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Financial and Reputational Risks

INTRODUCTION

K-12 private schools are confronting new risks that have quickly become all too common. These include violence from outside or internal perpetrators, cyber attacks that compromise family financial information and staff and student personal information, inappropriate conduct by teachers or administrators, student bullying, and more. Risks unique to K-12 schools must be managed with proactive oversight and policies.

One thread common across these and nearly any other historical risk faced by administrators and leaders of K-12 schools – the reputational risk stemming from any one of these, should they come to pass, and the related financial fallout.

We explore K-12 education institutions’ financial and reputational risks – how they might emerge, their potential impact, and, most importantly, how they can be managed and minimized. Insurance-based risk transfer strategies are just one set of tools available to a school.

First, however, we’ll review how K-12 private schools should address risks in general. They can do this by maintaining a structured approach that minimizes risk and provides a degree of objectivity lest parents or other stakeholders feel the school has been lax in this area.

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A RISK MANAGEMENT STRUCTURE

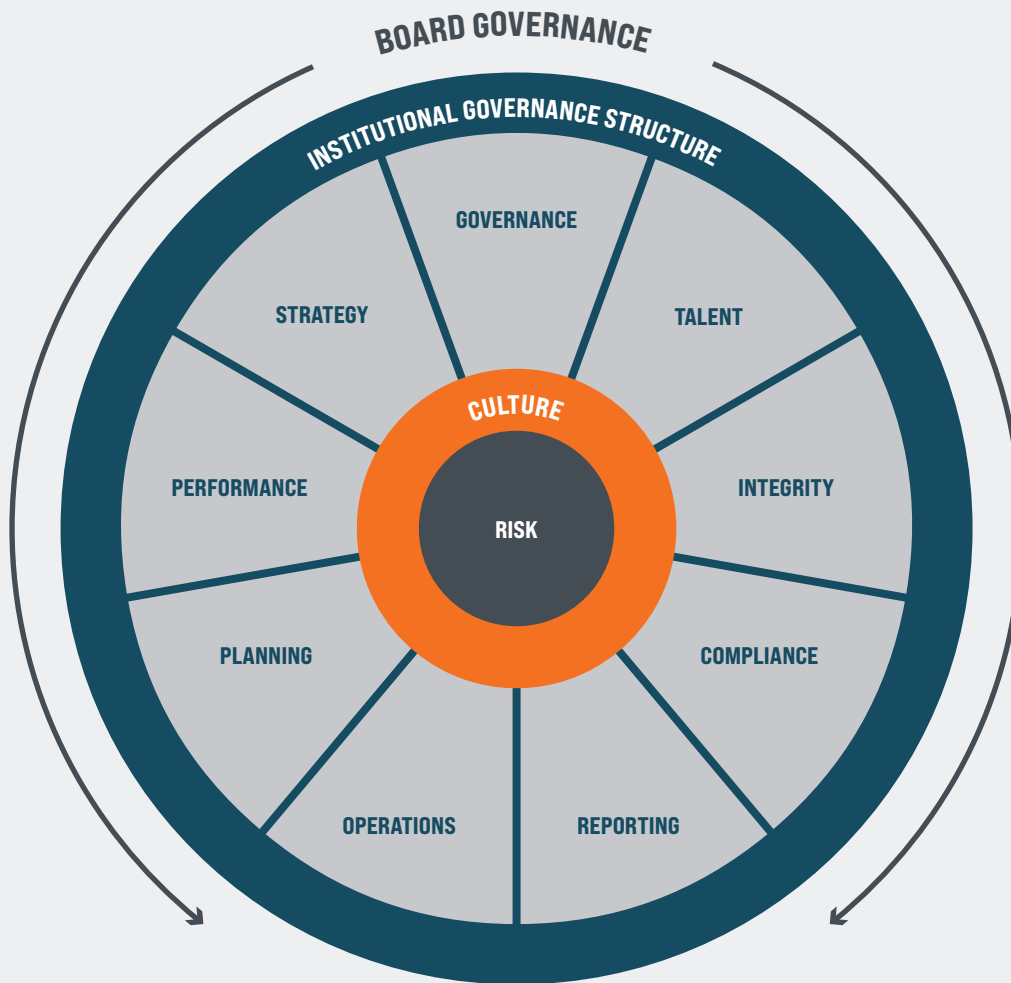
Risk management should be something other than an ad hoc activity. K-12 schools can establish a review/governance board to add a layer of oversight to objectively review risks and other operational matters, like the role of a board of trustees. Fiduciary responsibility is the obligation that prohibits a party from prioritizing its interest over that of the organization.¹ This board can include parents and professionals in the community – public officials, healthcare professionals, accountants, and insurance experts, for example.

The governance board would be empowered to ask probing questions regarding operational matters in a range of risk areas and hold internal teams accountable for their work to minimize these risks. They can also offer guidance and insights from their unique perspectives.

A structured approach to risk management is more than a board function. Schools should maintain an internal risk management team with cross-functional representation to review operational risks continuously.



A STRUCTURED APPROACH FOR EFFECTIVE RISK MANAGEMENT



Source: A comprehensive governance framework for effective risk management, Deloitte analysis.²

This role would ideally include:

- + Establishing risk profiles for risk institutions.
- + Suggesting strategies to mitigate the risks.
- + Implementing appropriate strategies to manage risk.
- + Devising systems to monitor those risks.
- + Weighing in on resource allocation across all risk areas.
- + Reporting to the governance board in all of these areas.
- + Adopting suggestions or pursuing guidance received from the governance board.

The internal risk management team and the external governance board should address the full scope of risks. Financial and reputational are two of the most important since they cross over into numerous other risk areas.

