**Fundamentals of School Risk Management**

The practice of risk management has become significantly more sophisticated since its general introduction in the late 1970's.

New challenges facing school district officials such as responsibility and accountability forces them to respond to the development in all areas of school operations.

Top performing school districts across the USA are in the process of reviewing and implementing a risk management program. This will have a direct impact on their ability to sell bonds for new construction projects for district growth.

Risk managers are now joining school or school district administrative teams as integral members.

The Certified School Risk Managers Program was created to fill a void in the educational opportunities for school risk managers, and those agents and other service providers who work with them. By taking and passing all five of these courses, you can earn the prestigious CSRM designation.

The Certified School Risk Managers Program (CSRM) is a career-building, five-part designation program for risk management education specialists.

The CSRM faculty is represented by the field's top practitioners and leaders. Five intensive courses guide participants through the risk management process, emphasizing practice over theory.

The five core courses for the CSRM Designation Program correspond to the five steps of the Risk Management Process.

A discussion of the entire Risk Management Process is included for study at the beginning of each CSRM course. We do this because, in the actual practice of risk management, activities in one step influence actions taken in another step, creating interdependent processes.
**Fundamentals of Risk Management (FUN)** – The first step in the risk management process is identifying exposures subject to loss, since an exposure cannot be analyzed, controlled, or financed until it has been identified. This course gives an in-depth look at the overall risk management process, delves into the identification step of the process, and examines the function of the school risk manager.

**Measuring School Risks (MEA)** – This course will delve into the mechanics of forecasting and trending losses to be used in determining insurance program retentions and deductibles.

**Handling School Risks (HAN)** – This course studies the development of a safety and health plan, loss control fundamentals (including the six primary risk control techniques), risk control and mitigation for specific exposures, and managing school claims; a post–accident loss control reduction technique.

**Funding School Risks (FSR)** – The purpose of this course is to examine the various loss funding techniques available to school risk managers. This will include guaranteed cost programs, deductibles and retention programs, pools, and transferring risk through contracts.

**Administering School Risks (ADM)** – This course will cover how a school risk manager implements and monitors the risk management program. Some of the topics will include the school risk management team, information technology for risk management information systems, allocating the cost of risk, ethics in school risk management, and requests for proposals.

**How to Receive Credit for Fundamentals of School Risk Management**
To successfully complete this course, you must pass a final examination in the presence of a disinterested third party proctor/monitor.

Some states have special requirements for the proctor/monitor. To learn more about the proctor/monitor requirements for your state, please click on the Proctor Instructions link below.

Your proctor/monitor will enter his or her email address to sign in to the exam website. He or she must remain in your presence for the entire hour of the exam.

The proctor/monitor certifies your identity, and that you have completed the exam without outside assistance of any kind. Make sure to use your 60 day timeframe to carefully prepare for the exam, and select a person to act as your exam proctor/monitor well in advance.
You must pass the exam in order to receive any of the following credit:

- Credit towards achieving the CSRM Designation
- Credit towards achieving the CISR Designation
- 8-hour Annual Update credit for the CSRM Designation
- State Continuing Education Credits/Hours (for state issued license renewal)

**Affidavit of Exam and CE Request Form**

With every successful exam, you and your proctor must sign and submit an affidavit of exam.

When you pass your exam, fax the affidavit of exam and CE (Continuing Education) request form to the fax number printed on the cover sheet. Please send the original affidavit by mail (address also printed on the affidavit cover sheet.) We strongly recommend that you keep a copy for your records.

Many School Risk Managers will have no need to request Continuing Education credits for an insurance license. Please send the CE Request form even if you are not requesting CE hours/credits for insurance license renewal. Check off the "No CE" box at the bottom of the form.

**Note:** You will receive an email reminding you to send in the affidavit if you pass your exam with a score of 70 or above. Do not submit an affidavit for an unsuccessful exam.

**CSRM Fundamentals of School Risk Management Final Exam**

The exam is a challenging 100 point randomized test comprised of 50 multiple choice questions worth 2 points each.

When you submit your exam for grading you will receive your score immediately. The score page is sent to your email address and to The National Alliance for Insurance Education.

The score is recorded in your National Alliance permanent record, but is not certified until you submit the affidavit of exam, signed by you and your proctor. (In New York, the proctor/monitor must mail the affidavit.)

Once we receive and accept your affidavit, we will send your notification of passing.
Curriculum Support

Faculty Members from the National Alliance for Insurance Education & Research are assigned to take emails from students in the Online Courses.

Our faculty are experienced practitioners and teachers in the industry. We ask them to respond to each email within 24 hours, or before the end of the next business day.

Each course mentor will be happy to clarify any portion of the curriculum that you seek help with.

Make sure you have carefully reviewed the course curriculum and clearly note the page or self quiz question number when you contact a Course Mentor.

Help Desk

The mentors will refer any computer issues you have to the Online Help desk. The National Alliance staff is available by phone or email for technical support issues.

cisronline@scic.com.
To phone the Online Help Desk call:
800-633-2165 and select the online option.
Monday through Friday 8:30 am to 5 pm Central Standard Time

Course Study and Exam Preparation

Have you ever thought about how you learn? The study aids listed below will help you determine your progress and test your understanding of concepts and examples presented in the course.

- **Learning Objectives:** Designed for managing your own learning. The learning objectives for the course are listed at the beginning of each topic. The learning objectives are indicated throughout the course pages as well. At the end of the course, you will have the opportunity to read the learning objectives again, and see how confident you feel about each one.

- **Self Quizzes:** Another learning management tool. You are required to pass each self quiz with a score of 70 or above before moving forward in the course, and you can launch a self quiz as many times as needed. To print the score page of your self quiz, click on Assessment Results, then right click on the page. The Assessment Results page makes an excellent study aid.
• **Glossary:** Glossary terms and definitions are critical to insurance professionals, and a key study aid for your online course. To define a term, click on the Glossary link above. Definitions of newly introduced terms will also be included on the course pages.

• **Knowledge Checks:** Application level questions. By attempting to apply the concepts of the course, you will better prepare yourself for the final exam. Make sure you attempt each knowledge check in the course.

• **Course Mentor:** Don’t forget to email the Course Mentor with your questions about the curriculum. Our faculty members are distinguished producers and risk managers who currently work in the insurance industry. The mentors are happy to explain and clarify the concepts in the course. They will return your email on the next business day.

A note about the CSRM Online Glossary, our online glossary is extensive and features many terms and concepts used by risk managers. Glossary terms that you see on a course page may be a part of the final exam. However, when taking the final exam, you will *not* be tested on the entire glossary.
Course Objectives Overview

Lesson 1 The Risk Management Function & Process

An organization must take a systematic approach when planning its response to risks which damage productivity, revenue, even its mission. That's what the Risk Management Process is all about. In Lesson 1, we will study this powerful set of tools.

Lesson 2 The School Risk Manager

Any manager, of course, has to be fluent in effective techniques of risk management. He or she also has a unique role as a manager and communicator. The Risk Manager and his team first defines and communicates the department's mission and policies. They then must implement the standard operating procedures manual. All three program parts can be continually refined and updated as time goes by.

Lesson 3 Identifying School Risks: Logical Classifications

Risk managers separate risks into "buckets" in order to organize and manage potential loss exposures. The four divisions, the logical classifications, are particularly important in the identification step of the risk management process. Logical classifications also provide an organizing structure for communicating to stakeholders about risk.

Lesson 4 Risk Identification: Methods

We've seen that comprehensive, ongoing identification activities create the foundation of an effective risk management program. But, what are those activities? In this section we will study methods of exposure identification commonly used by risk management professionals.

Lesson 5 Gathering Loss Data

A comprehensive program of loss information gathering is critical to proactive risk management. Data gathering is an integral activity impacting each phase of the risk management process.

Course Summary
As a new risk manager, you have many opportunities to learn from experienced risk managers. As an experienced risk manager, you will have opportunities to share what you know with others.

Four Ways to Develop your Career as a Risk Manager:

1. Network
   - school principal
   - experienced risk manager
   - board member

2. Join a professional state association that supports school risk management
   - Public Risk Management Association (PRIMA)
   - Your state’s school board association

3. Become involved in a qualifies risk management training program
   - Obtain risk management certifications and knowledge

4. Develop rapport with external insurance agents, brokers and/or consultants
   - Meet with insurance and risk management vendors

Florida Residents Only

An entity that is required to be licensed or registered with the Florida Office of Insurance Regulation but is operating without the proper authorization is identified as an unauthorized insurer. All persons have the responsibility of conducting reasonable research to ensure they are not writing policies or placing business with an unauthorized insurer. Any person who, directly or indirectly, aid or represent an unauthorized insurer can lose their licenses or face other disciplinary sanctions. Please see section 626.901, Florida Statutes, to read the laws. Lack of careful screening can result in significant financial loss to Florida consumers due to unpaid claims and/or theft of premiums. Under Florida law, a person can be charged with a third-degree felony and also held liable for any unpaid claims and refund of premiums when representing an unauthorized insurer. It is the person’s responsibility to give fair and accurate information regarding the companies they represent.
Mary’s First Day on the Job

Throughout this course, we’ll look at things from the perspective of an inexperienced school risk manager. We’ve named her Mary. Mary has just been hired as the first school risk manager of a medium-sized school district. In her previous position, she worked as a high school principal.

Mary is skilled at managing large groups of people and is familiar with insurance concepts.

However, on her first day, she feels a bit overwhelmed.

To assist Mary in getting started with her program, we will introduce her to Jamal, an experienced school risk manager at a neighboring district.

Mary: I’m really at a loss. Where should I start?

Jamal: The first step is to learn some basic concepts of the risk management process.
Section 1: Risk Management Function & Process

An organization must take a systematic approach when planning its response to risks which damage productivity, revenue, even its mission. That's what the Risk Management Process is all about. In Lesson 1, we will study this powerful set of tools.

Learning Objectives

By the end of this section, you will be able to:

1. Identify and discuss the three types of risk and six general classes of risk.
2. Describe the seven essential benefits of an effective risk management program.
3. Identify and discuss the five components of cost of risk.
4. Understand and describe the five steps of the Risk Management Process.
5. Explain the concepts of loss frequency and severity. Understand the correlation between frequency and severity and the risk control techniques used to handle the various correlations.

Identifying Risks

Think about this picture. How many bodily injury or property damage risk exposures can you identify?

- Students running in a bus driver’s blind spot
- Students could trip and fall
- Students running in people’s yards, possibly destroying lawns and flowers
- Students may the cross street behind the bus into oncoming and trailing traffic
We'll develop an understanding of risk by first dividing risk into types, then into classes. This will help us understand the concept of logical classifications later on in the course. There are three types of risk.

**Pure risk:** Chance or loss only – usually, these are thought of as “insurable” risks. Pure risk is everywhere.

Example: a maintenance worker injures himself on the job.

**Speculative risk:** Chance of loss or gain – usually, these are thought of as business or market risks.

Example: Investing school funds

**Gambling:** Chance of loss or gain where the probabilities (odds) favor a loss.

Example: Booking a commercial bus for a field trip without asking for the bus company’s liability insurance.

Another way of looking at risk is to consider 4 possible ways of defining it.

**Risk can be thought of as:**
1. Chance of loss
2. Uncertainty concerning loss
3. A possibility of a variation of outcomes from a given set of circumstances
4. The difference between expected losses and actual losses

After understanding the three types of risks, we organize them in terms of risk class, roughly corresponding to each sphere of activity within society that produces the risk.

**There are 6 major classes of risk.**
1. **Economic** – Examples of economic risks include schools facing reduced funding after a decrease in the tax rate; private schools facing lower endorsements; additional costs per student when fund raising or enrollment decreases.
2. **Legal** – Examples of legal risk include the cost of complying with statutes, building codes, Americans with Disabilities Act (Federal Regulations) and ADAAG (Federal Specifications & Guidelines) and liability exposures in these areas as well.
3. **Political** – Political risks may come from changes in how state and federal regulations are interpreted with a new state or federal administration, changes in school board policy, or an attorney general’s opinion.
4. **Social** – A decision to teach healthy choices and decision making in schools is an example of a social risk exposures. Social risk exposures impact the schools public relations, its image, multicultural issues within the community and relationships with parents.

5. **Physical** – Physical risks involve damage to property, people and other resources such as intellectual information. An example is physical damage to the computer network in a school district.

6. **Juridical** – Juridical risks stem from case law and statutory protections such as Brown v. Board of Education of Topeka (1954), which outlawed racial segregation in public schools.

This table provides another way to look at the six classes of risk. You will see an example of an exposure; next, the risk management methods most frequently used to handle that risk; then, in the last two columns, information showing the entities that are likely to be concerned with managing and monitoring that risk.

