Risk and Insurance Management

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Every company faces the need to protect its assets and survival against the risks of harm to its property or employees or harm it may cause to others. In addition, state and federal laws and regulation require employers to provide certain types of insurance for employees, and agreements with unions may require a company to provide certain insurance benefits to their members. These types of concerns are meet through risk management and insurance programs conducted by media managers.

Risk management involves understanding the nature of risks and reducing the potential damages of risks by ameliorating hazards and preparing to cope with problems of catastrophic damages ahead of time. One of the major tasks of risk management involves making decisions regarding insurance. These insurance management tasks range from determining the needs of a company to transferring the financial risks of damages or injuries to companies that specialize in bearing such risks. Both the specific insurance management tasks and general risk management tasks are crucial in the operation of a healthy media company.

In large and complicated organizations, and in small firms where managers may lack sufficient knowledge to handle specific risk management assessment, media managers may seek consultants or rely on industry organizations to help identify, assess, and make decisions about risks. Newspaper, magazine, broadcasting, and cablecasting groups or companies with multiple holdings often operate company-wide risk management programs. Even when these services exist, the primary responsibility for local risk management usually falls to the business or general manager of the firm.

Risk Management

Risk management is a process that focuses on aspects of risk that a company can control or from which it can protect itself. It involves recognizing potential damages or losses that can occur, identifying the scope and nature of various risks, deciding how to handle various risks, and working to reduce risks.

Recognition of Risks

Because we do not exist in a risk-free environment, every business endeavor faces threats to its survival and ability to operate. A primary task of risk management is recognizing the variety of risks that exist and the extent to which a firm is vulnerable to those risks.

Primary risks are damage or destruction of a company's buildings, equipment, and other property, vulnerability to criminal acts, the inability to continue operating normally after disasters, and harm to employees or other persons or their property. Secondary risks come from liability that arises if other persons or property are harmed by act or omissions of the company or its employees.

Good risk management involves the clear identification of the potential extent of harm from casualty. Thus, managers develop lists of all real and personal property of the company, inventory, leased property and other non-owned property over which the company has control or risk responsibility. These lists, which are often computerized if the firm is large, include both the current cash value of the property and its replacement costs at current prices. With such a list, the manager can see and understand the financial risk that occurs to property should the firm become a casualty to

fire, tornado, hurricane, earthquake, or other disaster that destroys all or part of its property.

Risk managers also identify and estimate the nonproperty financial damages that can occur due to such catastrophes. Included in these risks are additional costs resulting from damage, including removal of wreckage or debris, razing unsafe buildings, and general clean up of the property. Managers also estimate and plan for financial losses and additional costs that result from such a disaster, including loss of income if the business stops operating for a period, added costs of acquiring new facilities and equipment, and accounts receivable lost because of destruction of accounting records.

The second major category of risk faced by media firms is liability for harm to other persons. Included in such risks are injury or deaths to customers or passerby that slip and fall on company premises, accidents with company vehicles, or other harm done by the company's equipment, employees, or agents. Harm to persons' rights caused by employees actions are also considered, and special categories of liability are faced by media in this regard because of the potential for libel or slander and invasion of privacy.

In addition to identifying losses due to major casualty and liability, media managers identify the potential of financial losses due to embezzlement, burglary, robbery, forgery, and other criminal activity. These types of activities are faced by all businesses that sell goods and services and media that sell advertising and media products generate large cash flows that can make them targets for loss. Newspapers, for instance, can have money stolen from newsracks or taken by newspapers carriers. Armed robbers may take cash and checks from the business manager taking the paper's deposit to the bank. The paper's accountant may create and pay a fictitious employee as a means of embezzlement.

Finally, the company bears certain risks for its employees. These include financial benefits for employees whose employment is ended, and benefits such as medical payments for health care of employees.

Assessing and Controlling Risks

Once a manager has identified the potential scope of losses, he or she must decide how to deal with the risk. The manager has two important means for dealing with the risk. First, the company can bear a risk itself and decide to absorb casualty or liability losses that occur within the operating budget. Second, the firm can decided to transfer the risk to an insurance company or related firm that specializes in handling risks for a company.

Decisions made about which avenue to pursue depend upon actuarial assessment of extent of risk, the amount of financial loss risked, and the cost of transferring the risk. In some cases, it is possible to combine both approaches by deciding to cover losses to a certain level on one's own and transferring risk above that point to an insurer or vice versa.

