RISK MANAGEMENT AND INSURANCE MANUAL FOR LIBRARIES
UPDATED

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IN COLLABORATION WITH CORE PUBLISHING

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Disclaimer

This manual is intended to serve as a reference guide on various aspects of risk management and insurance, including bringing to the attention of the user potential hazards or conditions related to the existence and operation of libraries. The user must make the decision on whether and how to address any hazard or condition. Any resources listed in the text or the appendixes do not constitute an endorsement by the authors or editors. No liability is assumed by or through the use of any information contained in the manual.

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Preface

This book is an updated version of the 2005 edition of the *Risk and Insurance Management Manual for Libraries*. It broadens the previous manual and incorporates broader principles of risk management, including enterprise risk management concepts. The current authors are indebted to William Payton for the previous version of the text. We are also grateful to Jeanne Drewes for her guidance and contributions to the text, especially those sections relating directly to library valuations.

EDITOR'S NOTE

This new edition updates and expands the previous edition to cover the many new issues affecting libraries, including cybersecurity and cyberattacks. Additional appendixes are also included and additional hazards, such as earthquakes, are discussed. The world feels like a more dangerous place nowadays, and the current authors have tried to consider all possible issues that may affect libraries. Risk management and insurance industry terminology is used throughout in the hope that this will assist the library community both in

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their communications with their insurance agent and consultants as well as in better understanding the terms within insurance policies and contracts. I am particularly grateful to Mary Breighner for continuing to share her deep expertise and for suggesting (as coauthor) the incomparable Sally Alexander, who provided additional invaluable expertise for this edition. These two authors spent countless hours editing and adding more current information to make this edition far more useful for 2020. It takes experts willing to dedicate their time and share their expertise without remuneration to produce a publication of such high quality. The staff at the ALA and the ALCTS monograph editorial board are also to be recognized for their work in encouraging the completion of this book.

In March 2020, the Association for Library Collections & Technical Services (ALCTS), Library and Information Technology Association (LITA), and Library Leadership & Management Association (LLAMA) voted to jointly form Core: Leadership, Infrastructure, Futures, a division of the American Library Association. Core cultivates and celebrates the collective expertise of library workers in core functions through community building, advocacy, and learning. Core will formally launch September 2020.

It is appropriate that this is the first publication since the creation of Core, which unites the sections that worked together on earlier versions of this manual. I am particularly pleased after being part of both the Preservation & Reformatting Section (PARS) and LLAMA in this area of risk management and insurance, now working under the umbrella of Core (core.ala.org). This manual provides a current reference for public, academic, and special libraries concerning issues of risk management and insurance.

Jeanne Drewes, Editor

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Introduction

Risk management and insurance are closely related, each impacting the other. Lowering risk can reduce the cost of insurance, and insurance can cover many of the unexpected hazards that a risk review cannot eliminate. The authors have worked to consider as many risks as possible and to provide meaningful options for reducing them, while acknowledging that there will always be risks and hazards in any public building that provides resources to a varied community of users and visitors. The concept of a manual has been retained in this book. This is not a textbook; rather, it covers a broad spectrum of issues and actions, while also providing some resources for further investigation. We have tried to avoid too much depth of detail, while assisting those responsible for designing, implementing, and administering a library risk management program. The participants of a risk management team should include trustees, directors, and librarians as well as facilities, safety, and security personnel, and may also include underwriters, consultants, agents, and brokers. We hope that the examples and guidance in this book provide library personnel with an effective risk management and insurance program for development. While this book predominantly focuses on property and casualty insurance, additional hazards and insurance options have been discussed to better

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enable the reader to select from the consideration of the options for reducing risk. This manual is intended for United States libraries, and while foreign librarians may find useful information, government regulations and laws of their particular country should be considered before adopting the information provided here.

OBJECTIVES

This manual's objectives are the same as the earlier edition:

1. To inform trustees, directors, librarians, and other library personnel of the essential elements and concepts of an appropriate risk management and insurance program for libraries.
2. To assist those who are responsible for designing, implementing, and administering a library risk management program, including all members of the risk management team. The team's participants should include trustees, directors, librarians, and safety and security personnel, and may also include underwriters, consultants, agents, and brokers.
3. To provide a guide for library personnel so an effective risk management and insurance program can be developed.