<table>
<thead>
<tr>
<th>Class</th>
<th>Exposure</th>
<th>RM Technique</th>
<th>Implementation</th>
<th>Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Investment Practices</td>
<td>Risk Control &amp; Risk Financing</td>
<td>Divisions of School Business Manager</td>
<td>Chief Financial Officer or School Business Manager</td>
</tr>
<tr>
<td>Legal</td>
<td>Intellectual Property</td>
<td>Risk ID, Control, Administration</td>
<td>Technology Department</td>
<td>Director of Technology</td>
</tr>
<tr>
<td>Political</td>
<td>Change in Board</td>
<td>Risk Administration</td>
<td>Community</td>
<td>Superintendent</td>
</tr>
<tr>
<td>Social</td>
<td>Community Environment</td>
<td>Risk ID, Finance, Administration</td>
<td>Board, Supt., Community Task Force</td>
<td>Board, Supt., Community Task Force</td>
</tr>
<tr>
<td>Physical</td>
<td>Property Valuation</td>
<td>Risk Finance, Risk Analysis</td>
<td>Each Public Entity</td>
<td>School, City, County, State</td>
</tr>
<tr>
<td>Juridical</td>
<td>Case Law</td>
<td>Risk Control &amp; Administration</td>
<td>US Legislature, State Legislature, Courts</td>
<td>Federal, State, AG, Local</td>
</tr>
</tbody>
</table>
Risk Terms
Whether you are a seasoned risk manager, a novice or an insurance professional, using risk terms appropriately and in the right context validates your status as a risk expert.

Risk terms are designed to specifically identify concepts that risk managers employ in all five steps of the process.

Risk Terms and Definitions

1. Prevention Phase

In order to manage the loss prevention, you must understand the differences between exposure, hazard and peril.

**Exposure:** A situation, practice or condition which might lead to a loss; an Activity or resource (assets, people)

Example: A maintenance worker

**Hazard:** A condition within an exposure that may lead to an incident; “a peril about to happen”

Example: A very hot day

**Peril:** A “cause” of loss; an event which may be the cause of a loss

Example: Bodily injury due to dehydration or heat exhaustion

2. Loss Phase

In order to measure and manage losses, you must understand the difference between incident, accident and occurrence.

**Incident:** An event that disrupts normal activities and may become a loss or claim; “a near miss.” Lifecycle of an incident: pre-incident, incident, immediate post-incident, post-incident, rehabilitation (repair, recovery)
Example: Maintenance worker feels overheated and rests in the shade for an hour

**Accident:** An incident resulting in injury or damage to person or property which has or will become a loss/claim; “an unplanned event definite as to time and place that causes bodily injury or property damage”

Example: Maintenance worker suffers from heat stroke and must go to the hospital leading to a workers compensation claim

**Occurrence:** An accident with the limitation of time removed

Example: Several workers compensation claims are files by workers suffering from heat stroke

3. **Claims Management Phase**

To manage claims and evaluate their impact, you must understand the following terms.

**Loss versus Claim:**
Loss – a reduction in value  
Claim – a demand or obligation for payment as a result of loss

Example: Accidents = 3, Claims = 4, Losses = $1500 + $800 + $1200 = $950

**Frequency and Severity:** Frequency – the number of times an incident occurs.  
Severity – the monetary impact of a loss

Example: Accidents are evaluated according to how often they might occur and how severe the ensuing injury or property damage may be.

**Expected Losses:** Loss projections (“loss pics”) based on probability distributions and statistics; frequently developed using actuarial techniques

Example: Claims data from previous time periods are used to estimate future losses.
Why Keep Track of Incidents?

Incidents are wake-up calls. They alert you that something needs to be changed to prevent accidents. There are typically many more incidents than accidents. Reviewing incident reports is an excellent way to identify risks.

**Incident**
An event that disrupts normal activities and may become a loss or claim; “a near miss.” Lifecycle of an incident: pre-incident, incident, immediate post-incident, post-incident, rehabilitation (repair, recovery)

**Incidents:** Hot weather is affecting students and staff. In fact, a maintenance worker reported that he had to rest in the shade with some water in order to keep from being overcome by heat exhaustion.
The Progression of Claims

The following flowchart illustrates how claims can either progress or be prevented.

HAZARD → EXPOSURE ← PERIL

INCIDENT  ACCIDENT  OCCURRENCE

LOSS ← CLAIM

APPROVE  DISAPPROVE

Question: In which four places within the flowchart can claims be prevented?

1. Exposure: Some exposures can be avoided. For example, employees might be kept from working outside on hot days.

2. Hazard: These can be reduced, for example, by holding safety trainings.

3. Incident: If an event is mild enough to be an incident rather than an accident, no claim is filed.

4. Disapproved: A claim can also be disapproved.
How Do Exposures, Perils and Hazards Cause Accidents?

Heat exhaustion (an accident) can occur when a person (an exposure) is exposed to a very hot day (a peril) without taking safety precautions (a hazard).

**Accident**
An unexpected incident resulting in injury or damage to person or property which has or will become a loss/claim; “an unplanned event definite as to time and place that causes bodily injury or property damage” (CSRM Glossary)

**Exposure**
Units used to measure loss costs. Typically payroll is used for workers compensation, number of vehicles for auto liability, revenue for general liability and number of units in service for products liability. Forecasts of exposures can be used to forecast future losses. The state of being subject to loss because of some hazard or contingency. A situation, practice or condition which might lead to a loss; an activity or resource (assets, people).

**Peril**
A “cause” of loss; an event which may be the cause of a loss

**Hazard**
A condition within an exposure that may lead to an incident; “a peril about to happen”; can be moral, legal, or physical

**Exposure:** An employee who is working outside

**Peril:** Bodily injury due to dehydration and heat stroke.

**Hazard:** He is not drinking enough water

**Accident:** A cause of heat exhaustion which results in a workers compensation claim
Be sure to practice these concepts by completing the Knowledge Check located on page 15 of Section 1 Risk Terms.

**Speculative Risk**
- Investing school funds

**Pure risk**
- Maintaining buildings and grounds

**Gambling**
- Booking a commercial bus for a field trip without asking for the bus company’s liability insurance

Be sure to practice these concepts by completing the located on page 16 of Section 1 Risk Terms.

**Social**
- Teaching healthy choices and decision making in school

**Juridical**
- Brown v. Board of Education of Topeka (1954) outlawed racial segregation in public schools

**Political**
- A change of school board members

**Legal**
- The Americans with Disabilities Act (ADA)

**Economic**
- Decrease in tax base

**Physical**
- Computer

Be sure to practice these concepts by completing the located on page 17 of Section 1 Risk Terms.

**Accident**
- An incident resulting in injury or damage to person or property which has or will become a loss/claim; “an unplanned event definite as to time and place that causes bodily injury or property damage”

**Occurrence**
- An accident with the limitation of time removed

**Expected Losses**
- Loss projections (“loss pics”) based on probability distributions and statistics; frequently developed using actuarial techniques

**Incident**
- An event that disrupts normal activities and may become a loss or claim; “a near miss”

**Severity**
- The monetary impact of a loss

**Hazard**
- A condition within an exposure that may lead to an incident; “a peril about to happen”

**Peril**
- A “cause” of loss; an event which may be the cause of a loss

**Frequency**
- The number of times an incident occurs

**Claim**
- A demand or obligation for payment as a result of a loss

**Loss**
- A reduction in value

**Exposure**
- A situation, practice or condition which might lead to a loss; an activity or resource (assets, people)
Essential Benefits of an Effective Risk Management Program

Risk management helps schools by:

**General benefits:** A risk management program minimizes the school’s liability by implementing measures that control and fund losses. Proactive risk control lowers both the frequency (number) and severity (cost) of accidents.

**Financial benefits:** Minimizing the cost of risk helps the school to stay within its budget. Risk management also facilitates future budgeting through analysis of reserving and retention options, spending cycles, and critical expense times.

**Legal benefits:** Criminal liability is reduced through the implementation of background and motor vehicle license checks. When performing these checks, it is important to check both local and national databases.

**Safety integration:** Risk management integrates the district’s safety plans, so that employees, individual schools and the district as a whole follow the same protocols and are held to the same standards.

It is useful to think of 7 essential benefits of an effective Risk Management Program.

- Reduced costs of Accidents
- Providing adequate protections - safety training, personal protective equipment, insurance
- Economy of operations - staying within the confines of budgeted expenses
- Integration of safety plans
- Reduced risk of criminal liability - background checks, motor vehicle license checks, both national and local databases
- Ability to plan and budget better - knowledge of spending cycles, critical expense times, retention and reserve funding
- A focus on big picture is more likely - must consider district or school system for budgetary compliance
Cost of Risk

Let’s look at a school’s cost of risk.

There are five components:
1. Risk Management Department Costs
2. Insurance Premiums
3. Retained Losses
4. Outside Services
5. Indirect Costs

Think about how the cost of risk is seen from within the school district for a moment:

The costs associated with establishing an emergency evacuation plan in the school might be charged to:
A. Outside Services
B. Risk Management Department
C. A and B
D. Insurance costs

The answer is C
Five Components of the Cost of Risk

<table>
<thead>
<tr>
<th>Risk Management Department</th>
<th>Insurance Costs</th>
<th>Retained Losses</th>
<th>Outside Services</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs Related to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>People</td>
<td>Determined by the school insurance options:</td>
<td>Two Types:</td>
<td>Examples:</td>
<td>Examples:</td>
</tr>
<tr>
<td>Equipment</td>
<td>Self Insurance</td>
<td>Actively Retained</td>
<td>Risk Management Consulting</td>
<td>Loss of Productivity</td>
</tr>
<tr>
<td>Supplies</td>
<td>Guaranteed Cost Plan</td>
<td>Passively Retained</td>
<td>Third Party Administrators (TPAs)</td>
<td>Cost of overtime</td>
</tr>
<tr>
<td>Pools</td>
<td></td>
<td></td>
<td>Risk Control Services</td>
<td>Extra cost for substitute teachers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Actuarial Services</td>
<td>Extended school year due to property loss</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Legal Services</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Agents/Brokers (Fee for Service)</td>
<td></td>
</tr>
</tbody>
</table>

**SIR:** Self-insured retention. See also Retention level and Self insured retention

**Guaranteed cost:** Premiums charged on a prospective basis, but never on the basis of loss experience during the policy period.

**Pool:** 1) An organization of insurers or reinsurers through which particular types of risk are underwritten with premiums, losses, and expenses shared in agreed ratios. 2) A group of organizations (generally not large enough to self-insure individually) that form a shared risk pool.

**Active retention:** Planned acceptance of losses by deductibles, deliberate non-insurance, and loss sensitive plans where some, but not all, risk is consciously retained rather than transferred (CSRM Glossary)

**Passive retention:** Unplanned acceptance of losses because of failure to identify risk, failure to act, or forgetting to act.

**Third party administrator:** A claims administrator or insurance company that processes claims on behalf of a self-insured organization

**Actuary:** Person, often holding a professional designation (e.g., ACAS, FCAS), who computes statistics relating to insurance, typically estimating loss reserves and developing premiums (CSRM Glossary)
An Example of a School’s Cost of Risk

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management – Internal (Administration)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Insurance Costs (net of placement, other fees)</td>
<td>800,000</td>
</tr>
<tr>
<td>Retained Losses and Allocated Loss Adjustment Expense (ALAE)</td>
<td>850,000</td>
</tr>
<tr>
<td>(Based on Projected Developed Loss Costs)</td>
<td></td>
</tr>
<tr>
<td>Outside Services</td>
<td></td>
</tr>
<tr>
<td>Consulting, Coverage Placement</td>
<td>50,000</td>
</tr>
<tr>
<td>Claims Administration</td>
<td>85,000</td>
</tr>
<tr>
<td>Other Risk Control</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,910,000</strong></td>
</tr>
</tbody>
</table>
Think about the indirect costs of loss.

Indirect costs of loss can actually be two to five times as much as the direct costs of loss. Like an iceberg, the hidden costs of accidents are not visible on the surface, but they are nonetheless, lurking out of sight.

**DIRECT COSTS OF LOSS**
- Medical/Rehabilitation benefits
- Wage payments
- Disability settlements
- Legal expenses
- Claim administration
- Lost or restricted days
- Write-off of net book value of damaged buildings
- Equipment replacement, equipment replacement Construction costs of updating buildings to comply with building codes

**INDIRECT (HIDDEN) COSTS OF LOSS**
- Disruptions in production and sales
- Management time spent on loss-related activities
- The cost of hiring and training replacement workers
- Loss of goodwill/damaged reputation
The 65% Educational Spending Target

The "65% Rule" states that at least 65% of a school's funds should be allocated to educational costs, such as teachers' salaries and classroom materials. No more than 35% should be spent on support services, including risk management from the overall budget.

While 10 states are currently considering adopting the rule, only Texas and Georgia have enacted strong rulings to adhere it. Unfortunately, even in these states, most schools do not yet meet the 65% target.

A risk management department can help. Money that is not spent on losses can be spent directly on education, moving the school closer to its 65% goal.

The Risk Management Process

The Risk Management Process is a powerful five-step guide that can dramatically increase your effectiveness as a risk manager.

In reality, the steps will not always follow in the order shown below. Use the Risk Management Process as a guideline for your school’s risk management program.

**Risk management process**: A system for treating risk: identification and analysis of exposures, selection of appropriate risk management techniques to handle exposures, implementation of chosen techniques, and monitoring the results.