In deciding what course to take, the manager considers for each category of risk the potential financial losses involved, average losses the company has experienced due to the risk over a number of years, financial losses of similar firms nationally, regionally, and locally, and the probability of loss occurring.

When a company decides to retain risks, it engages in what is often called "self insurance." A firm can do so in two manners. First, it can regularly place operating funds in a special account to pay for losses that may occur. This is usually done when bearing the risk against larger potential losses or regularly occurring losses. Second, when the risks do not present the possibility of a large financial loss, a firm may chose not to place money aside for that purpose but to absorb the losses out of the operating budget in any period or year in which it occur.

Although a firm has wide latitude in deciding whether to self insure or not, some states have laws restricting or regulating self insurance of risk categories involving employees and motor vehicles. Managers contemplating self insurance must then be well acquainted with these laws or regulations or seek the advice of attorneys or insurance specialists to ensure compliance.

When it is decided to transfer risks, as is done with most categories of risks, the media manager acquires insurance coverage to pay for casualty or liability that occurs. The company then pays regular premiums to the insurance firm, which will make payments should injuries, deaths, or damages occur. Insurance types and approaches vary widely and important elements of policies will be discussed later in this chapter.

Reducing Risks

Regardless of the whether a firm absorbs or transfers risk, the prudent manager works to reduce risk and the potential for financial losses. If a manager can successfully reduce risks, the potential for paying for absorbed risk is limited and the firm saves money. If risks that are transferred are reduced, the firm may also be able to reduce payments for

coverage against those risks or—at very least—help limit future increases in the cost for transferring the risk.

Thus, the firm tries to eliminate or reduce risk through actions that reduce the probability of its occurrence. Many firms engage in significant safety programs designed to increase fire safety or to limit damage if occurred. Programs to increase the safety of equipment used by employees and improve the safety of practices of employees using the equipment, to improve driving skills to reduce accidents, to provide first aid training and equipment to employees are common. Employee screening to ensure poor drivers are not allowed to operate company vehicles are common when use of automobiles or trucks are part of the job.

Insurance Management

When a firm transfers risk it is normally done through the acquisition of insurance policies. Insurance provides protection for companies against a wide variety of problems that arise in the course of doing business that present significant dangers to the health and well being of businesses. Insurance policies are typically used by media companies:

*to protect company assets against damage or destruction from fire, flood, tornado, hurricane, earthquake, vandalism, etc.;
*to protect the operations of the business by ensuring adequate cash flow and resources needed to stay in operation, in event of problems;
*to protect against injuries to others or their property;
*to protect against injuries to employees;
*to protect against damages to persons reputations or privacy;
*to protect against harm from losses of key employees.

Media managers must continually review and evaluate the insurance needs of their firms to protect the firm and manage the costs of coverage. Insurance management involves the specific application of the elements of risk management, including deciding what types of coverage the risks warrant, deciding how much insurance coverage a risk deserves, and identifying ways to control the costs of protection.

All Risk vs. Limited Risk Policies

Insurance companies generally provide two types of coverage for physical property of companies. The first is "all risk" coverage that provides protection against all forms of damage or destruction. This type of insurance provides the broadest type of coverage and will provide protection against the wide range of catastrophes that could befall a firm. A manager must be well acquainted with the terms of such coverage because some insurance firms exclude some types of damage from even "all risk" policies. Common exclusions include acts of war and, in particularly vulnerable areas, floods or earthquakes. Managers who need protection against excluded items should negotiate to have it included or purchase special coverage for the additional coverage.

Limited risk policies, provide coverage only against certain types of damage or destruction, or place limits on the amount of coverage provided for certain types of coverage. A limited risk policy might provide protection only against fire, exclude certain types of property from the coverage, or provide protection only up to portion of the total value of property.

Although all insurance policies provide financial return for damages sustained, they differ in the amount and types of damage they cover. Media managers need to understand the nature of coverage available and the needs of their companies in determining what is appropriate.

Cash Value or Replacement Coverage

An important element of coverage is whether it provides payment for losses at the current value of a piece of property or at the price it would cost to purchase the property today. This element is important because a newspaper's computer system which was purchased five years ago may be worth only $200,000 today, but a new system will cost $750,000 if the current system was destroyed in a fire.

Replacement of the equipment will thus cost $550,000 more than the current system is worth. Thus, the real risk to a company is not $200,000 but $550,000. Managers must thus regularly review their insurance coverage to determine whether it meets the needs of the firm and whether inflation or other factors have changed the extent of coverage provided.

