

Insurance Fluency

Understanding the foundations of insurance will allow you to have substantive conversations with insurance professionals about areas of concern and the best manner to finance the risks identified.

I am frequently asked by school treasurers what they can do or how they can become more fluent in the insurance world. This simple question can produce an array of responses that can make one's head spin and leave you more confused than when you started. Further, the term "insurance" can encompass several types of insurance: commercial or personal insurance; property and liability; employee benefits; or workers' compensation. For our purposes in this article, we will focus on commercial property and liability insurance, and as is the case in becoming more fluent in any new topic, we will start at the beginning, with *risk*.

Risk is best defined as exposure to some hazard with the potential to cause harm or loss. We face risk every hour of every day. Our daily routines are full of hazards that can cause harm or loss. Not all risks are created equal. Most people with a fresh understanding of the hazard and a sound respect for life and health would choose to control their exposure or even prevent being exposed at all. The idea that we can make a choice to prevent loss by either controlling the exposure or limiting its outcome is the basic tenet of risk management.

Managing risk is also a fundamental safety responsibility required by law under the Occupational Safety and Health Administration (OSHA). The OSHA General Duty Clause requires all employers to provide a work environment free from recognized hazards, causing or likely to cause death or serious harm. There are no magic lists of hazards by industry or job. It is the responsibility of the employer (in our case the school) to identify the hazards faced by those involved with their business and to design policy and procedures to limit the hazards from creating loss. The theory is that the process owner, regardless of the industry, should be the expert at identifying probable sources of loss and developing operational controls to prevent the loss from occurring. Understanding every potential hazard that has any chance of causing a loss is overwhelming.

Hazard identification is the first step in the risk management process and, in many ways, the most important. Risks can be best categorized into two very distinctive segments: property risks (physical structures) and casualty risks (liability of the school).

PROPERTY RISK

Property risk identification begins with a review of the inventory of the physical structures, vehicles, equipment, and lands owned or controlled by the school district. It's important to remember that risk may exist for leased or rented properties as the agreement or contract may require the school district as the renter or lessee be financially responsible for the space. Inventory lists, property appraisals, and inspection records are all excellent tools that should be used to aid in the identification of property risk.

CASUALTY RISK

Casualty hazards can be a bit more difficult to identify as they are rooted in the policy and procedures implemented within the "brick and mortar" operations of the school. Typical casualty loss scenarios stem from a perceived inability to prevent loss or harm of a legal obligation. Most schools have a comprehensive set of board of education policies outlining the expectations of the district. Casualty losses occur when the procedure or the application of the procedure fails to prevent a loss suffered by a student, staff person or a member of the public. Casualty risk identification can be aided by examining accident investigation reports from past incidents like injuries, claims of harassment, challenges of failure to educate or any unusual incident reports. Many districts choose to subscribe to vendors who provide policy templates or entire policy manuals. Any review by these vendors or a legal review of the policy manual would provide excellent risk identification data.



Financing risk through insurance is a commonly considered approach to risk management

Now that we have identified the risks or hazards associated with running our school, we need to determine the extent of the exposure to the hazard(s) and the likelihood of a loss and then what to do about the risk. That is where risk management enters the picture.

The risk management process has three basic approaches for the district to take:

1. RISK ELIMINATION
 - eliminate either the likelihood or consequence. This is typically reserved for those risks that are likely to cause severe harm or damage.
2. RISK PREVENTION
 - reduce the likelihood or frequency of loss; or limit the district's exposure to the hazard
3. RISK CONTROL
 - reduce the severity or consequence

Let's take a quick recap before we move forward. We have identified our property and casualty hazards and decided operationally how to eliminate, prevent, or control these risks associated with our school's district's operation, but what do we do when accidents happen? That's when you need to decide how to finance the risk.

Despite your best efforts to eliminate, prevent, and control risk, accidents are going to happen. Most school districts do not have the resources to finance the large losses, which is where insurance comes into play. There are other ways to finance risk, but we will discuss only insurance, as it is the most common and most pertinent to our discussion within this article.

Financing risk through insurance is a commonly considered approach to risk management. Most of us have some sort of insurance for our personal lives, whether it be for our homes, cars, or other items of value. Personal insurance in most cases is relatively simple to understand because the items being insured are typically very similar from one person to another. When thinking of a school district, while there are certain similarities, no two schools are alike. That is where the review and evaluation of risks can be most challenging. At its core, insurance can be narrowed down into a few distinct terms: property coverage, liability coverage, ancillary coverage. Whether it be your personal insurance or your district's insurance, these terms are consistent across the board.

In future articles, we will delve more deeply into the three coverage lines just mentioned. For foundational purposes, it is important to understand and evaluate each area within your school operation from both a physical asset standpoint and a policy and procedure perspective. Doing this will allow you as school leaders to have substantive conversations with your insurance professionals about areas of concern and the best manner to finance the risks identified. – TRAVIS THOMPSON / OHIO SCHOOL PLAN