1. **Risk Identification**: The process of identifying and examining the potential courses of losses faced by the school
2. **Risk Analysis**: The assessment of the potential impact (costs) that various exposures can have on the school
3. **Risk Control**: Any action to minimize, at the optimal costs, losses which strike the school
4. **Risk Financing**: The acquisition of funds, at the least possible cost, to pay for the losses that strike the school
5. **Risk Administration**: Planning, implementing, and managing loss control programs. Risk Administration also includes the development of the risk management team, utilizing both internal and external sources.
Step 1: Risk Identification

The process of identifying and examining the potential sources of losses faced by the school

Before you can manage risks, you first need to identify them. Risk managers are, among other things, risk detectives. They find risks and bring them into focus.

Risk identification makes risk management possible.

The Four Logical Classifications of Risk

1. **Property**: Real property: Buildings  Leased property: Copying machine
2. **Human Resources**: Employment Practices, such as interviewing, hiring and terminations
3. **Liability**: Premises and daily exposures
4. **Budget containment**: Inflows and outflows, tax base, tuitions, fund raisings, grants

Be sure to complete the Knowledge Check on page 28 of Section 1 Identification

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Interviewing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td>Copy machine</td>
</tr>
<tr>
<td>Liability</td>
<td>Operating dangerous equipment</td>
</tr>
<tr>
<td>Budget Containment</td>
<td>Inflows and outflows of money</td>
</tr>
</tbody>
</table>

Ten Methods for Identifying Risks

1. Checklists and surveys
2. Flowcharts
3. Insurance policy analysis
4. Physical inspections
5. Financial statement analysis
6. Compliance review
7. Contract review
8. Policy and procedures review
9. Claim and loss review
10. Others
The “consultant” on the page has this to say about Risk Management:

Ten Methods for Identifying Risks

Identification of risks is the most important step in risk management. In schools, there are many different work environments that provide an assortment of risks that could lead to a loss of school assets. Understanding the methodology behind uncovering these risks can help the risk manager become aware of risk control techniques required to minimize losses or eliminate them.

The Risk Management Process

Step 2: Risk Analysis

_The assessment of the potential impact (costs) that various exposures can have on the school_

In the first step of the Risk Management Process, risk identification, you collected data. In the second step, risk analysis, you analyze this data to find important patterns. You examine these patterns to assess what impact they may have on the cost of loss.

_In Risk Analysis the risk manager is often looking for patterns._

Two Sides of Mary’s Work: Qualitative vs. Quantitative Analysis

Quantitative Analysis:

_Mary:_ I’m really strong in the area of “quantitative analysis” – in other words, working with data. I analyze loss runs, create charts and graphs, perform costs benefit analyses and talk to actuaries. I let numbers be my guide.

Qualitative Analysis:

_Mary:_ However, I confer frequently with teachers and staff, consult with other school risk managers, and observe what’s going on at the schools in my district.

Because I have not been a school risk manager for very long, I want to develop my effectiveness at “qualitative analysis.” In this way I can allow my observations, and my intuition to guide me.
Qualitative Risk Analysis

**Risk Assessment:** Identify those loss exposures that cannot be easily measured by traditional statistical or financial methods and to understand their impact on the school district’s ultimate risks and performance.

**Financial Risk Assessment:** Identify and assess those broad loss exposures that have a financial impact on the school buy that may be difficult to quantify.

**Loss Data Assessment:** Identify, understand and apply various methods of assessing loss data and the impact those losses may have on the school’s risk management policy and the ultimate cost of risk.

**Memory Tip**
Good risk managers are skilled at both qualitative and quantitative analysis. Focus on improving your skills in your weaker area.

QuaLitative = Language
QuaNtitative = Numbers
Differentiate Between Qualitative and Quantitative Analysis. Read the two risk scenarios below. Can you determine which is predominantly a qualitative analysis, and which is quantitative?

**Scenario 1:**
Your school’s Chief Financial Office (CFO), Director of Transportation, and Director of Purchasing have determined there are enough funds in the budget to purchase five eighty-passenger buses and five three-fourth-ton pickup trucks. The new vehicles are delivered in October and put into service in early November.

In February, you, the risk manager, find out that these vehicles have been in use for three months without your being informed. Immediately, you contact the Director of Transportation and inquire about the new vehicles. He tells you that this was an unexpected purchase and apologizes for not informing you. You share with him about the lack of insurance coverage for these vehicles during their daily operations. You then notify the Director of Purchasing and the CFO about the lack of insurance coverage and the fact that you were not informed of the purchase.

Immediately, you contact your property carrier and give them the vehicle identification numbers and mileage from the odometers. They provided you with coverage, by state there will be an adjustment in the premium rate. You report back to the CFO, who transfers funds to pay for the increase in rate.

**Answer:** Qualitative Analysis
Scenario 2:

A risk manager is faced with either paying a tremendous increase in workers compensation premiums or taking advantage of a higher attachment point for catastrophic coverage.

She decides to save the district money by choosing a higher attachment point, switching from the current $500,000 to $800,000. This saves the district approximately $175,000 in annual premiums, which are reallocated to curriculum development and classroom purchases.

During that year, three catastrophic workers compensation losses hit the district, valued at $650,000, $540,000, and $775,000. Because these amounts fall below the $800,000 attachment point, the district must pay for them itself. The risk manager finds herself in the uncomfortable position of having to explain this to upper-level district administrators.

The district secures additional funds to pay for the losses through its fund balance, significantly reducing the funds available to education. Fortunately, the district is able to opt out of its current contractual agreement one year later, at which time it elects to decrease the attachment point to a more tolerable level.

Answer: Quantitative Analysis

The Risk Management Process

Step 3: Risk Control

Any action to minimize, at the optimal cost, losses which stroke the school.

Risk control is the “action step” of risk management. You apply the information you identified and analyzed in the first two steps of the Risk Management Process and take actions that minimize risks.

Risk control: The technique of minimizing the frequency or severity of losses with training, safety, and security measures. See also Loss control.

Risk Control: Taking action to avoid, prevent, or reduce the impact of losses.
Six pre-loss risk control techniques help control losses before they occur.

1. **Avoidance**: Eliminating a risk altogether. Example: Deciding against using trampolines in physical fitness classes
2. **Loss Prevention**: Reducing the frequency (number) of losses. Example: Performing regular equipment checks
3. **Loss reduction**: Reducing the severity (cost) of losses. Example: Providing safety equipment
4. **Exposure segregation**: Separating and/or duplicating exposures. Example: Keeping backups of data in several places
5. **Transfer**: Having another party agree to pay for the school’s risk. Example: Purchasing insurance
6. **Combination of techniques**: For optimal loss control, use a combination of pre-loss risk control techniques for each exposure. Example: Providing safety equipment (loss reduction) and purchasing insurance (transfer)

Three post-loss risk control techniques help control losses after they occur.

**Claims management**: Differentiate between allowable claims that are to be paid and disallowable claims that do not fall under the plan document. Example: Some insurance plans limit the number of MRIs per claim

**Litigation management**: Know when to litigate and when not to. Example: Weighing potential claims versus legal fees

**Disaster recovery**: In the case of a natural disaster, this includes:
- Debris removal
- Demolition of severely damaged buildings
- Limiting business interruption
- Provide temporary buildings until permanent structures can be rebuilt.

Be sure to complete the Knowledge Check on page 39 of Section 1 Control
Identify the Six Pre Loss Risk Control Techniques. Which pre-loss risk control technique does the picture represent?

<table>
<thead>
<tr>
<th>Technique</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transfer</strong></td>
<td>Purchasing insurance</td>
</tr>
<tr>
<td><strong>Loss prevention</strong></td>
<td>Performing regular equipment checks</td>
</tr>
<tr>
<td><strong>Avoidance</strong></td>
<td>Deciding against using trampolines in physical fitness classes</td>
</tr>
<tr>
<td><strong>Loss reduction</strong></td>
<td>Providing safety equipment</td>
</tr>
<tr>
<td><strong>Exposure Segregation</strong></td>
<td>Exposure segregation</td>
</tr>
<tr>
<td><strong>Combination of techniques</strong></td>
<td>Providing safety equipment (loss reduction) and purchasing insurance (transfer)</td>
</tr>
</tbody>
</table>
Be sure to complete the Knowledge Check on page 40 of Section 1 Control. Which post-loss risk control technique does the picture represent?

- **Litigation management:** Weighing potential claim costs versus legal fees
- **Disaster recovery:** Debris removal
- **Claims management:** Some insurance plans limit the number of MRIs per claim

The Risk Management Process

**Step 4: Risk Financing**

*The acquisition of funds, at the least possible cost, to pay for losses that strike the school*

An earthquake hits a California school, damaging buildings and injuring staff members and students.

How will the school pay for this catastrophe? Did it set aside enough emergency funds? Does it have adequate insurance?

Whatever risks your school faces, addressing funding before they occur keeps the school’s expenditures in check. The alternative can be extremely costly – both financially and socially.

*Risk Financing: Funding losses*
There are two ways to finance (pay for) risk.

**Retention**

The acquisition of funds from within the school system to finance retained risk subject to state law limitations. Funding risk with the school's own reserves, also called self-insured retention (SIR).

Funding risk with the school’s own reserves, also called self-insured retention (SIR)

**Transfer**

Contractual or other arrangements where losses are financed from outside the school system. Purchasing insurance through an agent or broker.

Purchasing insurance through an agent or broker

There are two types of Retention.

**1. Retention**

   **a. Active Retention**

   Planned acceptance of losses by deductibles, deliberate non-insurance and loss sensitive plans where some, but not all, risk is consciously retained rather than transferred. Example: Allocating funds to pay for *known* risks.
Active Retention Methods

- Examining current expenses (known costs)
- Addressing unfunded reserves – insufficient sums of money to meet future liabilities
- Funding reserves – setting aside sufficient sums of money to pay for future liabilities
- Making use of capital markets (bonds, taxes, grants, etc.) to pay for risk
- Using group and single parent captives
- Joining a risk pool

b. Passive Retention

Unplanned acceptance of losses because of failure to identify, failure to act or forgetting to act. Example: Harboring unknown risks

Passive Retention is caused by:

- Failure to identify
- Failure to act
- Forgetting to act

There are two types of risk transfer

1. Transfer

   a. Non-insurance

   Transferring risk through methods other than insurance

   Active Retention Methods:
   - Indemnity agreements
   - Hold-harmless agreements*
   - Waiver of subrogation*
   - Named as an additional insured
   - Risk pooling arrangement

* Some public schools district cannot hold other parties harmless or waive subrogation, but they can be held harmless and can obtain a waiver of subrogation from other parties.
b. Insurance

A relatively small known cost substituted for the potential (unknown) of a large cost

Insurance Concepts:
- Based on the indemnity principle
- Guaranteed costs or loss sensitive
- Risk pooling arrangements

The Risk Handling Axiom

Effective risk management programs utilize at least one risk control technique and one risk financing technique for each exposure.

Be sure to complete the Knowledge Check on page 46 of Section 1 Finance

1. Retention
   a. Passive
   b. Active
2. Transfer
   a. Insurance
   b. Non-insurance

The Risk Management Process

Step 5: Risk Administration

The process of planning, implementing, and monitoring the risk management program

A risk manager is highly dependent on his or her risk management team, a group of dedicated individuals from within and outside of the school who help the risk manager control losses. Risk management team members include the risk management department staff, insurance professionals, risk consultants, experienced risk managers, concerned community members and others.

In the final step of the Risk Management Process, Risk Administration, the risk manager works with his or her team to plan, implement and monitor the risk management program – in other words, to move it forward.

   Effective Risk Administration requires excellent communication, teamwork, and project management.
There are three major components of a risk administration program.

1. **Planning and Policy Development:** The place is created by the Risk Management Team with the development of the Mission Statement, Policy Statement, and the Standard Operating Procedures Manual.

2. **Implementation:** Activities include action planning, RFPs, RFQs, and CSB. Use of appropriate communication systems and effective determination.

3. **Monitoring:** A Risk Management Information System (RMIS) is an effective way to administer the data and information needs of the risk management function.

**Mission Statement:** The concise statement that states who you are and what you stand for and includes the major priorities.

**Policy Statement:** Several page document defining the school system's policy for managing risk and their relevance to its strategic plan, goals, and objectives, and should incorporate risk management philosophy and ethical considerations.


**RFP:** Request for proposal, a formal process to attract individuals and organizations to enter into a bidding process for a work project; another aspect of the RFP process is RFQ or request for qualifications.

**CSB:** Competitive sealed bid; a vendor selection process in which vendor submits a sealed bid containing price and other information conforming to formal requirements outlined in an invitation to bid.

**Risk management information system:** An information system made up of various elements, which supports the user in identifying, measuring, and managing risk in their organization or in the organizations of others.

Be sure to complete the Knowledge Check on page 49 of Section 1 Administration.

Identify the three components of Risk Administration.