A discussion of group insurance for employees has been purposely omitted from this manual. The subject material of this manual is limited to property and casualty risk management and insurance. Employee benefits, such as medical and disability insurance, are not included because the insurance needs of employees are not unique to libraries and frequently are provided through coverage by a library's parent organization.

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1
A Risk Management Philosophy for Libraries

RESPONSIBILITY OF THE LIBRARY BOARD OF DIRECTORS OR TRUSTEES

Whether the library is part of an institution or other organization or is a separate legal entity, the ultimate authority for its operation lies with a board of directors, trustees, or other governing body. The obligations and responsibilities of this board may be defined by state statute, or the board may, to a large extent, be subject to common law rules. In any event, there are both a moral and a legal obligation calling for the exercise of good business judgment in protecting the library's assets, and its reputation. This requires the directors and trustees to identify all risks of loss to which the library may be exposed as a result of its operations. Having identified the risks of loss, the directors have the ultimate responsibility to deal with those risks to minimize the adverse financial consequences of losses that may result from those risks. In short, the board is responsible for the development of an enterprise risk management policy for the library.

The directors and trustees have an obligation to identify risks and take steps to minimize the risk of loss to either the library or another person or entity. The

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board's risk oversight role should include their proposed strategy and risk appetite, as well as the alignment of that strategy and operational objectives with the library's mission and values. The board can, however, delegate the implementation of the enterprise risk management policy to others, including the administrator, business officer, controller, treasurer, librarian, or other person. In most cases, this is what is done. Even when the library is part of a municipality, university, or larger organization, the library administrator, the controller, and the library administrator must be provided with standards or guidelines. These standards or guidelines should delegate authority to identify and manage risks, including the purchasing of insurance. A risk management policy statement should be developed by the board and disseminated throughout the library to those responsible for carrying out the business policies of the board.

WHAT IS RISK?

One cannot implement an appropriate enterprise risk management framework without defining what we mean by risk. The word risk has many definitions:

- "the effect of uncertainty on objectives" (ISO 2018).
- "combination of the likelihood and the consequence(s) of a specified hazardous event occurring" (OHSAS 1999, 3).
- ISO 31000:2009 and ISO Guide 73 changes risk to the "effect of uncertainty on objectives" (Wikipedia 2020). This means that the definition has been expanded to refer to positive and negative consequences of uncertainty.

In short, risk is the occurrence of any event which is uncertain, and which when it does occur will have a consequence or an impact. The consequence can either be negative—such as causing financial loss, or it can be positive—such as providing an opportunity for an organization.

WHAT IS RISK MANAGEMENT?

The term risk management has a variety of definitions:

- "Risk management is the identification, measurement and treatment of property, liability, and personnel pure-risk exposures" (Williams and Heins 1985, 16).
- Risk management "is concerned with the systematic organized effort to eliminate or reduce harm to persons and the threat of losses to public organizations" (Reed and Swain 1990, 261).

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- “Risk management can be defined as a systematic process for the identification and evaluation of pure loss exposures faced by an organization or individual, and for the selection and administration of the most appropriate techniques for treating such exposures” (Rejda 1992, 47).
- “Risk management is a broad-based, systematic approach to preventing accidental losses, reducing the cost of losses that occur, and finding the most efficient way to pay for whatever losses remain” (Trupin and Flitner 1998, 2).
- “The Alliance for Nonprofit Management defines risk management as, ‘[...] a discipline for dealing with the possibility that some future event will cause harm. It provides strategies, techniques, and an approach to recognizing and confronting any threat faced by an organization in fulfilling its mission’” (Layne 2019).

WHAT IS ENTERPRISE RISK MANAGEMENT?

Like risk management, the term enterprise risk management has a number of definitions.

- “Enterprise risk management is a process, effected by an entity’s board of directors, management, and other personnel, applied in strategy setting and across the enterprise, [that is] designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives” (COSO 2004).
- “Enterprise risk management is a plan-based business strategy that aims to identify, assess, and prepare for any dangers, hazards, and other potentials for disaster—both physical and figurative—that may interfere with an organization’s operations and objectives” (Kenton 2019).