FINANCIAL SHORTFALLS AND MISMANAGEMENT

Like their public school counterparts, private schools are continually under pressure to provide more diverse services, even though they rarely receive the financial resources to do so. Factors like fluctuating enrollment, rising costs, and pressure for increased teacher salaries make it difficult to budget and remain within budget.

These, plus daily challenges related to staffing, student discipline, parental involvement/activism, and social media-driven student distraction, combine to push financial planning and tracking further down the list of priorities. Administrative staff members and resources are increasingly assigned to these areas rather than financial and procurement management.

In this environment, poor spending decisions and waste, not to mention fraud and abuse of financial resources, are almost inevitable.

Inadequate financial management can send a school down the spiral of declining services and declining revenues from tuition. Purposeful financial malfeasance is an even faster spiral, given the immediate loss of reputation that follows.

Solutions for minimizing poor and fraudulent financial practices include:

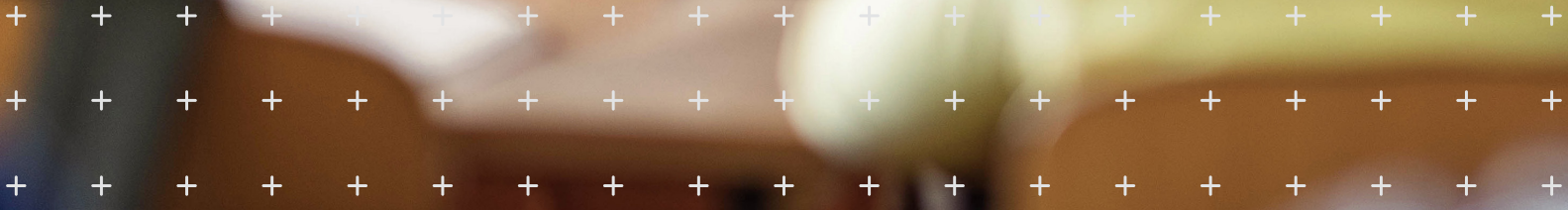
- + Crafting budgets with contingencies to account for situations that could arise to avoid rash, knee-jerk re-allocations in those cases.
- + Properly differentiating operating and capital budgets to plan and pay for longer-term priorities.
- + Creating an anonymous reporting system where staff can identify resources that are being wasted or worse.
- + Designating a staff member responsible for overseeing financial and procurement systems at a high level and establishing financial review systems within high-impact areas of operations.

Resources devoted to those latter two areas are well spent given the costs of legal bills, investigations, and reputational damage (as we'll see below) that could result if these are not in place. The presence of a tip line and an active financial auditor sends a strong message that will likely make administrators, teachers, and other staff more conscious of their financial actions and deter thoughts of intentional misconduct.

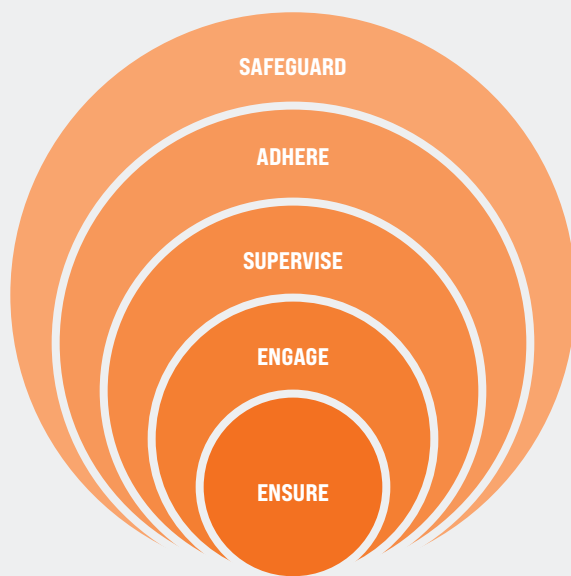
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REPUTATIONAL RISKS

Many other events or situations beyond financial shortfalls and malfeasance can damage a school's reputation, leading to the same downward cycle of reduced enrollment followed by reduced resources mentioned above. Unfortunately, in today's social media environment, an event, whether true, misrepresented, or outright false, will be widely broadcast and shared in the worst possible light.

School administrators and their board and public affairs team will likely be behind the curve from the start in trying to respond to and correctly characterize these situations. The damage may already have been done before the facts are out.



Many of the most common operational risks that can lead to reputational harm for private schools can be proactively managed.



Note. Key elements to proactively manage operational risk & reputational harm (2024).

STEPS TO PROACTIVELY MANAGE OPERATIONAL RISK & REPUTATIONAL HARM

- + Maintain proper IT protocols and effective student and staff cybersecurity training programs overseen by qualified staff members or consultants to help avoid data compromises or ransom attacks.
- + Follow carefully defined legal practices in disciplining students or hiring and firing staff members to minimize lawsuits and related reputational fallout.
- + Offer careful training related to direct interactions between staff and individual students to minimize the likelihood of misconduct allegations. Scrupulously oversee these situations.
- + Maintain open communication with parents to prevent an information vacuum leading to misunderstandings and misperceptions about school operations and classroom training.
- + Maintain sufficient liability and property insurance coverage that can shorten the recovery time and reduce the impact of an incident.



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SOURCES

¹ Hoy, T. (2023, March 21). Fiduciary Responsibility: A Complete Guide with Examples. Board Effect. <https://www.boardeffect.com/blog/fiduciary-responsibilities-nonprofit-board-directors/>

² Braunsdorf, J. and Vitters, C. (N.D.). Risk governance in higher education: What boards of trustees need to know. Deloitte. <https://www2.deloitte.com/us/en/insights/industry/public-sector/riskmanagement-in-higher-education.html>

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