- **Planning & Policy Development**
  - Checking for compliance with the state school board association
- **Implementation**
  - Working with a risk consultant to draft a Request for Proposal (RFP)
- **Monitoring**
  - Performing inspections
On page 50 of Section 1 Administration there is a link to view the Risk Management Process. (See below)

The Risk Management Process

Risk Identification
- Logical Classification:
  - Property
  - Human Resources
- Identification Methods:
  - Checklists/Surveys
  - Flowcharts
  - Insurance Policy Analysis
  - Physical Inspections
  - Financial Statements
  - Compliance Review

Risk Analysis
- Qualitative Analysis (“What?”)
  - Risk Assessment
  - Financial Assessment
  - Loss Data Assessment
- Quantitative Analysis (“How Much?”)
  - Quantify Exposures
  - Project Losses

Risk Handling: Risk Control
- Pre-Loss
  - Avoidance
  - Prevention
  - Reduction
  - Segregation
  - Physical Transfer
  - Combination

Risk Handling: Risk Financing
- Retention
  - Passive
  - Active
- Transfer
  - Insurance
  - Non-insurance

Risk Administration
- Planning and Policy Development
- Implementation
- Monitoring (including RMIS)
We’ve mentioned Frequency, Severity and Risk Control previously.

**Frequency:** The number of times an incident occurs Example: Four accidents

**Severity:** The monetary or financial impact of losses (Average Claim Size). Example: The cost of 4 accidents.

**Risk control:** The technique of minimizing the frequency or severity of losses with training, safety and security measures. See also Loss Control. Example: Safety procedures for transporting children in buses.

Be sure to complete the Exercise on page 52 Section 1 Frequency/Severity

What is the frequency of risk?

**Low Frequency**
- Kitchen workers experience minor burns to their forearms
- Property fires

**High Frequency**
- The absence of user filters allows students to download a virus to the school’s computer system
- Playground injuries

Be sure to complete the Exercise on page 53 Section 1 Frequency/Severity

What is the severity of the risk?

**Low Severity**
- Playground injuries
- Kitchen workers experience minor burns to their forearms

**High Severity**
- The absence of user filters allows students to download a virus to the school’s computer system
- Property fires
The Relationship Between Frequency, Severity and Risk Control

Determining the frequency and severity of risks can help you to identify the best methods for controlling them.

Frequency + Severity = Risk Control Method

The Frequency-Severity Chart helps you identify risk control methods based on the frequency and severity of risks. Let's look at the how this chart demonstrates the relationship between these two characteristics of a risk.

Low Frequency High Severity (TRANSFER) – Each box represents a different combination of frequency and severity.

High Frequency High Severity (AVOID) – Each box recommends an appropriate risk control technique.

Low Frequency Low Severity (RETAINT) – For example, the risk control technique appropriate for a risk with low frequency and low severity is self-retention.

High Frequency Low Severity (PREVENT) – On the next page, you will identify the risk control techniques associated with each box.

The Frequency-Severity Correlation Chart

Now we will make a correlation between the frequency and severity characteristics of a risk, and the best method of control.

Transfer: Accidents in this category are rare but are too expensive for the school to fund itself.

Avoid: Accidents in this category occur often and are costly. The risks are either uninsurable or cost too much to insure.
Retain: Accidents in this category are rare and inexpensive. The school can afford to pay for them itself.

Prevent: Accidents in this category are low-cost per occurrence but high-cost as a whole, since they occur frequently.

Be sure to complete the Knowledge Check on page 57 of Section 1 Frequency/Severity

Use the Frequency/Severity Chart to choose Risk Control Methods. In which box does the risk on the right belong, based on its frequency and severity?

<table>
<thead>
<tr>
<th>High Severity</th>
<th>Low Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property fires</td>
<td>The absence of user filters allows students to download a virus to the school’s computer system</td>
</tr>
<tr>
<td>The absence of user filters allows students to download a virus to the school’s computer system</td>
<td>Playground injuries</td>
</tr>
<tr>
<td>Kitchen workers experience minor burns to their forearms</td>
<td>Playground injuries</td>
</tr>
</tbody>
</table>

Now that you have identified where the risks belong in the chart, note which risk control method the chart recommends for each risk.

TRANSFER: Property fires

AVOID: The absence of user filters allows students to download a virus to the school’s computer system

RETAIN: Kitchen workers experience minor burns to their forearms

PREVENT: Playground injuries
Addressing “Grey Areas” in the Frequency-Severity Chart

What if the frequency and / or severity of a risk is in-between high and low (i.e., what if it falls into a “grey area”)? Which risk control method should you use? To address this, you can expand the Frequency-Severity Chart.

Basic Tenets of Risk Management
1. Don't retain more than you can afford to lose.
2. Don't risk a lot for a little.
3. Consider the odds.
4. Don't treat insurance as a substitute for loss control.
Help Mary Explain Risk Management

Since Mary is the first risk manager to work for the school district, her supervisor, Bill, has asked her to educate him about risk management.

Bill is the chief financial officer for the School District.

Although she is new to the field, Mary has learned a lot from Speaking with Jamal and now understands a number of risk concepts.

Help Mary answer Bill’s questions by completing the exercises that follow.

The function of risk manager might be filled by a risk manager, business manager, financial officer or by a similar administration level manager within the district.

Please refer to the end of Section 1 to go over the section exercises
Section 2: The School Risk Manager

Any manager, of course, has to be fluent in effective techniques of risk management. He or she also has a unique role as a manager and communicator.

The Risk Manager and his team first defines and communicates the department’s mission and policies. They then must implement the standard operating procedures manual. All three program parts can be continually refined and updated as time goes by.

Learning Objectives

By the end of this section, you will be able to:
1. Understand the five steps in the managerial process as it relates to risk management.
2. Describe the three parts of a risk management program.
3. Know the four steps in the creation of a risk management mission statement.
4. Know why a written risk management policy statement is necessary.
5. Understand the purpose and content of the risk management standard operating procedures manual.
6. Know the guidelines for writing a risk management standard operating procedures manual.

The School Risk Manager

To be an effective risk manager, you must:
1. Develop relationships by creating allies and advocates.
2. Build a risk management team, using both internal and external resources.
3. Interview key personnel in other departments; learn more about their departments and areas.
4. Ask for feedback from and offer assistance to key operations personnel.
5. Understand and apply professional risk management techniques.

Four Key Truths to Be an Effective Risk Manager
1. Risk managers make valuable contributions to bottom-line results.
2. To be effective, stay “plugged in.”
3. Get the right messages to the right people.
4. Merit is not enough to make you successful.
A Risk Manager’s performance must excel in two major areas of concern.

**Technical Demands:** The risk manager uses technical expertise to purchase insurance programs, select agent/brokers/insurers, negotiate bids, supervise inspections, analyze losses, evaluate and interpret coverages, manage claims, conduct cost benefit analysis, etc. Example: Reviewing documents

**Managerial Demands:** The risk manager used the managerial skills of planning, leading, organizing, controlling, and allocating to accomplish risk management objectives through others. In addition, risk managers are typically “staff authority” and are considered to be advisory. Therefore, they must implement their programs and plans through others. For this reason, solid people skills coupled with strong school and school district management support is essential to success. Example: Communicating with staff

**Coordinating the Flow of Information**

The function of risk management is to treat risks in the method that is most beneficial, economical, feasible and sensible on behalf of the school administration, school boards, students, state authorities, employees and general public.

The responsibility to disseminate information is a major role of the risk manager.

The risk management function needs to be understood from high-level administrators to new hires. Its success rests entirely with those who have the ability to make it all happen.

School Risk Managers should continually inform each of their stakeholders about the school’s risk management objectives.
The Five Steps in the Managerial Process

Risk management can be thought of as a managerial process. It consists of planning, organizing, leading, controlling and allocating the resources of people, money, materials and time to create the desired level of risk that allows the school to achieve its goals.

Below are the five steps of the managerial process.

1. **Planning:** The work a risk manager performs to predetermine a course of action.
   - Establish risk management policy – Board
   - Publish loss control procedures – Departmental
   - Establish insurance budget – Business Office
   - Forecasting losses – Carrier or actuary

2. **Organizing:** The work a risk manager performs to arrange and relate the work to be done so that it can be performed most effectively by the human resources associated with the school.
   - Build risk management team – internal & external
   - Organize safety committees – site based
   - Assign claims management task – Carrier or TPA
   - Develop organizational structure – Reporting format

3. **Leading:** The work a risk manager performs to cause people to take action
   - Hire risk management staff – qualified
   - Select TPA/risk pool – meet schools requirements
   - Motivate safety committee – top down method

4. **Controlling:** The work a risk manager performs to assess and regulate work in progress and complete it.
   - Determine cost of risk – what is its potential?
   - Submit reports to senior management – communicate
   - Establish performance standards – benchmarking

5. **Allocating:** The process of distributing scarce resources – people, money, materials and time
   - Establish allocation system – prioritize
   - Distribute resources as needed – forecasting
   - Adjust distribution to meet evolving goals – contingencies
Be sure to complete the Memory Tip on page 8 Section 2 School Risk Manager

Type in the first letters of each step in the managerial process and click submit. What word do you get?

Answer: Polca

Knowledge Check

Make sure you can identify the five steps of the managerial process. Match each step of the managerial process to its definition.

**Planning**  
The work a risk manager performs to predetermine a course of action

**Organizing**  
The work a risk manager performs to arrange and relate the work to be done so that it can be performed most effectively by the human resources associated with the school.

**Leading**  
The work a risk manager performs to cause people to take action.

**Controlling**  
The work a risk manager performs to assess and regulate work in progress and complete it.

**Allocating**  
The process of distributing scarce resources: people, money, materials and time.

Risk Management Tasks (Functional Job Description)

1. Develop and communicate risk management policies
2. Prepare recommendations and reports
3. Conduct risk identification surveys
4. Analyze and measure exposures
5. Review leases and contracts
6. Coordinate compliance with regulations
7. Implement risk control programs
8. Investigate accidents
9. Manage claims and litigation
10. Arrange risk financing (including insurance)
11. Establish retention programs
12. Determine and allocate the cost of risk
13. Monitor results
**Exposure**: Units used to measure loss costs. Typically payroll is used for workers compensation, number of vehicles for auto liability, revenue for general liability and number of units in service for products liability. Forecasts of exposures can be used to forecast future losses.

The state of being subject to loss because of some hazard or contingency.

A situation, practice or condition which might lead to a loss; an activity or resource (assets, people).

**Retention**: 1) Budgeted losses + tolerance corridor. 2) Assumption of risk of loss as through the use of non-insurance, self-insurance, or deductibles. This retention can be intentional (active retention) or, when exposures are not identified, unintentional (passive retention). 3) In reinsurance, the net amount of risk the ceding company or the reinsurer keeps for its own account or that of specified others.

An example of the implementation of a risk control program: Purchasing defibrillators for emergency use at athletic events and practices; training employees on their use.

**Risk Management Program**

The School Risk Management Department defines its Risk Management Program by implementing 3 documents.

The three parts of a school risk management program
Mission Statement:
- A broad statement that states who you are and what you stand for and that ties in to the overall mission.
- It should be stated as concisely and clearly as possible.
- It should include a few of the major priorities of the risk management program.
- It should never be over 3-4 sentences in length; it condenses a lot of meaning into a small number of words.

Policy Statement:
- The policy statement can be several pages in length and deals more specifically with the various areas of risk management.
- It defines the school system's policy for managing risk and their relevance to its strategic plan, goals, and objectives.
- Risk management philosophy and ethical considerations should be incorporated.

Standard Operating Procedures:
- Also known as the SOP or the risk management policy and procedures manual. A “How to” book for accomplishing the policy statement it describes the procedures for implementing the policies.

What is a Risk Management Mission Statement?
The mission statement is a broad statement of who you are and what you stand for as the Risk Management Department.
- It should be consistent with the mission statement of the school district;
- It should be clear and concise.
- It should include the major priorities of the Risk Management Department.
- It should never be more than 3-4 sentences in length.

To serve the employees and students of the School Board with a safe working and learning environment and provide quality benefits and services to our employees.
Risk Management Mission Statement

The mission statement should be a product of a team interaction. The four phases of creating a mission statement are:

**Brainstorm:**

Within the context of the school district's overall mission statement, brainstorm statements about the mission of the risk management department.

**Prioritize:**

As a team, select only the most appropriate statements to include in the final document, ranking each of the mission statements according to importance.

**Refine:**

Polish the final document from rough draft to final wording. Evaluate the final mission statement document according to how well it fits with and reflects the values of the school district's mission statement.

**Implement:**

All stakeholders, from employees and administrators to consultants and TPAs should be included in the implementation of the mission statement. New hires should be made aware of the mission statement. The mission statement is a document which should be evaluated on an ongoing basis.

For an excellent example of a Risk Management Department Mission Statement, take a look at the website for:

Clark County School District Risk Management Department Las Vegas, NV

Risk Management Policy Statement

The Risk Management Policy Statement is a document several pages in length which give more specific information about the school district’s risk management activities. The policy statement should correlate risk management activities with the district’s strategic plan, goals and objectives. The statement should also incorporate statements of risk management and ethical philosophy.
How Does a Written Risk Management Policy Statement Benefit the Organization?

- Clarifies the school's risk management goals and direction
- Outlines the fundamental guidelines to be followed
- Focuses on fundamentals and addresses ideas that might not otherwise be expressed
- Forces school officials to think about the subject, which not only develops ideas but increases their appreciation for risk management
- Clearly specifies responsibility and authority and opens up lines of communication and minimizes duplicate efforts

This excellent example of a policy statement was prepared by risk professionals at Humboldt State University.