For a more detailed discussion about ERM, please see discussion at end of this chapter.

There is considerable similarity between the definitions of enterprise risk management and traditional risk management. Common to both is the recognition that risk management is a process that allows an organization to identify and manage its risk. No matter which definition the library prefers, risk management is a systematic process of identifying, analyzing, and quantifying the risks of human, physical, and financial loss to preserve the assets of the library by selecting the most appropriate method of managing those risks

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through avoidance, prevention, reduction, knowing assumption, transfer of the risk of loss to others, or by the purchase of insurance.

RISK MANAGEMENT AND INSURANCE

Insurance is an important part of the risk management program. It is a method that organizations use to finance their risk—that is, to protect the organization from the potential economic impact of losses or claims. Risk management is a broader concept than insurance. It places greater emphasis on the identification, analysis, prevention, and control of risks. Insurance is only one tool in the risk management process. Risk management recognizes that some risks can be avoided; that other risks can be reduced or eliminated; and that additional risks can be transferred to others. In this regard, some risks are insurable, some not; and some risks involve types of losses that should be insured against by the purchase of commercial insurance, while others are losses that can be assumed or self-insured. Issues of primary importance in risk management are loss prevention and loss control, insurance, and communication. When fully implemented, risk management decisions have a greater impact on library operations than insurance alone and can add value to the library by helping avoid or minimize major financial losses, and by making the library a safer place in which to learn and work. These principles are readily adaptable to libraries—large, small, public, private, university, or special.

THE RISK MANAGEMENT PROCESS

Risk management is a decision-making process. This process involves several steps—all designed to help reduce uncertainty concerning the occurrence of a future loss, or opportunity. The process consists of several steps: risk identification, risk quantification and evaluation, risk treatment implementation, and reevaluation.

RISK IDENTIFICATION

The first step in the risk management process is to identify risks to which the library may be subject. At the operational level, this will involve an analysis of the operations of the library and identification of the risks inherent in those operations. In this step, the library will identify those assets or operations that, if damaged or destroyed, would cause difficulty to ongoing operations.

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These include the physical assets of the library, such as the building and its collections; the human assets, including all employees and volunteers, particularly those who are specially trained in skills critical to the library's functions; financial assets that might be subject to theft; and the risks present in the library's operations, such as trip-and-fall hazards. Simply put, in this step the library is looking to determine who could be at risk as a result of the library's operations and what could be damaged, destroyed, or lost as a result of the library's operations. Chapter 2, "Risk Identification," discusses this step of the risk management process in more detail.

The board should identify risks that the library may have at a strategic level and set the risk appetite for the library. This will be discussed in more detail later in this chapter.

RISK QUANTIFICATION AND EVALUATION

The next step in the process is to quantify the risks identified in step one. This involves an evaluation of the potential size of losses that may occur from the different risks identified, and evaluating the likelihood that such losses will occur. In other words, the library will evaluate the probable frequency and severity of losses from various risks.

For severity or impact, the library should consider not only financial impacts but impacts that relate to its mission. Mission impacts include reputational impacts.

For example, what is the likelihood of having property damaged or lost from any number of causes, such as fire, flood, or wind? And what is the estimated size of the damage that might ensue? For what operations, actions, and inactions might the library be held liable under law if any of those result in bodily injury to someone else or damage to someone else's property? Chapter 3, "Risk Quantification and Evaluation," discusses this step of the risk management process in more detail. Arguably, the first two steps in the risk management process are the most critical ones. The more accurate these assessments are, the more effective the program designed to manage the risks can be.

Once potential risks of loss have been identified and quantified, the library needs to evaluate and select the most effective risk treatment method to manage these risks. In evaluating the options, the library must balance the desire to reduce risk and prevent losses with an understanding that risks are an inherent part of any library operation. Therefore, while some risks can be managed without a disruption to operations, many cannot. These risks must be dealt with in a way that decreases the likelihood a loss may occur and that limits the impact to the library, yet allows the library to continue its mission of service to its constituents.

