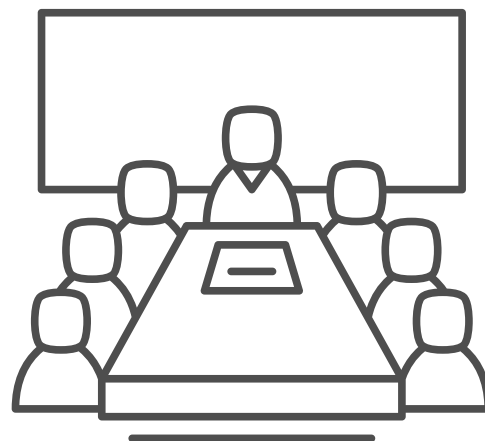


At a sports class offered by the social impact organization, a child suffers a small injury. The organization that hosts the class does not deem it necessary to call an ambulance or inform the child's parents. The parents realized only a few days later that their child was suffering from this injury. They decide to take their child for medical examinations. The parents are hugely dissatisfied and decide to sue the organization for negligence when test results show that the child was more injured than first thought. The parents claim medical expenses, travel expenses, and pain and suffering caused by this negligence.

Directors and Officers Insurance

This insurance provides protection to the directors and officers in your organization from third-party claims on decisions made by them in their official capacity. It covers the cost of any administrative, legal, or civil proceedings against the organization or its directors.

Members of the board of management or management committee are legally liable for their conduct, potentially placing their personal assets at risk if a claim is brought against them. To learn more about the legal and fiduciary responsibilities of the board of directors please refer to [FSI's Board Director Manual](#).



In certain situations, new potential board members to a social impact organization may only agree to join if such coverage is in place.

Private Medical Insurance

Private Medical Insurance provides coverage related to medical situations. It offers inpatient benefits (hospitalization), outpatient benefits, maternity, and dental. It could include limited travel insurance as well.



Despite the quality of the public healthcare system in Hong Kong, access to it can be challenging due to significant demand on the system. Hence more and more companies are offering their staff private medical insurance benefits. Annual premiums can vary from HKD4,000 per person for basic medical insurance benefits to a few thousand USD per person for a comprehensive package.

Group Personal Accident

Not the same as medical insurance, Group Personal Accident offers financial protection to the staff in case they suffer an accident during working hours or even outside of work. In general, benefits will include an indemnity in case of death or invalidity following an accident. It is important to note that Group Personal Accident Insurance offers protection to the employees whereas EC Insurance offers protection to the employer. Group Personal Accident Insurance pays an indemnity to the employee (or the beneficiary in case of death) in case of an accident.



Group Personal Accident can be extended to include critical illnesses and medical expenses.

Cyber Insurance

Cyber Insurance protects organizations against financial losses due to cyber events or a breach of personal or commercial data. Cyber events include malicious incidents such as cyber attacks and non-malicious incidents such as malfunctions in an organization's IT systems. It will provide first-party coverage to help the company reinstate its IT network and databases damaged following the attack. It also provides protection against lawsuits for breach of privacy. The policy may also include protection against cyber crimes.



Are any of the above insurance mandatory by law or by contract in Hong Kong?



In Hong Kong, **every employer must purchase Employees' Compensation Insurance**. An employer who fails to comply with the Employees' Compensation Ordinance to obtain the required insurance coverage is liable to prosecution and, upon conviction, a maximum fine of HKD100,000 and/or imprisonment for two years.

All other insurances are not mandatory by law. However, depending on your landlord, certain insurance policies will be required by contract under the tenancy agreement. The most common one being General Liability Insurance.

Other types of insurance such as Product Liability Insurance or Professional Indemnity Insurance can be made mandatory by the partners you work with or your clients. It may also be required by the marketplace where you distribute your products, especially in the US or Europe. As an example, Amazon obliges all distributors to present a Product Liability Insurance certificate to sell products on their site.

What is the best way to insure your organization?

1. Do an inventory of your risks to understand them better
2. Contact an insurance advisor
3. Collect the information about your organization
4. Set up the insurance

1 Do an Inventory of Your Risks to Understand Them Better



Knowing where your risks are is essential so that you know which one of the above insurances to obtain. Consider the following questions:

Do you...

- *work with children?*
- *organize events, and of what type?*
- *travel overseas for work?*
- *rent your premises?*
- *have cash on your premises?*
- *work with volunteers?*
- *hire people with special needs?*
- *have the budget and willingness to offer your employees additional insurance benefits?*
- *sell or distribute products? Can they cause material damages or injuries to third parties?*
- *What is the nature of your organization's work?*
- *How many staff do you have?*
- *Do any of your staff have higher-risk roles such as driver, handyman, or occupations that require heavy machinery?*
- *What physical assets and inventory would you like to be covered by insurance? What is the value of such assets and inventory?*



Employee Benefit Insurance provides health and life coverage to your employees in case of medical and other kinds of unforeseen emergencies.