HUMBOLDT STATE UNIVERSITY

I. POLICY STATEMENT

The risk management practices of Humboldt State University (HSU) are specifically designed to identify and assess all types of risk to the campus, and to implement appropriate risk management techniques in order to protect the university so it can carry out its mission. It is the goal of the Risk Management Policy to aid in the identification and evaluation of risk, to facilitate the selection and application of the best risk management techniques to mitigate risks, and to monitor the results.

II. ROLES AND RESPONSIBILITIES

The implementation of the campus Risk Management Policy is a responsibility shared by all campus administrators, faculty and staff. University divisions, colleges, programs and departments shall be responsible for comprehensive risk management of their respective activities, programs, operations and resources. Comprehensive management of risk involves both the control in frequency and severity of losses and the financial responsibility for those losses. Such losses include:

- Death, injury or inappropriate treatment of employees, students and guests
- Physical damage to university property
- Loss of campus revenues due to property damage
- Liability claims against the university due to damage to non-university property
- Losses resulting from fraud or criminal acts

Individuals charged with implementing and maintaining the program by providing advice, information and coordination include:

A. DIRECTOR OF RISK MANAGEMENT - The role of the director of risk management is to evaluate and implement campus-wide risk management practices. He/she is to assist campus administrators in maintaining campus risk management policies and practices by providing advice, information and coordination leading to the full performance of risk management functions by all those having program responsibilities. The director of risk management serves as the university’s risk management representative to the CSU Risk Management Authority and the chancellor’s office and is also responsible for informing and
advising the director of human resources and vice president for administrative affairs, as appropriate.

B. MANAGER OF CONTRACTS & PROCUREMENT - It is the responsibility of the manager to apply appropriate contract language, including insurance specifications, hold harmless clauses and professional liability, to protect the university.

C. DIRECTOR OF ENVIRONMENTAL HEALTH & OCCUPATIONAL SAFETY (EH&OS) - The director of EH&OS develops and implements injury and illness prevention programs in compliance with various regulatory requirements. Additionally, he/she establishes standards and conducts programs that reduce the risk of environmental and/or property damage and is responsible for informing and advising the director of risk management of any significant exposure risks which may exist in regard to EH&OS program areas. (Refer to Executive Memorandum P 92-2, Campus Policy on Environmental Health Compliance and Occupational Safety)

D. DIRECTOR OF HUMAN RESOURCES - As chief personnel officer for non-academic staff, the director of human resources is responsible for the development and implementation of human resource policies and procedures as they pertain to equitable hiring and workers compensation management practices. The director is likewise responsible for informing and advising the vice president for administrative affairs of any significant potential risk exposures related to human resource services.

E. ASSOCIATE VICE PRESIDENT OF ACADEMIC PERSONNEL SERVICES - The associate vice president of academic personnel services is responsible for the development and implementation of faculty personnel procedures. He/she is responsible for apprising the vice president for academic affairs of any potential risk exposures related to faculty personnel matters.

F. DIRECTOR OF PUBLIC SAFETY The director of public safety is charged with maintaining campus safety through law enforcement. The directors primary concerns are crime prevention, the avoidance of workplace violence, and to take related measures to help ensure public and employee safety on campus. When necessary, the director involves the vice president for student affairs.

III. RISK MANAGEMENT
Campus risk is managed through a process of anticipation/identification, evaluation technique selection/implementation, and program monitoring/evaluation. This management process is designed to allow the university to carry out its mission with the lowest practicable risk exposure. The aforementioned risk management administrators meet as needed to review potential risk situations and recommend appropriate action.

A. ANTICIPATE AND IDENTIFY RISKS - The following methods are used to anticipate and identify risks related to the campus environment and university activities:
- Review and assess workers compensation claims and employers report of occupational injury or illness documents
- Schedule campus safety inspections
- Investigate accidents and near misses
- Investigate and assess reported safety hazards
- Assess campus public safety issues and crime statistics
- Review allegations of inappropriate treatment of students, faculty, staff and visitors
- Review and evaluate, as appropriate, student activities including academic field trips/projects, high hazard experiments, travel abroad, sanctioned activities, etc.
- Evaluate university contracts for construction, materials, services, etc.

All campus employees are obligated to report to their supervisor, the director of risk management, or the director of environmental health & occupational safety any situation that they think poses an occupational safety hazard and/or puts the campus at risk of loss.

B. EVALUATE SERIOUSNESS - Identified risks which pose a potentially precedent-setting, broad or major impact to the university are evaluated by the director of risk management in conjunction with other units as appropriate, based on the following criteria:
- Severity - The amount of human harm or property loss that can occur
- Frequency of Exposure - How often the event or activity takes place
- Predictability - The ability to anticipate losses associated with specific activities or conditions
- Probability - The actuarial chance of a loss

In order to select the most practicable method of reducing exposure, the director of risk management further assesses risks, taking into consideration cost implications and realized benefits associated with the activity. Identified risks which pose a narrow and/or case-specific impact will be evaluated by the applicable administrative unit, e.g., Environmental Health & Occupational Safety, Public Safety, etc., for the determination of priority and appropriate control or mitigation measures.

C. IDENTIFY/IMPLEMENT RISK CONTROL TECHNIQUE - The responsibility of identifying and implementing the control measure(s) is that of the department that controls or generates the activity presenting the risk exposure. The liability exposure the campus and the CSU face for those activities linked to the mission of the CSU can be mitigated in a variety of ways including but not limited to:
- Transferring risk through third party waivers, hold harmless agreements, vendor contracting or by purchasing personal liability, health, travel and life insurance
- Reviewing and recommending specifications for insurance purchases for the university
- Preventing/controlling risks through staff training and supervision
- Implementing internal controls
- Redesigning processes and systems
- Monitoring health and safety compliance
- Conducting internal audits

Based on the above criteria and assessment, the director of risk management and/or the applicable unit determine the method of control that provides the most effective means of
risk reduction without compromising the mission of the university. The general types of suitable control techniques used include:
- Avoidance
- Loss prevention and reduction
- Risk transfer

**D. MONITOR AND EVALUATE RESULTS** - Upon implementation of the best risk management technique or combination of techniques, monitoring and evaluating the effectiveness and efficiency of the technique will be done to determine appropriateness and whether any changes and/or modifications of techniques should be made.

The director of risk management continually reviews the campus policy and monitors campus activities to insure that the goals of the Risk Management Policy are achieved. An annual review of occupational injury and illness summary reports, property/personal injury claims reports, and reported near miss incidents is prepared by the director of risk management as a basis for evaluating the overall effectiveness of the Risk Management Policy. In addition, a written risk management summary report is made to the president annually. This evaluation process is intended to ensure that the Risk Management Policy remains effective and, thus, reduces the university’s exposure to foreseeable risks and associated losses.

Risk management is an on-going process. The campus Risk Management Policy will evolve as the nature of campus activities change. However, the goals of the Risk Management Policy always will be to identify and evaluate risk, select and implement the most practicable risk management techniques, and monitor the results.
Prepare the policy statement after the risk management mission statement has been accepted. A few "best practices" to think about when preparing a policy statement:

- Because insurance policies, contracts, leases, etc. impose duties and responsibilities on the school, it is important to review these contracts before setting risk management department policies.
- Make sure that the risk management policy statement receives the approval and support of administrators.
- Once approved, distribute the policy statement under superintendent’s signature.
- The policy statement should be included in the risk management standard operating procedures manual along with the mission statement.

### Contents of a Risk Management Standard Operating Procedures Manual

1. The Mission Statement
2. A Letter from the Superintendent
3. The Risk Management Policy Statement
4. Guidelines for the Risk Financing Program (A Summary Tool for Management)
   - Philosophy and process
   - Retention levels
   - Insurance carriers used, acceptable carrier ratings
   - Third Party Service provider selection
   - Insurance placement - process and bidding
5. Procedures (examples) The Risk Management Department's
   - Safety and loss control
   - Incident and accident reporting and investigation
   - Supervisor accountability
   - Return to work
   - Crisis/emergency management
Guidelines for Writing a Standard Operating Procedures Manual
1. Know your audience; interview key personnel within the school system; obtain input from brokers and consultants
2. Write in user friendly style; avoid jargon; be clear and concise
3. Use a standard and consistent format
4. Include a glossary of the terms used in the manual
5. Update regularly

1. Reaffirm and communicate the administration's support for the risk management program to all employees.
2. Define scope and authority of risk manager and others involved with managing risk.
3. Establish levels of performance and cooperation expected.
4. Familiarize personnel with procedures for dealing with exposures.
5. Provide a convenience reference - a "How To" guide for:
   a. Operating machines and doing jobs safely
   b. Reporting injuries and losses
   c. Explaining reporting processes in accordance with insurance policy terms as well as in accordance with risk management department terms.

Let's review the three parts of the Risk Management Program.

Which risk management document would you consult to answer the following question?

Mission Statement
“What is the purpose of our risk management program?”

Policy Statement
“What are our state’s laws regarding workers compensation coverage?”

SOP Manual
“What is your district’s procedure for reporting incidents?”

Tips for Implementing a Risk Management Program
1. To be effective, it must be communicated frequently
2. Refer to it and reinforce commitment to it
3. Make all employees, as well as third party service providers, are made aware of the risk management program.
4. Develop an organizational chart or flowchart of interaction with other departments
5. Communicate the risk management program to the risk management team
   - This is critical to creating a complete understanding of the risk management function and how it handles insurance policy provisions, loss control, claims reporting and the general treatment of risk. Cooperation is vital and must be solicited from all levels of the administration and as many people as possible.

Summary
- Risk management continues to be an evolving profession
- Risk management is about managing risks not avoiding risks
- Risk managers need managerial skills as well as technical skills
- Risk managers need to be an active participant in the school system’s leadership team
- All management is risk management

Monitoring the Effectiveness of a Risk Management Program
1. The risk management mission statement, policy statement, and standard operating procedures manual all should be subject to periodic review and updating
2. Evaluate and report on the effectiveness of the procedures
3. Distribute risk management reports to administration
4. Frequency of reports
   - Time driven-monthly, quarterly, annually
   - Event driven-by classification
   - Issue driven-priority of claim type
5. Types of reports (examples only)
   - Incidents / Accidents
   - Open / Closed claims
   - Litigated claims, large loss claim reports
   - Report analyzing deductible / SIR levels, limits, risk financing options
   - Cost of risk and allocation
   - Loss trend analysis
   - Reports to third party service providers
   - Contractual issues

Please refer to the end of Section 2 to go over the section exercises.
Section 3: Identifying School Risks: Logical Classifications

Risk managers separate risks into “buckets” in order to organize and manage potential loss exposures. The four divisions, the logical classifications, are particularly important in the identification step of the risk management process.

Logical classifications also provide an organizing structure for communicating to stakeholders about risk.

Learning Objectives

By the end of this section you will be able to:

1. Discuss the risk identification phase as the priority in the risk management process
2. Define, understand, compare and apply each of the four types of “Logical Classifications” of exposures
3. Define and compare property valuation methods
4. Discuss the nature of and compare tort, contract, and statutory liabilities

Why Identify Risks?

1. Exposures must first be identified if they are to be adequately managed.
2. Risk Identification is the first and most important step of the risk management process.
3. An analysis of exposures provides details for classifying and controlling
Think of logical classifications as the buckets that you sort risks into. It's useful to classify risks that have similar implications and characteristics.

For example, liability risks are difficult to quantify in terms of future claims; a large loss to property can lead to a budget containment exposure.

**Property — Human Resources — Liability — Budget Containment**

Human resources is often the biggest bucket for any school district. The magnitude of each depends on the school or district.

First, consider how these “buckets” are defined. We will look more closely at each area of logical classification.

**Property**

Real property such as building and land, other tangible property such as cash, securities, records and documents, books, equipment, machinery, parts, food, etc.

Also: Intangible property such as a lease, leasehold interest and licenses or the control/use and ownership of property.

Example of a property risk: Hail damage to a school building.

**Human Resources**

This is a very large risk “bucket” for schools. Human resources exposures include any losses due to a school’s relationship with others such as school board members, employees, volunteers and leased employees and contractors and others.

Employment Related Practices is an example of an area of Human Resources risk exposure.
Liability

Schools have exposure from first, second and third party liability related to property and people.

Examples might include a bus accident, or a personal injury alleged against a teacher.

Budget Containment

Schools have to live on their reserves between the end of the school year and the date when annual budget revenues become available. Risks that could violate important reserves fall into the category of budget containment.

Examples include: destruction of leased property or owned property, legal liability and personnel losses.

To start you thinking about logical classifications, try sorting risk exposures into the four logical classifications, the “buckets,” shown in this exercise. See exercise on page 6 of Section 3 Logical Classifications.

<table>
<thead>
<tr>
<th>Property Liability</th>
<th>Graffiti</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Negligence</td>
</tr>
<tr>
<td></td>
<td>Breach of contract</td>
</tr>
<tr>
<td></td>
<td>Bus accident</td>
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<tr>
<td>Human Resources</td>
<td>Retirement</td>
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<tr>
<td></td>
<td>Poor morale</td>
</tr>
<tr>
<td>Budget Containment</td>
<td>Overspending</td>
</tr>
<tr>
<td></td>
<td>Tax base change</td>
</tr>
</tbody>
</table>
Logical Classification #1

Loss exposures associated with tangible or intangible property are very large for a school district. On the next few pages we’ll define what is included in this classification. Property is further classified into four types.

