

## **RISK MANAGEMENT: THE UNRECOGNIZED NECESSITY**

by

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In searching library literature, it became clear that little had recently been written about risk management specifically for libraries. The purpose of this paper is threefold. It is to explain to the isolated librarian what a risk management program is, the benefits of such a program, and some of the elements involved. It is not an attempt to eliminate the professional insurance agent, broker, or risk management consultant from the process. Risk management is too complex an activity, fraught with too many opportunities for error or oversight in its performance to allow it to be an incidental activity of the library director. It is, however, advantageous to the library if the director is an informed member of the risk management team.

"1865 London ... By the same fire there was also destroyed the Humboldt Library, consisting of about 17,000 volumes. I fear a good friend of our Association...was a heavy loser by this event. A \$5,000 policy expired at noon on the very day of the fire, and had not been renewed."

The basic goal of risk management is to ensure the survival and continued operation of the organization, the library, in which it is being undertaken. Librarians and trustees in small libraries often overlook the benefits of an ongoing, systematic risk management program, perhaps because of the demands of day-to-day operation or from the feeling that "We're too small, we don't need risk management, we just need insurance."

The devastating losses incurred in the instance, not only of such calamities as fires, floods, earthquakes, and tornadoes, but by litigation such as the suit brought by Richard Kreimer against the Morristown (NJ) public library are powerful evidence of the need for risk management programs. Less cataclysmic occurrences such as pest infestation, worn carpet, an omission in the policy

manual, or a leak in the roof can also create perils that could have considerable influence on the library.

There are five primary types of losses that a library can face. The loss of property is probably the one most frequently considered, with liability to others following closely behind. Less frequently considered is the interruption of business. Though libraries are generally non-profit-making organizations, the additional expenses and costs of interruption of business are considerable. The final type of loss is human resources loss which will not be considered in this paper.

Risk management began to receive recognition during the 1960s as a means of controlling losses (to ensure the survival of the organization) and has been whole-heartedly embraced by business and by larger libraries since the 1970s. Secondary goals may vary from providing a safe environment for employees, volunteers, and patrons to providing better stewardship of library assets so that it can better pursue its goals and mission. Additional goals might be to ensure awareness and compliance with legal requirements or to moderate the anxieties of staff or board concerning personal liability for decisions or actions. Each will be dependent upon the needs of the specific organization.

Though secondary, additional goals, such as providing a safe environment to patrons, volunteers, and staff, are not incidental, but are essential to library performance. One severe accident—a serious fall because a handrailing was loose, a flip from a swivel chair, or an injury caused by a weighty art book falling on a patron's head, may be sufficient to damage the library's credibility as a safe place to go for information or recreational reading.

There are a number of benefits to be derived from following a risk management program. The practice makes more effective use of public funds. It has the potential to decrease overall costs and increase productivity and, it can reduce losses to a library and identify exposures that can be covered through an alternative to insurance. A regular plan or program helps make the library more attractive to insurance providers and it can help reduce uncertainties connected with future activities and projects. It also requires that claims, losses and insurance policies be kept track of and improved management awareness and skills generally.

Risk management is not the same as acquiring insurance, though purchasing insurance can be a part of the risk management program. The East Formula (Pfaffle, 1976), a system developed by the staff of Ebasco Risk Management Consultants, consisted of four key elements:

- E = Elimination or reduction of risk
- A = Assumption of risk
- S = Self-insurance of risk
- T = Transfer

Which are still used, though a more current method is to assign five steps to the management of risk. Risk identification is the process of determining or discovering what exposures ["the existence of hazards" (Blood, 1962)] exist.

Risk evaluation is the determination of the degree of exposure to a hazard existing, the likelihood of experiencing that exposure, and whether the assumption of the cost of the occurrence is bearable for the library. Risk treatment is determining the options in dealing with the risk. Selection and implementation involve selection of an option to test plus putting it into effect. The final step in risk management is to monitor the effectiveness of the treatment selected and to make alterations as needed.