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RISK TREATMENT STRATEGIES

Risk treatment strategies include risk avoidance. Avoidance can be the most effective risk management strategy, but for many risks inherent in the library's operations, it may not be practical or even possible in the context of the library's mission of service to its community. Yet, some risks can be avoided without causing disruption to library operations. It is advisable to manage risks wherever possible and feasible. For example, the library could prohibit the consumption of alcohol at special events held on its premises.

Other risk treatment strategies include loss prevention and control strategies, financing the risk through the purchase of insurance, and transferring the risk through the contractual transfer of risk.

LOSS PREVENTION AND CONTROL

Many risks of loss can be managed or significantly reduced by loss prevention activities. Some examples include training drivers to operate more safely in order to reduce the likelihood of auto accidents; training workers in proper lifting techniques to limit the potential for injuries; and installing smoke detectors, fire alarms, and automatic sprinkler systems to prevent or limit smoke and fire damage. These are actions that the library can take to reduce the likelihood of loss or minimize the losses that do occur for those risks the library accepts as part of doing business. Chapter 4, "Loss Prevention," discusses this step of the risk management process in more detail.

RISK FINANCING

Ultimately, many risks will remain both part of the library's operations and its financial responsibility. Therefore, risk financing is a major component of the risk management process. Risk financing is the process of selecting the most cost-effective means of ensuring that funds will be available after a loss to allow the library to rebuild and restore damaged or destroyed property and to continue its mission of service to its constituents. While the library can deal with the financial obligations incumbent with some operational risks, most libraries will not be able to, or desire to, be responsible for the adverse financial consequences of large losses. Risk financing involves three options: non-insurance transfer, self-insurance, and the purchase of commercial insurance. Risk financing is discussed in greater detail in chapter 5, "Risk Financing."

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TRANSFERRING THE RISK TO OTHERS

Whenever possible, risks should be transferred from the library to others with whom it does business via a non-insurance transfer, such as “hold harmless” or indemnity clauses in contracts with third parties. An indemnity clause or hold harmless agreement written into a contract or lease agreement will provide that a third party contracting with the library will accept financial responsibility for losses caused by that third party’s negligent operations on behalf of the library. Chapter 5 examines this concept in more detail.

SELF-INSURANCE

Self-insurance is defined as “the conscious retention of risk, the level of which has been limited within the financial capacity of the firm, emanating from a distribution of exposures that permit reasonable predictions as to future loss probabilities” (Goshay 1964, 21). “Self-insurance” is not the same as “no insurance” in that self-insurance involves a specific decision to absorb the financial consequences of a particular loss or type of loss, after the risk of loss has been identified and quantified. Responsible organizations that self-insure should set aside monies or earmark resources to fund identified self-insured losses. Chapter 5 discusses this concept in more detail.

PURCHASE INSURANCE

Commercial insurance is insurance coverage that is provided by an insurance company in exchange for a fixed payment that is agreed upon in advance. As a general guideline, commercial insurance should be purchased when the probability or likelihood of loss is low, but the potential severity or impact of any loss that may occur is high. Any risks to the library that involve significant physical damage to its buildings, facilities, collections, or equipment, or that involve large financial losses from some other cause, should be managed by the use of commercial insurance. Two other types of risks are also reasons for the purchase of commercial insurance:

- those for which the law requires insurance (such as bonds on specified library employees, workers’ compensation)
- those in which the insurer may have expertise and provide valuable services that justify the purchase of insurance, even though the library has the financial capacity to absorb the losses that might be expected (such as boiler and machinery insurance)

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Generally, libraries should at least consider purchasing the following types of insurance: workers' compensation; property, boiler, and machinery; general and excess liability; automobile liability; directors' and officers' liability; and cyber liability and fiduciary liability. Chapter 6, "Risk Financing—Insurance," is an extensive discussion of commercial insurance and its various types.