1. Real
   - Buildings and land:
     - Construction
     - Occupancy
     - Protection
     - Exposures

2. Other Tangible
   - Cash and securities
   - Records and documents
   - Book and laboratory inventory
   - Equipment, machinery, furnishings and supplies
   - Replacement parts, food supplies
3. Intangible
   - Licenses
   - Leases/Leasehold interest

4. Legal Interest
   - Can be for tangible or intangible property
     - Control / Use
     - Ownership

There are four times when it is necessary to train workers:
1. When the employee has been newly hired.
2. When the employee is in contract with a change of exposure.
   **Example:** Bond program builds three new schools.
3. When an employee is given a change of assignment.
   **Example:** Employee substitute is hired full time.
4. Periodically.
   **Example:** Monthly safety training incorporated into staff meetings.
In order to have a property loss, there are three criteria:

1. A value exposed;
   Example: an inventory of books; library furniture, other contents
2. A peril which causes a loss (covered or excluded):
   Example: fire
3. A financial consequence of the loss;
   Example: interruption of business; costs to replace property; deductible expense, etc.

\[ \text{Property Loss} = \text{value exposed} + \text{cause of loss} + \text{financial consequence} \]

There are three categories of perils that can create a loss to property.

1. Human perils – Failure to comply with safety standards
2. Economic perils – Stock market declines
3. Natural perils – Acts of God

The Seven Property Valuation Methods

In order to identify financial consequences, an actual loss must occur. The value of property can be recorded using the any of the methods listed below:

- **Historical Value** - The price paid to acquire the property
- **Book Value** - Historical costs less accumulated depreciation
- **Market Value** - What a willing buyer would give to a willing seller
- **Replacement Cost Value** - Amount to replace old or destroyed with new without deduction for depreciation
- **Actual Cash Value** - Replacement cost less depreciation
- **Economic Value** - Future income assigned to the property
- **Other Valuation Methods** (reproduction costs, assessed value, etc.)

Property Valuation Methods

It is important to understand the various facets of property values when faced with a loss. Knowing these methods will assist the school risk manager in determining the amount of a given property and its insurable limits. Once insured, any loss to a particular item of property can be assessed for the correct value.
Organizations which do not conduct business for a profit, such as a school, often have less impetus to carefully track inventories and set property values using the correct method. This is an important area for the risk manager to get under control.

**Why is the property valuation method important?**

Does the district have items on the books at historical costs only?

How about the cost to replace such items?

Is this information available to the risk manager?

Does the school district have items insured at actual cash value that may need to be insured using replacement cost valuation?
Logical Classification #2

Schools are foremost a people business. It is no wonder that Human Resources exposures are such an important concern in schools. In the next few pages we’ll study the issues involved in this classification of risk.

Human Resources exposures are divided into 3 categories for identification, analysis and control. There categories are:

1. **Relationships** between the school and others
2. Problems and Regulatory Requirements relating to **Employment Practices**
3. **Perils and Risk Exposures to Employees** of the School/ School District

Think about key relationships in own your organization as you read through the examples of Human Resources Risk Factors in the next few pages.
Risk factors Related to Relationships

Key relationships are shown in bold text.

1. The **School Board** passes a disciplinary action against a school.
2. A critical **Independent Contractor** files for bankruptcy protection.
3. The Teachers Union implements a strike by **Permanent Employees** after contract negotiations fail.
4. Liability is incurred due to improperly trained or vetted **Leased Employees**.
5. Safety issues involving parents, grandparents and other **Volunteers** assisting at schools.
6. A lawsuit aimed at the district’s policy toward harassment by and against **Students**.
Risk Factors in Employment Related Practices

1. Outdated information in the Personnel Manual is involved in a termination dispute.

2. The lack of clear cut Job Descriptions causes performance and morale problems among a school's food service staff.

3. The school's lax implementation of Safety procedures, (such as shelter-in-place procedures, fire drills, and emergency evaluations) results in an injury to an employee.

4. Drug and Alcohol policy (Employee Assistance Programs) for school employees is not maintained, leading to an embarrassing substance abuse related accident at the school.

5. Implementation problems with any of the following federal programs causes a fine to the school district.

**ADA:** The Americans with Disabilities Act gives civil rights protections to individuals with disabilities similar to those provided to individuals on the basis of race, color, sex, national origin, age, and religion. It guarantees equal opportunity for individuals with disabilities in public accommodations, employment, transportation, State and local government services, and telecommunications. (http://www.ada.gov/q&aeng02.htm accessed Jan 2009) (CSRM Glossary)

**ADAAG:** Accessibility Guidelines issued under the Americans with Disabilities Act. (CSRM Glossary)

**Civil Rights Act of 1964:** A landmark act of Congress which outlawed segregation by race or gender in American schools and other public places. Subsequent Acts have regulated the rights of employees to sue their employers for discrimination and broadened the scope of the original legislation. Civil Rights Act regulations are often referred to as Title 7.

**Uniform Federal Accessibility Standards (UFAS):** Regulations setting the standards for design, construction and alteration of buildings to allow unrestrained access by mobility impaired persons.
Perils to Employees

Please take a look at the document “Human Resources List” in the Course Appendix. Hazards or issues which might lead to any of the following losses related to employees:

1. Death by Natural Accident or Casual.
2. Disability (on or off the job): This is the focus of Workers Compensation protection, whether a state mandated or individual policy.
3. Unemployment: issues include self imposed unemployment (attrition) or reduction in force.
4. Resignation: Voluntary or Forced
5. Retirement: Early, Buy Out, or Standard Practice
6. Termination: Policies vary according to the state regulations about employment at will and termination for cause.
7. Morale: Many risk professionals believe that low morale workplaces often result in a higher frequency of loss related incidents.

Early Retirement: An option that the employee can exercise to retire earlier than the organization’s minimum retirement age, usually with reduced benefits.

Early Buy Out: An incentive offered to employees for early retirement or termination of employment.

Standard Practice: The formal employment and retirement policies adopted by an organization.

Employment At Will: At-will employment is a doctrine that defines a non-union, employee/employer relationship as one in which either party can break the relationship with no liability, assuming that no express contract governs the employment relationship.

Termination For Cause: A concept of the employer/employee relationship in which the employer must meet the certain requirements before terminating the employee.
The Risk Manager’s Authority

The school risk manager’s position is most often located in either the Human Resources Department or the Business Office of the school system. In smaller school systems, these operational areas are combined.

The organizational structure of the school system determines the risk manager’s authority.

For example, the management of HR related liabilities may fall under the purview of the school risk manager, or it may not.

Logical Classification #3

School systems have certain immunities from prosecution granted by the state. Therefore, the management of school liability exposures varies from region to region.

For example, personal injury liability may be a larger issue for schools in one state, and bodily injury liability may be more important in another.

In this section we will study the basics of liability exposures.
The Three Types of Liability Exposures

Real property
Real Estate – Buildings; Objects that are affixed to land, such as playground equipment and trees

Other Property
Property other than real estate – Vehicles, equipment, furniture, other belongings

Other Parties
Non-employees, other entities - Electricians

The Basis for Liability

The interests of society are protected by Criminal Law, whereas the interests of individuals are protected by Civil Law. Civil Law will be discussed in three forms: The Law of Torts, The Law of Contracts and Statutory Law.

Tort
A private or civil wrong, other than a breach of contract, for which the courts will provide a remedy in the form of an action for damages

Contract
The performance of a promise

Statutory law
Enactments of legislature, executive and administrative delegations
Depending on the state in which your district is located, liability may or may not be an issue or it may be limited with a minimum and maximum range, if you have any immunities found in your state’s statutes.

There are three main types of torts.

Strict liability
- Liability directed by law without regard to the intention of the offender’s actions
- Liability without fault
Example: An accident due to chance

Intentional act
- When an offender intends to commit an act that results in the private violation of another’s rights
Example: Arson
Negligence
Failure to exercise a degree of care that a reasonably prudent person would exercise under the circumstances.

Negligence is usually expressed in terms of the following elements:
- A duty owed - guaranteed right
- Breach of duty - lack of reasonable compliance
- Proximate cause - sequence of events that causes injury
- Damages resulting - loss created by an act

The fine for negligence can be up to three times the cost of the loss.
Example: Failing to educate workers about safety precautions

There is a Memory Tip located on page 24 in Section 3 Liability
What word do you get when you combine the first letters of the three types of torts?

Answer: SIN

Read the tort scenario below. How might the wrong be addressed or “remedied?”

Compensatory damages - Money paid to compensate another party for a loss
Example: Paying for the other party’s...
- Medical bills
- Vehicle repair/replacement costs
- Other losses, such as lost work time and emotional distress

Punitive or exemplary damages - Money paid as punishment for or to make an example of an offending party’s actions.
Example: Paying additional money, in order to:
- Punish the school
- Set an example for other schools

Injective relief - Doing something or refraining from doing something in order to rectify a situation.
Example: Firing the bus driver
Contracts

A contract is an exchange of promises between two or more parties to do or refrain from doing an act which is enforceable in a court of law.

We enter into contracts every day, whether or not we are aware of it. When we buy a cup of coffee, we are entering into a contract in which we agree to pay a certain amount of money for the coffee.

Contracts may be either oral or written. A verbal offer of employment is an oral contract. A real estate purchase agreement is a written contract.

Gaining a basic understanding of contracts will help you minimize your school’s liability risks.

A contract, whether oral or written, is considered *enforceable* when four requirements are met:

1. **Competent parties**- All parties must be of sound mind and an appropriate age. Examples of “not of sound mind” include being under the influence of alcohol or drugs, being mentally disabled or insane, or suffering from memory impairment.

   Examples:
   - Signing a contract while heavily medicated, so that judgment is impaired
   - States have different regulations regarding minors and contracts. Check your state’s laws.

2. **Agreement**- All parties must agree to the terms of the contract. Also called a meeting of the minds.

3. **Legal consideration**- Valuable things must be exchanged, such as money, property (any type) or a promise to do or not do something.

   Example:
   - Each party must give something of value to the other. Giving a car as a gift if not a contract. However, buying a car for one dollar is.

4. **Legal purpose**- A contract to do something illegal is not enforceable.
There is a Memory Tip located on page 28 of Section 3 Liability
What word do you get when you combine the first letters of the four characteristics of an enforceable contract?

Answer: CALL

Breach of contract is the term for a failure to perform under the terms of a contract. One or more of the parties may bring a cause of action, or demand for remedy.

1. **Damages**- Paying the other party; damages can be compensatory, punitive or liquidated.
2. **Reformation**- Fixing the contract
3. **Injunctions**- Fixing the offender. For example: Ordering a person to stay away from a school.
4. **Performance**- Fixing the problem. For example: Cleaning up toxic materials from a location.

Be sure to complete the Memory Tip on page 31 Section 3 Liability
What word do you get when you combine the first letters of the four remedies for breach of contract?

Answer: DRIP

Make sure that you understand the distinction between each of the following terms.

1. **Statutory law**- enactments of legislature, executive and administrative delegations
2. **Common law**- Codes of conduct applicable to everyone (almost) based on prior precedents or rulings
3. **Criminal liability**- Breach of duty owed to society
4. **Civil liability**- Breach of duty owed to a specific person(s)
Voluntary Regulation

School risk managers can choose to voluntarily regulate their actions to limit their liability by:

1. Hiring professional employees who possess official certification(s) within their area of expertise.
2. Possessing an accepted national designation, such as the Certified School Risk Manager and Certified Risk Manager designations.
3. Obtaining certifications from the state’s business or risk management associations.

Consider the two most important characteristics of liability claims:

1. **Liability cannot be measured in advance of the loss.**

2. **The amount of the loss will depend on:**
   - The circumstances of the event
   - The nature and severity of the damage or injury
   - The degree of negligence
   - The applicable law
   - The decision of the Judge or Jury
Logical Classification #4

School revenues are allocated once a year, so unexpected costs that pose the threat of exceeding budget are very important.

There are two types of budget containment issues—things that are within your control (“your problems”) and things that are not within your control (“someone else’s problems”).

Of course, when a school is in a relationship with another party, the other party’s problems become the school’s problems as well.

Consider examples of budget containment exposures.

1. “Your problems”—Examples of potential school budget losses include cost of destruction of leased or owned property, damages awarded against the school system in a lawsuit, or workforce reductions and losses of personnel.

2. “Someone else’s problems”—These might as well be your problems. Examples include the loss of a primary supplier, changes imposed by local governments, such as changes to city codes and statutes, and economic changes such as loss of tax base, tuition or endowments.
Budget Containment risks affect revenues, either at the source or through increased costs.

1. **Decreased revenues**
   The school’s revenues may decrease due to:
   - Home foreclosures
   - Business relocations
   - Small business closures
   - Homestead exemptions
   - Decreased enrollment
   - Tuition decrease
   - Decreased participation in fundraising
   - Tighter constraints on Federal grants

2. **Increased costs**
   A rise in oil prices can increase the cost of:
   - Transporting students to extracurricular activities and field trips
   - Utilities
   - School supplies
   - Insurance premiums
   - Food

**School Closures**
School closure is an excellent example of a budget containment exposure, and the school should always have a detailed set of plans for this type of occurrence.