A simpler way to look at the five steps is to identify the risks, analyze the options for eliminating or reducing risk, selecting the most suitable techniques, implementing those techniques, and monitoring and modifying them as needed.

### **RISK IDENTIFICATION**

Means of identifying risk consists not only of specialized checklists, standard accident reports, complaint forms, and other forms, but also are augmented by perusal of budgets, minutes of board and committee meetings, and the maintenance of complete employee files. Records of real property, permits, contracts, expired insurance policies, asset depreciation schedules, purchasing department schedules, etc., may also be important. Inspections,

site visits, interviews of long-term employees, insurance agents, brokers, and risk consultants are also valuable tools in risk identification. In some states, members of the state library staff and/or staff of insurance risk pools might be available to serve as consultants.

If the library has staff participating in governmental programs, such as Green Thumbs, a quick inspection and interview will be held on an annual basis. While this may be helpful in pointing out some risk factors, it will emphasize the most obvious - those such as dangers in lifting and carrying, dangers of falling objects and people, use of dangerous equipment and materials (including scissors and papercutters, bookpresses, adhesives, solvents, etc.), adequate fire extinguishers, etcetera. Such an inspection cannot substitute for the more detailed inspection of a risk management program.

Inspections, by their nature, require actions. They are conducted to confirm safe working conditions, identify hazards that could cause accidents, then review and follow-up on safety measures instituted, and document measures taken to correct hazards identified.

A structured, written format is required for successful results from inspections. They need to be repeated, and periodically reviewed. Follow-through on action-oriented inspections needs to be pursued with continuing feedback from employees to ensure correction of problems or hazards (U.S. Department of Agriculture, 1986).

On-site inspections of the physical plant will include the construction of the building, type of insulation, roof, and the layout and compartmentation of the building (This may or may not be a problem for the small library). Fire-resistant walls, floors, paint, fire doors, and storage areas in attics and basements will also be noted. The location, type and condition of heating systems is a great concern. The design and installation of electrical and plumbing fixtures and elements will be examined. The installation and condition of drains and sewers serving the library will be examined. Should there be an elevator, it will be given especially strict scrutiny as will steam boilers. The maintenance records and plans of such equipment will be among the documents that will most probably be required. Conditions of floors and floor coverings will be considered, as well

the condition of paved areas such as parking lots and sidewalks. Stairs, ramps, and handrails will be checked for adequacy, strength, and state of repair (U.S. Dept. of Agriculture, 1986). The adequacy of lighting in bookstacks, general reading areas, hallways, stairways, restrooms, parking lots, and around the perimeter of the building will be checked. Emergency lighting in the building, clearly marked exits, and unobstructed paths and exits are essential. Proper anchors for and installation of shelving units are important not only for the safety of employees, but also the safety of patrons using the library. The list of items examined goes on and on.

For libraries, the list is even more extensive because those things which are dangerous to the condition of valuable library materials must also be considered. Temperature and humidity control are important not only for human comfort, but in order to protect books, one of the largest expenses in any library (Morris, 1986). Faulty application of a vapor barrier can result in interior "rain" making those items most requiring stable environmental conditions subject to what amounts to an interior rain forest. This increases the likelihood of mold, fungus, and pest infestation as well as speeding of the intrinsic deterioration of paper. Costly equipment can become subject to invisible deterioration due to the damp. Dust is dangerous to both materials and equipment (not to mention people in the library), so adequate maintenance and cleaning is extremely important. Besides being an unpleasant sight, insects can do irreparable damage to the paper, adhesives, and cloth from which books are made. The lack of shields on fluorescent lights to decrease ultraviolet light exposure effectively ages library materials more quickly than incandescent lighting. The improper care of photographic materials and microfilm causes rapid deterioration and decay, so necessary storage precautions need to be made.

Poor care of materials sometimes requires the use of solvents, chemical agents, adhesives, etc. for repair procedures. Pest infestation may require treatment with insecticides or fumigation - both considered to be hazardous activities.