REEVALUATION

Finally, the library should reevaluate its risk management process on a periodic basis. Risk treatment strategies need to be evaluated to determine whether they are in fact managing the risk. Some risk treatment strategies may generate unforeseen consequences, and some risk treatment strategies may not be effective. In addition, it is important to reevaluate the risk management process to assure its alignment with the board's strategic goals, as well as the mission and values of the organization. This is especially important if the library has opened new facilities, launched new programs, or executed non-insurance transfers.

A RISK MANAGEMENT POLICY STATEMENT

Risk management is a process in which everyone in the library has a role to play. It is also an attitude that must be adopted by everyone in the library. That attitude, when adopted by all staff, leads to a safer environment for staff as well as for the library's customers. In addition, adopting a strong commitment to risk management will ensure that the library's physical assets are well protected and the likelihood of loss is decreased. Because the board has the primary responsibility for establishing the risk management philosophy, it also has primary responsibility for developing and promulgating a risk management policy statement for the library's staff that lays the foundation for the risk management attitude. But simply developing a policy is not enough. It is the board's responsibility to see that its risk management policy is effectively communicated throughout the library.

The library's risk management policy statement, first and foremost, should set forth the library's philosophy regarding risk management. It should state unequivocally the library's commitment to risk identification and examination and to proactive risk management. The policy statement should designate the individual or individuals who shall have the administrative responsibility for overseeing the policy in day-to-day operations. It should delegate operational risk and insurance management responsibility and authority to the administrator or some other person. The policy statement may provide the parameters of that authority, as well as delineate what

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areas will remain within the sole jurisdiction of the board, such as strategy setting and financial risk appetite.

The risk management policy statement should enumerate how the risk management principles adopted by the board will be applied. This policy should take into consideration the financial condition of the library, its access to additional funds for self-insured and uninsured losses, and its obligation to provide uninterrupted service to its constituents. The risk management policy statement may assign responsibility for determining the form of insurance coverage, the insurance policy's terms and conditions, the amount of coverage and limits of liability, and the amount of any deductible or self-insured retention. It may designate the types of services to be used (consultants, agents, or brokers), and it may prescribe requirements relating to the bidding of insurance coverage. A "Sample Risk Management and Insurance Policy" statement is contained in appendix B.

THE ADMINISTRATOR'S RESPONSIBILITY

The library and its risk management and insurance needs are unique in several ways. The library's most valuable assets are its collections. They have special valuation issues, and their services cannot be readily provided by the use of substitute facilities. In most cases, the administrator is the person who should be relied upon for much of the information essential to establishing a risk management and insurance program.

If the library is part of an institution that employs a professional risk manager (or other officer responsible for administering risk management), the administrator should be involved in various stages of the risk management process and work with the risk manager to identify and quantify fully the risks of loss to which the library is exposed. Only after fully knowing and assessing the risks can the library develop an adequate insurance program to properly protect itself in the event of loss. Once insurance coverage has been placed, the administrator should thoroughly understand the lines of coverage that apply to the library's operations and its building and contents, as well as the amount of deductibles the library may be called upon to absorb. The administrator should also understand the extent of recovery that can be expected in the event of a loss in relation to the cost of repairing the damage—in other words, how much financial strain, if any, may be placed upon the library's budget in the event of a probable loss.

Whether the library is a small, public library or part of a very large institution, a risk management policy statement is desirable as a guide for the librarian. This should embody the risk management concepts discussed throughout this manual, and it should contain parameters relating to risks to be assumed

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(self-insured), risks to be covered by commercial insurance, and deductibles to be accepted (refer to appendix B for a sample risk management policy).

ENTERPRISE RISK MANAGEMENT AND LIBRARIES

Whether a library is part of a larger organization such as part of a university or city or county, or is a separate entity, such as a public or private stand-alone library, enterprise risk management (ERM) may be a useful decision-making/management framework that can be incorporated into the overall governance of the library.

The purpose of this chapter is to introduce the ERM concept and provide some context and advice should a library decide that it wants to pursue the ERM framework. ERM is a relatively new concept, and many organizations may have difficulty creating an ERM framework that is optimal and efficient, and that adds value. Our hope is that should you decide to pursue ERM, you can do so in a way that adds value to your organization. If your library is already part of an institution that is using the ERM framework, we hope that this chapter will allow for additional discussions.