Natural hazards can damage facilities to such an extent that they it is no longer permissible to occupy them. Arrangements must be made ahead of time to secure accommodations in which to continue the students’ education.

The length of time schools are closed directly impacts student achievement and performance. In the North, snow storms during the winter months may lead schools to close. In the South, hurricanes can have the same effect. In the Midwest, flooding and tornadoes can determine whether schools are operational or not. In the West, schools may close due to fires, mudslides or earthquakes.
Look at four factors to plan for the impact of school closure:

1. **Length of time** the school has to be closed
2. **Severity of closing** (Food service area? School rooms? Band hall? Gym? Entire school?)
3. **Frequency of closing** (Has it happened more than once?)
4. **Timing of closing** (During the summer? Right after school starts in the fall?)

Mary’s Summary of Logical Classifications

The topic of Logical Classifications is an important one.

Let’s go over some key points to remember. First, as a risk manager, you should be able to apply a “logical” classification scheme for identifying all possible loss exposures.

The most useful Logical Classifications employed by risk managers are shown in the four part scheme in this diagram.

Logical Classifications are key to which step in the Risk Management Process?

That’s right, Identification.

Identification should be the priority of your Risk Management team.

After all, if you haven’t identified a risk, it’s likely you are not managing it.

Please refer to the end of Section 3 to go over the section exercises.
Section 4: Risk Identification – Methods

We’ve seen that comprehensive, ongoing identification activities create the foundation of an effective risk management program.

But, what are those activities? In this section we will study methods of exposure identification commonly used by risk management professionals.

Learning Objectives

By the end of this section you will be able to:
1. Know the nine identification methods that will help us discover as many exposures as possible.
2. Know the benefits and weaknesses of the different identification methods and how to apply them in a specific situation.
3. Know the general rules underlying the use of risk identification methods.

Using Risk Identification Methods

We introduced Risk Identification Methods in Section 1. We’ll look at the nine major types in this section.

The primary purpose for using identification methods is to determine risks systematically, sequentially and methodically. Being able to review insurance policies, school budgets, compliance issues and policies enables the school risk manager to understand the limitations of the risk management program. Contract analysis, physical inspections and the use of experts can define particular aspects of risks need in the analysis and control phases.

The Nine Risk Identification Methods
1. Checklists and survey questionnaires
2. Flowcharts
3. Insurance policy analysis
4. Physical inspections
5. School budget analysis
6. Compliance review
7. Contract identification and analysis
8. Policy and procedures review
9. Utilizing experts
Method 1: Checklists and Survey Questionnaires

Checklists and survey questionnaires help the risk manager determine whether or not the school is achieving its desired level of compliance.

1. **Scope**
   To search systematically, by a list(s), for as many loss exposures as possible

2. **Method**
   Use of information gathering documents

3. **Benefits**
   - Standardized
   - Can be utilized by non-risk management personnel / little training required
   - Will provide a history
   - Information can be easily classified and tabulated

4. **Weakness**
   - Cannot cover all areas or operations
   - Provides limited financial effects
   - Does not prioritize greatest exposures

5. **Examples**
   - List of Assets – Best for property and physical assets
   - Activity/Situation Lists – Best used for liability and human assets
   - Perils Analysis – Used to identify the potential cause of loss
   - Insurance – Used in determining the feasibility of contractual transfer
   - School Lists – Specific to schools
Method 2: Flowcharts

The purpose of a flow chart is to visualize a process in sequential order. A flow chart is useful in isolating the points in a process where a quality check or the insertion of a quality assurance process would be beneficial.

The sample chart below might reflect a work flow for supplies procurement by schools in a district.

1. **Scope**
   - Graphically and sequentially depicts the activities of a particular operation/process
   - Process-driven
   - Useful for financial input / output – FIFO or LIFO methods (inventory control)
   - Logical flow – if / then statements

2. **Method**
   - Follows a “top-down” chain of order
   - School environment analysis – Demographic makeup
   - Dependency analysis – function or process relies on another event
   - Site analysis – eternal/ internal review
   - Decision analysis – process and authority
   - Critical path analysis – definitive process to succeed

3. **Benefits**
   - Illustrates interdependency within the school system
   - Can easily pinpoint bottlenecks
   - Can determine a critical path to follow

4. **Weaknesses**
   - Does not indicate frequency or severity
   - Does not show minor processes with major loss potential
   - Limited in regard to liability exposures
   - May be too process-oriented
An example of a problem solving flow chart is shown below. Problem solving flow charts display the problem to be solved then shows branching to other criterion based on conditional statements.
Method 3: Insurance Policy Analysis

Insurance policy analysis is used to determine when coverage begins and ends; what is covered and not covered; and what special conditions are listed in the policy.

1. **Scope**
   Reviewing an insurance contract to determine availability to coverages, deductibles, limits, exclusions, etc.

2. **Method**
   - Uses key people to review sections and subsections of particular coverages
   - Uses both internal staff and external consultants for review of policies
   - Analysis can determine both availability and desirability of insurance coverages

3. **Benefits**
   - Many perils are given a precise definition
   - States what specifically is covered
   - States what specifically is not covered

4. **Weaknesses**
   - Difficult to analyze before a loss
   - Case law may disregard what policy says
   - Policies are not standardized
Method 4: Physical Inspections

Physical inspections allow the risk manager and her team to personally view potential exposures. The benefits to the team’s ability to conduct qualitative analyses as well as quantitative analyses, are considerable.

1. **Scope**
   Informational visits to critical sites (within and outside the school system) to determine exposures

2. **Method**
   Use internal staff from the appropriate departments, such as:
   - Risk management
   - Safety department
   - Operations department

   In some cases it is appropriate to rely on physical inspections conducted by outside entities, such as:
   - Professional consultants (such as loss control experts)
   - Community services (such as building and health department inspectors)
   - Regulatory agencies (such as the fire department)

3. **Benefits**
   - Places the examiner in the actual environment to review or critique exposures that are evident and ones that present a potential threat
   - Usually are personal
   - Provides visualization of processes, locations, etc.
   - May find unreported hazards and/or assets

4. **Weaknesses**
   - Time consuming
   - Situations change often
Perform a physical inspection.

Next you’ll match your findings to the categories listed on a checklist

1. **Wet floor cone** – No wet floor sign
2. **Lots of ceiling pipes** – The moisture on the floor is due to a leak in an overhead pipe
3. **Poor mopping technique** – The employee is pushing the mop is too far away from his body
4. **Mop bucket** – Contact with toxic chemicals

Now, record your findings on a checklist.

**Answer:**

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<th>Yes</th>
<th>No</th>
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- Pests
- Leaking pipes
- Lighting problems
- Faulty wiring
- Poor ergonomics
- Floor hazards
- Lead-based paint
- Chemical exposure
Method 5: School Budget Analysis

School budget analysis reveals whether inflows are sufficient to cover outflows.

1. **Scope**
   Identifying values which are subject to loss, the event which could cause the loss and the fiscal impact after the loss

2. **Method**
   - Track/analyze growth in expenses
   - Track/analyze reductions or increases in revenues
   - Review the school budget
   - Track/analyze level of indebtedness (bonds and loans)

3. **Benefits**
   - Can help predict financial losses from a specific event
   - Demonstrates how other areas within the school system would be affected by the loss
   - Is the basis for insight in developing crisis contingency plans

4. **Weaknesses**
   - Usually do not take into account reductions in tax rolls
   - Unable to predict losses of sole or key suppliers or customers

Which one of the following most likely contributed to *both* the decrease in the average daily attendance of the district and a decrease in the size of the district's investment portfolio?

A. A new US President was elected to office.
B. The prime interest rate increased.
C. A major employer vacated the community served by the school.
D. The price of gasoline decreased.

**Answer:** The answer is C. A major employer vacated the community served by the school.
Method 6: Compliance Review

Compliance review is used to ensure that the school adheres to state and local statutes and regulations.

1. **Scope**
   Identifying all governmental and professional compliance statutes and regulations that could generate a liability for the school district.

2. **Method**
   The Compliance Review Method uses a combination of internal and external sources to thoroughly document processes are being implemented to follow all statutes and regulations through text, photos, training, attendance and instructional forms.

3. **Benefits**
   Most are “free” and give you an outside look (whether you want it or not)

4. **Weaknesses**
   Most carry their own problems and you have little or no control

Examples of statutory compliance issues include local and city code enforcement, state or federal mandates imposed by either statute or regulation.

The school system itself may impose compliance with professional standards such as licensure, or membership in the state school board association or state association of school business officers, attainment of professional designations, and continuing education.

Compliance reviews are very important when participating in government insurance programs, such as workers compensation or the flood program.
Method 7: Contract Identification and Analysis

Contract identification and analysis is useful for identifying any inconsistencies in contracts.

1. **Scope**
   Identify all contract types and the analysis process that qualifies their existence.

2. **Method**
   Contract identification and analysis methodology consist of utilizing specialized individuals who are responsible for enforcing the contract being reviewed.

3. **Benefits**
   Helps identify "holes" in the risk management plan

4. **Weaknesses**
   Because of second party you may not get a chance to do much with exposures

There are a wide variety of contracts involved. It is best to have the persons employed to enforce the contract complete the review. The reviews are completed by internal or external entities, as appropriate.

- Employment, Construction, Insurance Contracts
- Leases-Easements, Land, Buildings, etc.
- Hold harmless agreements-usually by another party
- Purchase orders and sales contracts-Regulatory requirements for purchasing at various amounts
- Bills of lading-Usually associated with Hazardous Waste Shipment
- Warranties-New Buildings, Equipment and Products
- School board and school-Specified by statutes/policies - district management duties
- Alliances with other schools-Interlocal Agreements (Educational Services, Purchasing, etc.)
- Employment contracts-Types, Time Limits Renewals - union contracts
- Service contracts-Frequency, type and value
Method 8: Policy and Procedures Review

Policy and procedures reviews are useful for maintaining up-to-date policies relating to the school's legal responsibilities, and policies relating to the school's relationship with the community.

1. **Scope**
   Reviewing the legal, local and departmental policies and procedures that sustain the district in its daily operations.

2. **Method**
   - Select multiple teams to perform in-depth studies on the functionality and effectiveness of each document.
   - When reviewing legal policies, the State School Board Association will assist the district in a policy-by-policy review.
   - Any policies, whether legal or local, will be modified if needed.
   - When reviewing departmental and administrative procedures, select teams consisting of people from outside of the department or administrative group to prevent bias.

3. **Benefits**
   Catch exposures that others in your school system create

4. **Weaknesses**
   “Politics” may prevent effective treatment

**Policy & Procedures Review?**

What kinds of items are reviewed?

- School by-laws
- Policies (legal and local)
- School board minutes and public records of meetings
- Employee manuals-These should be department specific.
- Procedures manuals-For best results these types of manuals should be process oriented.
- Mission Statements-descriptive, concise, who and what we are
- Organizational charts-Review the Chain-of-Command from a risk perspective
- Risk Management policies-For example, are safety policies adequate?
Method 9: Utilizing Experts

Consulting with experts can help a risk manager expedite contracts, programs and services.

1. **Scope**
   Identify internal or external sources that possess knowledge and experience in a particular service or product.

2. **Method**
   Selection of the expert depends on the topic or product in question. Experts give professional advice, opinions and direction for resolving issues associated with a particular topic.

3. **Benefits**
   Saves time and obtain benefit of experience

4. **Weaknesses**
   May be difficult to find and very expensive

Don't forget that many of your experts are internal to the school system:

- Staff with functional or managerial expertise: HR consultants, accountants, procurement officers, etc.

- Staff with craft skills from mechanical and operation departments: Vehicle, HVAC etc.

- External experts are consultants with experience in school related services, or specialists who can focus on one function of the school system; such as loss control specialists, brokers, actuaries, etc.
General Rules Applicable to Risk Identification.

1. Risk is present in every phase of school operations.
2. Risk is not always self evident.
3. Risk is subject to diagnosis and treatment.
4. More than one identification method should be used to diagnose and identify risks.
5. Often one method will reveal the greatest number of exposures.
6. Exposure identification is often referred to as the most important step in the Risk Management Process since an unrecognized exposure cannot be intelligently managed.

Please refer to the end of Section 4 to go over the section exercises.
Section 5: Gathering Loss Data

A comprehensive program of loss information gathering is critical to proactive risk management. Data gathering is an integral activity impacting each phase of the risk management process.

**Learning Objectives**

**By the end of this section, you will be able to:**
1. Determine where to obtain loss data.
2. Determine what specific loss data should be collected.
3. Understand that data is more valuable when indexed against exposures and know what types of exposure units can be used to index losses.