A point could be made too, for the inclusion of outdated or erroneous information in the collection as a potential risk exposure. Increasing litigiousness

makes this an ever-more-likely occurrence. Inadequate security and accessibility of records of all sorts is an additional exposure.

The failure to pre-plan and establish policies and have procedures for coping with possible emergencies and hazardous conditions are oversights that can make significant differences in the cost of insurance, but more importantly a major difference in the speed with which recovery can begin following a disaster. It is important to have safe copies of emergency pre-plans for fires, water damage, etc. and lists of materials which can be replaced and those which require salvage or treatment. Evacuation plans should be posted and learned by all employees and volunteers. A method that ensures firefighters access to the building without breaking out glass or destroying doors is important, too, and should be developed in cooperation with the Fire Chief and have the approval of the library board. A particularly difficult problem now, is the determination of policy regarding problem patrons. A plan for training library employees and volunteers is also necessary.

When being inspected - purchasing, inventory, and accounting controls; control of cash receipts for overdues, copy machines, lost & paid, etc.; frequency of bank deposits; hours open to the public and staffing plans; screening of employees; etc. will often be investigated, as well.

## **RISK EVALUATION**

Risk evaluation is the attempt to determine the likelihood or probability of the occurrence of an exposure to a hazard or peril. It involves, further, the attempt to determine whether the assumption of the cost of that occurrence is bearable for the library.

Some of the purposes of evaluating risks are to target the risks demanding attention for treatment, determining the results of the risk management program, determining the pattern of claims payments, and to aid in determining what insurance limits and deductibles will be selected.

The tools and methods of evaluation include evaluating the original cost of the item or structure, the accounting (or book) value, reproduction cost, replacement cost, actual cash value, tax-appraised value, and market value.

Evaluation is relatively complex for libraries when collections are being weighed. Individual segments of the collection will be valued in varying ways, as will some individual items. Rare and valuable books present particular difficulties since ownership or clear title needs to be documented. The services of a professional rare books appraiser will be necessary if the collection is of any size or the items very unusual. Valuable (irreplaceable) papers and unique documents held by the library, original works of art, and the library archives will necessitate special attention. Children's books, adult popular fiction, and nonfiction each present very different problems. Complicated formulas are available which provide various means of determining the value of collections (Myers, 1977). In their application it is wise to reflect on the mission of the library and the goals and objectives by which it attempts to fulfill that mission.

The evaluation of buildings is a relatively straightforward undertaking. Formulas, checklists, and worksheets are available to aid in this determination. The original costs of construction, the contracts with architect and contractor, and guarantees by manufacturers of supplies used in construction will be helpful in measurement, as will depreciation schedules. As with the collection, consideration must be given to the ability of the library to assume losses, and whether insuring actual cash value or replacement cost for the building and furnishings is more appropriate.

When making this decision, the nature of the neighborhood (whether there is much vandalism, whether it is extremely isolated, whether there is adequate street lighting, etc.) and the condition and proximity to the library of surrounding structures (are they structurally sound and resistant to fire?) will be evaluated as well.

The costs resulting from the interruption of business for a library are different from those of a for-profit institution. Loss of income is rarely a consideration. However, the costs of renting a location, furnishings, equipment, and a collection so that a degree of service can be resumed while rebuilding or permanent relocation is decided and completed, are great. If the loss is not total, cleaning services, salvage, the overtime and additional payroll costs for rehabilitation, in addition to the expense of utilities in both locations, escalate rapidly.

## RISK TREATMENT

Risk treatment may include activities which diminish risk, such as eliminating clutter, training employees, adopting policies, or maintaining adequate files and records. It also includes determining how remaining risk will be financed.

Two primary methods of risk financing are generally used. The first of these is to retain or assume risks. While some feel that the term "self-insurance" (Blood, 1962) is a misnomer, establishing a fund for the express purpose of handling a loss (e.g. a bookmobile fund, materials replacement fund, etc.) is a means of attempting self-insurance. Another way in which risk is retained or assumed is to consider a particular type of loss as one of the regular expenses of doing business. In this respect many libraries assume the loss of stolen books, feeling that the heroic measures of insurance or increased security are more costly than any likely losses.