WHAT IS ENTERPRISE RISK MANAGEMENT?

We cannot begin unless we have a clear understanding of what we mean by ERM. Like the definition for risk management, the term enterprise risk management has a number of definitions. It will be helpful to review these definitions again:

- "Enterprise risk management is a process, effected by an entity's board of directors, management or other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives" (COSO 2004).

In the COSO definition "entity" would mean "library."

- "Enterprise risk management is a plan-based business strategy that aims to identify, assess, and prepare for any dangers, hazards, and other potentials for disaster—both physical and figurative—that may interfere with an organization's operations and objectives" (Kenton 2019).

Key takeaways from these definitions include:

- ERM is applied in a strategy setting.
- It is applied across the enterprise or organization.

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- It is part of the organization's decision-making process.
- It must add value in helping the library manage risk more effectively and efficiently.

Other key concepts of ERM include risk appetite, risk altitude, and risk owner.

What Is Risk Appetite?

Risk appetite is defined as that level of risk an organization is willing to accept in order to achieve its objectives. Risk appetite should be set at the board level.

What Is Risk Altitude?

The concept of risk altitude recognizes that not all risks are created equal. Not all risks should be handled at one level within the library. For example, operational risk is best managed at the operations level, while strategic risks are best managed at the board level. The key takeaway here is that for risk management to be effective and efficient, risks need to be assigned to the administrative level in the library that is best equipped for their identification, evaluation, and implementation. Risks are not isolated concepts, but rather have interactions and connections across the library.

What Is a Risk Owner?

The term risk owner can have several definitions. In one definition, the risk owner is the person in an organization who is ultimately accountable for making sure that risk is managed appropriately. This is usually a person at the senior management level who coordinates efforts to lessen and manage the risks with the various individuals who are directly responsible for the day-to-day management of each identifiable risk. In another definition, all of these individuals are risk owners, since they "own" that part of the risk whose management they are responsible for. They typically will be the individual responsible for the "doing." Because risk owners are the "doers," their insight and perspective is very important in providing valuable information, such as risk identification and evaluation or feedback on implementation and operational activities.

ERM IMPLEMENTATION STRATEGIES

One of the most challenging tasks in any organization, including a library, is how to implement an ERM framework. Instead of creating a separate ERM framework, with a separate reporting structure and committees, consider how to weave ERM into your library's existing decision-making and management structures.

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1. ERM is best applied in a strategy setting.

Let's recall our key takeaways from the ERM definitions. ERM is best applied in strategic planning, or a "strategy setting." A board of trustees will usually undergo a strategy-setting exercise every three to five years. Typically, strategy planning involves "big picture" discussions.

When was the last time your board undertook a strategy-setting exercise? When was the last time your board assessed its current strategy? If you are at the stage where the board is considering a strategy-planning agenda item, this is an opportunity to introduce ERM concepts as part of that agenda item.

In preparation for this board activity, consider ensuring that there is adequate discussion around the strengths and weaknesses of a proposed risk management strategy. Ensure that possible barriers or challenges to successfully implementing that strategy are identified and that possible plans are discussed to overcome those barriers or challenges. Plans may include identifying additional resources that could be made available or acquired.

2. ERM needs to be applied across an enterprise.

Recall our second takeaway from the ERM definitions—that ERM needs to be applied across the enterprise or library.

Once the board has completed its strategic planning, which hopefully includes plans or resources that could be implemented to overcome identified barriers or challenges, how are these strategic goals communicated to both managers and front-line employees of the library?

Are the strategic goals and plans clearly understood by all?

Are sufficient resources and support provided to ensure success?

Is it clearly understood what "success" looks like?

In implementing the board's strategic goals, do managers and supervisors identify risks associated with that implementation? Do they identify roadblocks or challenges to ensure successful completion? Do they identify plans to manage the risks?

Does decision-making align with the strategic plan?

And most importantly, how are risk identification and feedback communicated?

3. ERM is part of the decision-making process.

In order for the library to provide "assurance that it can meet its objectives," ERM needs to be part of the decision-making process. ERM is at its core, a management process.

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