**Why should loss data be gathered and analyzed?**
1. To identify the causes of the most frequent and serious accidents; identify trends in loss experience quickly, easily
2. To focus the administration on the school's overall cost of risk
3. To gain support for loss control efforts
4. To evaluate potential cost/benefit of loss control alternatives
5. To evaluate the effectiveness of alternative methods for financing losses; this allows the risk manager to:
   a. decide between insurance and retention,
   b. choose deductibles and limits, and
   c. select a cash flow plan

**Loss Experience:** The historical financial impact associated with an operational event that results in the reduction of value to an employee or property owned by the district. The loss or claim is recorded in the district’s financial statements. It must be consistent with Governmental Accounting Standard Practices (GASB-10).
The issue of gathering and analyzing loss data provides us with an opportunity to show how steps of the risk management process continually relate to one another.

Gathering and analyzing loss data is, essentially, an activity related to the identification and analysis steps.

In this section we will relate the gathering of loss data to the other three steps of the risk management process.

1. **Identification (identifying risks)** – Without identification, none of the other steps are possible.

2. **Analysis (measuring risks)** – Determining frequency/severity of risk helps determine the method(s) use to control the risk.

3. **Control (handling risks)** – Determining whether to transfer or retain the risk impacts the risk finance step of the process.

4. **Finance (funding risks)** – How risk handling “turned out” in the past helps predict the amount of money needed future losses. In other words, actual loss data is developed to help create loss “pics” or estimates of future losses.

5. **Administration (implementation & monitoring)** – The cost of risk is negatively impacted if the appropriate implementation and monitoring is not achieved.

6. **Monitoring and implementation** helps identify new risk issues to solve.
Benefits of Loss Gathering & Analysis to Risk Control

Consider 4 ways that loss gathering and analysis activities interact with the risk control program.

1. **Allows Risk Professionals to Focus on the School’s Loss Experience**
   The risk manager is enabled by an effective program of loss data gathering and analysis when he or she is looking for trends in the school’s loss experience.

2. **Prioritizes Loss Control Issues**
   The most severe/frequent losses can be controlled more quickly.

3. **Allows Improved Cost/Benefit Analysis of Loss Control Efforts**
   A disciplined program of loss data gathering and analysis helps the risk manager to evaluate costs vs. benefits of the loss control methods in use. He or she is also in a better position to do cost/benefit analysis for new control methods under consideration.

4. **Helps the Risk Manager Gain Support for Loss Control Efforts**
   Loss run analyses can be presented in graphic format when communicating about the Risk Management Program to stakeholders.

Benefits of Loss Data Gathering & Analysis to Risk Finance

Consider 2 ways that loss gathering and analysis activities interact with the risk finance program.

1. **Helps in Evaluating the Cost/Benefits of Risk Finance Efforts**
   Loss histories are useful when looking at new or alternative forms of risk finance.

   **How?**
   - Working with loss runs helps you decide what to insure and what to retain.
   - Property values and past claims influence the selection of limits and deductibles.
   - Loss analysis influences the selection of a cash flow plan.
2. **Helps Determine How to Share the Cost of Risk**

**How?**

Loss data analysis helps the risk manager allocate the cost of risk and the cost of premiums across the locations under management.

- The data can assist when the district or administration wishes to create either incentives or disincentives to reduce or control losses at the campus level, by charging back losses to each location under management.
- The data is useful in determining the optimum retention level for each location, and comparing it to the amount of loss that the school system can retain.

How does loss data provide the objective basis for making decisions about sharing the cost of risk?

One example is how loss data are used in determining incident rates and severity rates.

Let's say we are measuring injuries that result in lost job time to the employee:

**INCIDENT RATE =** \( \frac{\text{Loss Time Injuries} \times 200,000}{\# \text{ Manhours of Exposure}} \)

*200,000 refers to :40 hours per Week X 50 weeks X 100 employees*

**SEVERITY RATE =** \( \frac{(\text{Cost of lost time injuries}) \times 200,000}{\# \text{ Manhours of Exposure}} \)

**Manhours of exposures refers to: Total amount of hours worked by all employees in one year.**

The closer to 1.0 that the incident and severity rate can get, the better.

Since the data about injuries can be tallied for one unit of the school system, (example, a high school) a rational for allocating the cost of risk across all the units of the school system can be created, based on (for example) incident rates or severity rates.
Benefits of Loss Gathering & Analysis on Risk Administration

Consider 3 ways that effective loss gathering and analysis activities interact with the risk administration.

1. The school is better enabled to respond to legal & regulatory actions, such as actions by the state education agency or actions by the Federal Environmental Protection Agency, or even to a lawsuit.

   Here's an example
   The state education agency requests that the school district provide information on the school's performance with respect to bus maintenance. Providing maintenance logs and transportation incident reports, among other actions, will be required in order to comply with this request.

2. The risk manager/business office needs loss data to satisfy insurance underwriting requirements.

   Why?
   - The risk manager (or business manager or other responsible party) needs the information to negotiate premiums.
   - The risk manager needs to be able to compare coverage restrictions and exclusions with the organization's actual loss experience
   - A risk manager (or business manager or other responsible party) would need loss analysis reports in order to set equitable reserves for self insured programs or partially self insured programs.

3. Loss data analysis provides a basis for establishing vendor performance agreements.

   How?
   - Are claims being handled in a timely manner?
   - Are vendors sending the appropriate reports?
   - Are you meeting your goals by using the vendor?

A comprehensive program of loss data gathering and loss data analysis is key to an important Risk Administration function: measuring performance.

Information about performance will be of interest to anyone involved in risk identification, risk control, risk finance and implementation and monitoring as well.
Under the process of administering risk, the risk manager is interested in evaluating the performance of all sorts of entities. Here are just a few:

1. performance of/within operating units: managers, supervisors and employee safety incentive programs
2. performance of in-house claims adjusters
3. performance of vendors such as carriers, third party administrators, brokers and managed care networks

A great example to show how important the loss gathering activities are to the organization's performance evaluation is benchmarking.

**Example**
A risk manager works at a school that was opened only three years ago. He wants to know how his slip and fall injuries over the past three years "stack up" against a similar school.

**Benchmarking:** Measurement of the quality of a district's policies, products, programs, strategies, etc., and their comparison with standard measurements, or similar measurements of the best-in-class districts. The objectives of benchmarking are (1) to determine what and where improvements are called for, (2) how other firms achieve their high performance levels, and (3) use this information to improve the firm's performance.

**Where do you obtain loss data?**

What constitutes the school's loss experience? A variety of loss data is shown below. We will discuss the importance of incident and accident reports in the next pages.

**Loss Experience:** The historical financial impact associated with an operational event that results in the reduction of value to an employee or property owned by the district. The loss or claim is recorded in the district's financial statements. It must be consistent with Governmental Accounting Standard Practices (GASB-10).

1. Accident, incident and near miss (or near hit) reports
   - Safety experts tell us that there are 99 near misses for every accident. Also, the same accident cause (leaking water from refrigeration case in food service area, for example) might produce far different results, i.e. a 7-year old child slips and gets up, uninjured, while a teacher or flood service worker breaks a leg.
2. First aid logs

3. Insurance company/TPA loss runs

4. Litigation records (insurable and uninsurable lawsuits); check with legal, human resources and operations

5. Accounting entries – building, equipment repairs and replacements

6. Loss runs are usually reviewing by non-claims people. Some don’t know what they are looking at.

Think about the relationship between hazards, incidents, and accidents.

A slip and fall has the potential to cause a loss. Let's look at this for a moment:

**HAZARD:** There's a slippery area of floor outside of the restrooms.

**HAZARD:** The floor area is adjacent to an outside door and water is tracked onto the floor by students on a rainy day.

**INCIDENT:** A slip and fall happens to 3 individuals and results in no injury. 5 other individuals slip but don't fall.

**ACCIDENT:** The slip and fall happens to another individual and results in minor sprain injury.

**SERIOUS ACCIDENT:** The slip and fall happens to another individual and results in serious neck injury.

Our 1 serious accident actually arrived with a "posse:" 2 hazards, 8 incidents and 1 minor accident.
See activity on page 8 in Section 5 Loss Data

The pyramid illustrates that for every serious accident, there are many accidents, incidents and recognized hazards that occur.

It’s easy to see that tracking and analyzing data on non-accidents, i.e. reported incidents and recognized hazards; is the place to focus when trying to reduce accidents.

There is a knowledge check located on page 13 in Section 5 Loss Data

When you decrease the number of recognized hazards, which of the following also decreases?

A. Incidents
B. Accidents
C. Serious accidents
D. Accidents and serious accidents
E. All of the above

Answer: The answer is E. All of the above

There are 9 types of data which should be collected. We will describe each of the nine types on the next two pages.

1. **Category of loss** – property damage, auto accident, worker injury, injury from product
2. **Date and time of loss** – year, date, day of week, shift, time of day
3. **Claimant** – name, date of hire, occupation
4. **Location** – School, department, operations point
5. **Hazard** – high noise level, slippery surface, unprotected combustible storage, slippery walkway
6. **Cause** – slip and fall, fall from height, repetitive motion, inhalation of fumes, electrical overload, trip over athletic equipment
7. **Type**: sprain/strain, laceration, disease, burn, water damage
8. **Body Part**: left wrist, lower back, eye, etc.
9. **Management**: supervisor, team leader, department
Exposure Data

Loss data is more valuable when losses are indexed against key units of measure for school systems, such as those below. When indexed to an exposure base, the school system can compare its loss experience to a "benchmark" such as a similarly sized school district.

1. Number of classrooms
2. Number of students
3. Payroll by class code, state
4. Headcount of employees
5. Vehicles by type, geographic area, annual mileage
6. Square footage
7. Property values – book value, actual cash value, replacement cost

To evaluate the quality of your data, you must first make sure that you have collected enough data to make a credible assertion.

Statistical credibility

A small number of highly variable losses over a short period of time will have limited predictive value. In order for your data to be credible, a substantial number of losses will be needed. One year is not enough.

The loss data must show minimal variability in frequency / severity of losses, reflecting stable school operations.

The size and make up of the exposure base should be consistent over time.

After you have enough data, you must make sure that the data you have collected is valid. Valid data is consistent and complete. Valid analysis is based on the comparison of like items.

Statistical Validity

**Apples to Apples**

Comparisons are invalid if they are not comparisons between the same items (apples to apples); do not compare the # of back strains to the # of back sprains; be sure to compare within the same policy years, deductible levels and valuation periods.
**Completeness**
Statistical analysis is invalid if the data set is incomplete; ensure against duplicate reports and incorrect location codes; don’t forget IBNR (incurred but not reported) claims.

**Consistency**
Analysis is invalid if the criteria and/or definitions regarding the data is inconsistent or misunderstood; make sure that hazards, injury type, cause of loss, etc. are all consistently defined.

There is a knowledge check located on page 5 in Section 5 Data Quality
Imagine that you are a risk manager who is answering questions about your loss data activities. What concepts will be put to work when answering each of the following questions?

**What types of records would show the school’s “loss experience?”**
- First aid logs
- Litigation records

**What is an example of exposure data to use for indexing?**
- Number of students
- Square footage

**What is an example of specific data that should be collected?**
- Data and time of loss
- Body part

**What concepts are used to ensure the quality of the data analysis?**
- One year is not enough
- Same reporting format used

Please refer to the end of Section 5 to go over the section exercises.

Your exam must be completed in the presence of a proctor/monitor. Links to the proctor and exam instructions pages, as well as the affidavit pages at www.TheNationalAlliance.com are located below. Take a moment to print a blank affidavit, and have it ready when you meet with your proctor/monitor to take your final exam.
Review the learning objection for each section.

Section 1 Risk Management Process & Function
Make sure you feel confident that you have understood the objectives of Section 1.

Learning Objectives
1. Identify and discuss the three types of risk and six general classes of risk.
2. Describe the seven essential benefits of an effective risk management program.
3. Identify and discuss the five components of cost of risk.
4. Understand and describe the five steps of the Risk Management Process.
5. Explain the concepts of loss frequency and severity. Understand the correlation between frequency and severity and the risk control techniques used to handle the various correlations.

Section 2 The School Risk Manager
Make sure you feel confident that you have understood the objectives of Section 2.

Learning Objectives
1. Understand the five steps in the managerial process as it relates to risk management.
2. Describe the three parts of a risk management program.
3. Know the four steps in the creation of a risk management mission statement.
4. Know why a written risk management policy statement is necessary.
5. Understand the purpose and content of the risk management standard operating procedures manual.
6. Know the guidelines for writing a risk management standard operating procedures manual.

Section 3 Identifying School Risks: Logical Classifications
Make sure you feel confident that you have understood the objectives of Section 3.

Learning Objectives
1. Discuss the risk identification phase as the priority in the risk management process.
2. Define, understand, compare and apply each of the four types of “Logical Classifications” of exposures.
3. Define and compare property valuation methods.
4. Discuss the nature of and compare tort, contract, and statutory liabilities.
Section 4 Risk Identification: Methods
Make sure you feel confident that you have understood the objectives of Section 4.

Learning Objectives
1. Know the nine various identification methods that will help us discover as many exposures as possible.
2. Know the benefits and weaknesses of the different identification methods and how to apply them in a specific situation.
3. Understand the general rules underlying the use of risk identification methods.

Section 5 Gathering Loss Data
Make sure you feel confident that you have understood the objectives of Section 5.

Learning Objectives
1. Determine where to obtain loss data.
2. Determine what specific loss data should be collected.
3. Understand that data is more valuable when indexed against exposures and know what types of exposure units can be used to index losses.