According to Pfaffle (1976), there are several reasons for using the establishment of a reserve fund:

First, for risks of a magnitude exceeding normal maintenance budget items, it can often provide adequate protection at lower cost than outside insurance. Second, there may not be an insurance market for the items in question. Third, self-insurance may help secure the confidence of employees or the public.

The second method of risk financing is to transfer the risk. Often small libraries do this by the purchase of insurance policies from a commercial company. Insuring is also possible in many areas by joining a risk financing pool. An additional method of transferring risk is by the purchase of an insurance product endorsed or marketed through a national association.

When contemplating the purchase of insurance, there are two professionals generally considered for assistance - the agent or the broker. An insurance agent is an individual who represents an insurance company or companies. He/she relies on commission based on the policy sales he/she makes. The insurance broker serves as a representative or agent for the insurance buyer, who pays a fee for services rendered. In small communities the



availability of agents is usually greater than that of brokers. The agent may be a respected member of the community, friend of the trustees, and an active supporter of the services provided by the library.

When selecting an agent or broker, there are a number of desirable qualities to seek (OSU, 1986):

- a. Experience in dealing with the risks facing local governments, including libraries.
- b. A good reputation.
- c. The ability to provide service and to represent the library's needs to the insurance market.
- d. The availability to provide the attention needed.
- e. An understanding of risk management.

In many states, a viable alternative when seeking insurance is a risk financing pool. These often provide services to municipalities, counties, and other governmental subdivisions. In many cases, the costs are somewhat less and each participant is a partial owner, similar to a co-op. Refunds may be made once a sufficient base is realized if pay-outs have been modest during a specific insurance period.

When considering joining a risk sharing pool it is important to look at such things as how the pool is capitalized and who is responsible for pool management. What are their credentials and experience? Claims administration is a key function. Who is responsible and what is their experience? What are the eligibility requirements or restrictions imposed by the pool? What reinsurance provisions have been made? What is the level of experience of service administrators retained by the pool? How many years has the pool been in operation? How is the pool structured? What is the pool's philosophy regarding loss prevention, screening of new members, discipline of membership, marketing and growth, fiscal responsibility concerning reserving capacity? Looking not only at the brochures for new members, but at the annual reports for the past two or three years, can be valuable in determining if the pool is a good fit for a specific library.

## **BUYING INSURANCE**

Regardless of the source of insurance, it is important to have a clear and specific idea of the library's insurance requirements. Purchasing more insurance than is really needed is evidence of insufficient analysis, just as is buying too little.

For many public entities such as libraries, taking bids is a requirement before committing any substantial monies to a particular provider. When preparing a request for bids, make sure that insurance specifications and requirements are clear and specific. It is important that each bidder be bidding on exactly the same coverage. The need to purchase as little insurance as the library absolutely needs is an important issue to planning. Both during the planning stages and bidding stages, it is important to explore ways to reduce premiums and dependence on insurance. Reconsider coverage for low-severity/low-frequency occurrences. It may be worthwhile to retain those risks. Thorough records, maintenance of insurance policies, costs, and claims will be an aid in renewing or purchasing insurance. If several policies and providers are used, check for duplicate coverage. Awareness of state insurance commission's policies regarding policy cancellations and premium increases may help reduce costs and retain the library's rights. Groups, associations, or state funds often provide effective and efficient provision of life and health insurance and workers' compensation coverage. Most important of all - choose insurance based on the overall coverage - not just the price. Again, if taking bids, be sure that all conditions and provisions are the same (U.S. Dept. of Agriculture, 1986).

## **LOSS REPORTING**

Loss reporting is an essential step in monitoring the effectiveness of the risk management program. Reports can indicate accident patterns and the need for corrective actions. Accident records are helpful for filing insurance claims and may provide documentation of all efforts to prevent accidents, as well as the actions taken after a claims, can be valuable in defense should there be litigation. Maintaining and using the data on the costs of accidents makes an argument for the adequate funding of corrective measures.