2 Contact an Insurance Advisor

Once you know where your risks are and which insurance you want to set up, who do you contact? In Hong Kong, there are two types of insurance intermediaries: insurance agents and insurance brokers. Obtaining quotations directly from insurance companies is possible only for personal lines of insurance such as home insurance or travel insurance.

The main difference between an agent and a broker is that agents represent insurance companies whereas insurance brokers represent the clients in front of the insurers. An insurance broker is more independent and can work with all insurers in the market. Both will be able to advise you on the type of insurance you need and will obtain quotations on your behalf.



In Hong Kong, many intermediaries are specialized in life insurance which is not what you need. You need intermediaries specialized in general insurance to protect your social impact organization.

3 Collect the Information About Your Organization

To get a quote, insurance intermediaries will ask for various types of information.

General information about your organization

- Name of the organization and address
- Website
- A short summary of your organization's work
- Number of employees
- Number of board directors
- Number of volunteers

Specific information for the Employees' Compensation Insurance

- Estimated annual wages per type of occupation (the rate for office staff is not the same as the rate for a handyman)
- Place(s) where work is conducted if different from the office address

Other key information

- Replacement value of your assets
- Value of your inventory (the highest peak value)
- Nature of the products distributed or sold, if any
- Nature of services provided to a third-party, if any
- Annual turnover or revenues (including from fundraising activities)
- If you want to set up Employee Benefits Insurance, the budget you want to allocate to providing such benefits
- Number of staff, date of birth, and gender

With the above information, your insurance advisor will obtain insurance quotations for you and will present you with the most appropriate solution.



Click [here](#) for a Business Package and Employee's Compensation Insurance sample questionnaire.

4

Set up the Insurance

Once you select the insurance suitable for your organization, you will have to submit the following documents:



For Directors and Officers Liability / Product Liability / Professional Indemnity Insurance:

- Specific forms will be provided by your advisor to be filled in and signed.



For the Business Package:

- Proposal Form completed and signed. This form confirms that you are agreeing to the insurance coverage as well as the terms and conditions as laid out in the quotations provided by the insurer.
- MPF record for the last three months
- Copy of the Business Registration or IR File number for Section 88 tax-exempt organization.



For Employees Benefits:

- For organizations with fewer than five employees, each employee will have to fill in a medical questionnaire.
- For organizations with five or more employees, the organization will have to fill out an application form with general information about the organization.



The insurance will be valid for 12 months and insurance premiums must be paid in one installment.

What to do in case of a claim?

The procedure to declare a claim can vary depending on the type of insurance and the insurer that you selected. The best thing to do is to inform your insurance advisor immediately or have them assist you with this distressing situation.

When declaring the loss to your insurance advisor, it is important to do the following

- Take photos of the damage
- Take the necessary and urgent measures to minimize the consequences of the loss
- Even if you believe you may have caused an accident to a third party, DO NOT admit your fault or your liability. This is a very important point as it is natural to try and resolve a situation quickly but more often than not, there are conditions in an insurance policy that prohibit one more admitting fault with the content of the insurer
- Keep your insurance advisor informed about any new developments in the situation;
- Inform the Labor Department in case of a work accident

Conclusion

Insurance is a critical yet often ignored tool to manage risks facing your organization.

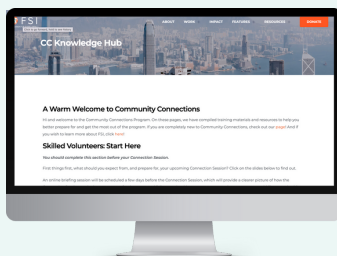
The reason it is often ignored is because it is considered complex, expensive, and time-consuming to purchase. Moreover, the value of having insurance only comes into play when something unfortunate happens to your organization, your employee, or a third party. Most companies would rather not deal with this issue because they think they aren't going to be impacted by unlikely events.

The reality, however, is that accidents happen all the time (see the claim statistics posted on the [Insurance Authority's website](#)) and it is important for any organization to manage their risk exposures. A professional and experienced insurance advisor can help you navigate the insurance purchasing and claims reporting process. Your insurance advisor together with your insurance company will help you recover from an unfortunate event should it occur.

Our Resources

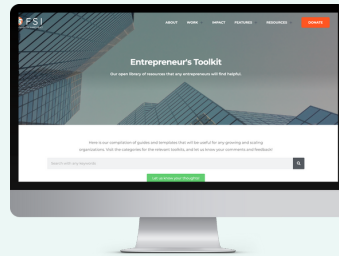
Check out our other resources for Volunteers, NGOs, and Entrepreneur's in Hong Kong.

Knowledge Hub



Scan to access

Entrepreneur's Toolkit



Scan to access

Contact us

communityconnections@shared-impact.com

A huge thank you to [Cléma Risk Solutions](#) for your contributions towards developing this handbook. Your time and commitment to this project is truly appreciated.

[Cléma Risk Solutions](#) is a boutique insurance broker that offers various insurance solutions, including main business package insurance, employees' compensation, professional indemnity insurance, group personal accident, medical insurance and many more.