Deductibles

Many insurance policies are written with deductible levels, and the firm or individual purchasing the insurance is expected to pay for damages or losses up to that level. Thus, a magazine with a deductible of $25,000 on coverage for libel insurance would pay the first $25,000 for any award made in a lawsuit against the company.

Deductibles can apply to each claim made by a firm or to all claims made during a specified period of insurance, a quarter or a year for example. Thus, if a company has a deductible of $1,000 per incident on a policy covering losses due to robbery, it will absorb losses up to $1,000 each time it is robbed. If the deductible was $1,000 per year, it would only be assessed the deductible once during the year of insurance coverage.

Casualty Coverage

Casualty insurance provides payments for damages due to damage or destruction of a company's facilities or property. It can include or exclude payments for a variety of items including buildings, machinery, furniture and office equipment, business interruption, accounts receivable, business records and papers, and personal property that may be harmed by damage to a company's facilities.

A firm desiring the fullest coverage would seek to insure the building(s) existing when the property was insured, plus the costs of any improvements made since that time. In addition, such a firm would insure all contents including desks, filing cabinets, furniture, computers and other office equipment, electronic systems. A television station, for instance would include cameras, editing equipment, control systems, satellite and microwave facilities and other specialty equipment located in its facilities.

Because media firms are ongoing businesses, damage or destruction to property could harm their ability to continue operating or limit their ability to restore previous levels of operation. As a result, firms desiring strong protection often insure their income with business interruption policies that provide cash that allow the company to continue normal payroll and expense payments and receive what would be norm levels of profit. A radio station, for instance, would use this type of insurance to compensate itself for costs of reestablishing its business and losses in advertising sales that would occur if it were forced off the air for days or weeks due to tornado damage to its transmitter or broadcast tower.

Additional insurance coverage is available to help companies replace or reconstruct important business records and valuable papers. This type of insurance is especially important for media that maintain extensive and expensive physical or electronic library. A newspaper, for instance, might wish to insure itself for the cost of reconstructing its morgue if the existing files were destroyed as a result of a flood. Another type of insurance provides payments for credit sales that cannot be collected because business records have been destroyed. Many firms purchase additional insurance to help them relocate and pay added costs incurred as a result of the property damage.

The extent to which coverage protects personal property of others at a company's location is important. Property of employees or visitors may or may not be included. This become important, for example, if flooding from a broken pipe destroyed personal property at the desks or in lockers of a radio station's employees or if a building fire damaged customers' automobiles parked in a newspaper's lot.

Employee Coverage

Insurance is typically obtained to protect the company against claims arising out of injury or death to employees because of accidents on the job. A media company faces such liability if an employee falls off a radio tower, is hurt in a printing press accident, trips on a loose carpet or is killed while filming a police shootout.

Like other employers, media companies are required by law and contract to provide coverage for disability, unemployment and related job interruption.

A major employee benefit, medical insurance, is provided by most media firms. This is a particularly important category of insurance that must be managed because medical care and— consequently—medical insurance costs have risen far faster than other costs in recent years.

Liability Coverage

This category of insurance is designed to protect the company against injuries, deaths, and damage caused to others by the company or its workers. This type of coverage is needed to protect a television station if its antenna collapses and falls on and damages a nearby building. It is also needed to protect a cable television system if one of its repair trucks runs a red light and collides with a car.

Also included in category of liability protection is coverage for harm caused by information that is not legally privileged being conveyed in media. Special coverage is needed to protect the company against liability if a newspaper reporter wrongly reports that a individual is being investigated for child abuse and that person sues the paper for libel. Coverage is need to protect a television station reports that citizen of the town is the mother of an illegitimate child and she sues for invasion of privacy. In addition, media companies are at risk for damages incurred from plagiarism and copyright infringement. Because judgments in cases involving these issues often involve punitive, as well as actual damage awards, the risk from lawsuits involving such matters can be quit high. Because the costs of defending such legal actions are very high, many companies seek insurance protection that provides legal defense payments or counsel, as well as protection against financial judgments.

Suggested Readings

Risk & Insurance Guidelines for Broadcasters & Cable Operators. (1985). (rev. ed.). Des Plaines, IL: Broadcast Financial Management Association.

Risk Management Guide for Newspapers. (1989). Reston, VA: International Newspaper Financial Executives, 1989.

READINGS

IN MEDIA MANAGEMENT

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