The types of records that need to be maintained are reports of accidents and accident investigations; safety violations; complaints of hazardous conditions; records of claims and subsequent actions; reports of initial inspections and follow-up inspections; cost, locations and maintenance schedules of safety equipment; dates, content and attendees of safety training sessions; and maintenance schedules of all equipment, including vehicles.

### **BOARD INVOLVEMENT**

For many board members, awareness of risk remains in the shadowy realm beyond conscious thought as they focus on what they and their organizations can achieve if everything goes well (Tremper and Babcock, 1990). It is not until they consider their personal liability for decisions and errors that they become stimulated to consider risk seriously. In most cases the library board (and director) are exposed to those risks faced by business firms and corporations.

"Tort liability...arises from damage or injury to persons alleged to be the result of the deliberate or negligent actions of employees or agents or of a failure in a duty owed the public" (Morris, 1986). Examples might be personal injuries such as false arrest, detention, or imprisonment, or malicious persecution, libel, slander, defamation, violation of the right to privacy (a reason for special instruction of any staff working circulation), etc. The request by a staff member to a patron leaving the library that they open a bag or purse might be construed as a violation of privacy. Minorities might protest that the library has denied their civil and/or constitutional rights either as employee or patron. Contracts in which the library agrees to hold harmless or indemnify the other party for liability for injuries related to the terms of the contract may on occasion be considered a failure of duty owed the public. Careful attention must be paid to such clauses in contracts or agreements.

While some of the losses that directors and officers may cause are covered under general liability policies, many are not. D&O (Directors and Officers insurance) covers the personal liability of the directors and officer. The policy also covers expenses that an organization may incur in the course of resolving a claim against its directors or officers (Tremper and Babcock, 1990).

Generally, though D&O offers substantial protection, exclusions limit its use as a risk management tool. Commonly, fines and penalties imposed by law, libel and slander, personal profit, dishonesty, the failure to procure or maintain insurance, bodily injury and property damage claims, pollution claims, and suits by one board member against another are excluded.

Of great concern are pollution claims. An anecdote goes that a library board was offered the gift of a large parking lot in a costly downtown area. What the board wasn't told was that underneath the parking lot were buried a number of underground storage tanks that had been there for many decades following the razing of a filling station years before.

The particular D&O policy will determine the terms and exclusions. In most cases, they do not provide for the insurer to defend against a claim. Attorney's fees must first be paid and then reimbursement requested.

Prudent deliberation of proposed actions, assuming ownership of property, developing policy, etc., by boards is essential. The ultimate legal responsibility for the library is theirs. Theirs is the final word in the development of policies, including that of initiating a risk management program. While they may delegate responsibility for preliminary work to the director, the business manager, or some other individual, it is the responsibility of the board to be fully informed regarding matters of this nature.

## CONCLUSION

A risk management program may be instituted as a part of the planning process of a small library. Its purpose is to ensure the survival and stability of the library and reduce exposure to loss and liability.

The steps of a risk management program are the identification of risk, risk evaluation, risk treatment, selection and implementation, and monitoring. Aids in following these steps include plans, checklists, worksheets, inspections, etc. and the active aid of an agent, broker, or consultant.

The value of a risk management program to a small library may be more important than to the large, well-funded library. A minor loss for the large

library may serve as a killing blow to the poorer. Not only will such a program offer decreased exposure to risk and liability, but it will afford the library director, board, and staff a better understanding of the library, its role in the community, and the effectiveness with which it fulfills its mission. It can also provide impetus to improve planning of the library's program and services and enhance the policy-making function.

Today, the position of the small public library is imperiled. The erosion of the infrastructure, increased poverty, mandates imposed by government, and continued isolation requires the exercise of all possible care in guiding rural libraries into the twenty-first century. A risk management program is a major part of that care.

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