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School Insurance

MANAGING the LOCAL PROGRAM

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Contents

Foreword

THIS STUDY is the second in a series of publications by the Office of Education on school insurance. One study, *School Property Insurance, Experiences at the State Level*, has already been published. Others planned for the series will be concerned with: *Relationship of Protection and Preventive Programs to Insurance Rate Reduction; Workmen's Compensation for School Districts;* and *Pupil Casualty-Accident vs. Liability Insurance for School Districts.*

Data for this study were adapted from many sources. Among these sources were books of a technical nature, professional magazine articles, State insurance guides, research studies, insurance rating schedules, insurance company bulletins, and insurance contracts and policy forms. Although insurance is a highly technical subject, this publication avoids technical language except where required.

This bulletin deals primarily with school insurance management problems at the local level. It is designed to assist local school officials and State department of education insurance consultants in planning, organizing, and administering the local school district insurance program.

It is hoped that this series of studies will be useful to those concerned with improving programs of school insurance.

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Chapter I.—Introduction

FINANCE and school plant management are two related administrative areas of great importance to the total school program. The more than 45,000 public school districts in the United States now have an estimated $25 to $28 billion invested in elementary and secondary school properties. These districts are spending additional billions annually to operate and maintain these properties and to construct new facilities. A great portion of the wealth of many of these districts is represented by their investment in school buildings and equipment. Since the loss of this investment might prove disastrous to many districts, school boards have an obligation to provide protection against such a loss. In addition, school boards have the responsibility for protecting their districts against other losses than those involving school property. Failure to recognize and discharge these obligations could be considered a neglect of duty.

One method by which school boards can protect their districts against various risks is through the purchase of insurance. In recent years school boards have increased insurance coverage on school property, and in many States they have expanded the scope of their insurance programs to cover a great variety of risks. These run the whole range from various types of property insurance covering buildings and contents, floating equipment, boiler and machinery, glass, burglary, robbery, theft, surety, and transportation equipment through coverage for district liability, fidelity bonds, and in some cases, insurance giving fringe benefits to school employees.

One reason for increased insurance coverage on school property is that school building costs and school property values have increased. During the last 40 years, school building costs have increased by about 230 percent and other properties have increased in value in a similar ratio. In addition, there is more school property to be protected today than there was in former years. Since property values fluctuate, generally in an upward direction, frequent insurance adjustments are necessary in order for school districts to maintain ample coverage without overinsuring school property.

The expanded scope of school insurance programs, on the other hand, is related to changing public concepts, influenced perhaps by recent court decisions in some States, with respect to school district obligations and responsibilities. There seems to be a general public awareness that school employees, like employees in other branches of the government and in private industry, are entitled to certain types of fringe benefits such as health and accident insurance, disability insurance, and protection against tort action. In addition, some courts and boards of education are beginning to review and reevaluate the principle of governmental immunity, and in some States they have accepted some liability.

Changes in property values, increased costs of new buildings and equipment, and the expanded scope of the school insurance program have created complex and technical management problems for school authorities.[1]

School insurance management, like other school business functions, is so important to school districts that school officials need to be assured that they understand the nature of, and all the elements essential to, an adequate, safe, economical school insurance program. Those who are responsible for managing this program want to conserve the values entrusted to their care, and they want their districts to receive maximum protection from all insurance which they purchase. However, since these officials do not usually have time to seek out and study the technical literature in the vast field of insurance, it is hoped that this publication will provide them with essential information for a sound school insurance program.

This study, limited primarily to the administration of school insurance, discusses the nature, purpose, and principles of insurance; describes the types of coverage most frequently purchased by school boards; indicates the legal basis for school board authority and lists some factors which may determine school board policy with respect to insurance; outlines procedures for developing the local school insurance program; and suggests a plan for developing State leadership and State consultative services in the area of school insurance.

[1] The terms "school authorities" and "school officials" are used interchangeably in this study.

Chapter II.—Nature, Purpose, and Principles of Insurance

INSURANCE as a business has grown from a relatively small operation in its early days to one of the largest business enterprises in the country today. For instance, in 1956 the amount of life insurance in force in the United States was in excess of $458 billion, with annual premium payments of $10 billion, or an expenditure of about $230 for each family in the country. During the same year, fire and casualty insurance in the United States cost more than $15 billion, paid losses of nearly $9 billion, and established a loss ratio of about 56 percent. At the same time, automobile owners paid net automobile insurance premiums of more than $4.6 billion and received $2.5 billion in loss indemnification, making a loss ratio of 55 percent on all automobile insurance in the country. During the same year, individual health and accident insurance cost the policyholders slightly more than $1.2 billion and paid claims of $670 million, making a loss ratio of 52 percent in this field. Meanwhile, group health and accident insurance, with an underwriting expense of less than one-half the underwriting expense of individual health and accident insurance, earned nearly $1.9 billion in premiums, paid claims of more than $1.6 billion, and experienced a loss ratio of 82 percent.[1] Although school insurance is only a small segment of the total national insurance business, the costs are sizable.

In some respects all insurance is cooperative in nature, or in a sense mutual, in that funds are collected from many for the purpose of indemnifying those who have insured losses. In effect, this is a modern business application of an older pattern wherein neighbors "chipped in" labor, materials, and sometimes money to replace houses or other calamity losses of families in the neighborhood. This approach to protection against calamity loss probably paved the way for the original fire insurance societies in this country. The principle of mutual protection was inherent in their making collections which were held in reserve for the replacement of losses sustained by sub-

[1] U.S. Department of Commerce, Statistical Reports Division. *Statistical Abstract of the United States*, 79th annual edition. Washington: U.S. Government Printing Office, 1958. p. 468 et passim.

scribers. Some of these original fire insurance societies were so well accepted and proved so successful that they remain in operation to this day. This acceptance and success may have influenced investors to organize stock companies for the dual purpose of selling protection against loss and of making a profit. The administrative pattern of both stock and mutual companies will be discussed in chapter V.

PURPOSE OF INSURANCE

Insurance is a plan whereby certainty can be substituted for uncertainty through the pooling of hazards. This pooling process permits the substitution of average loss costs for actual loss costs. In the normal process of operating schools, school boards face many hazards. When these boards transfer uncertainty, or the chance of loss, for certainty, or the cost of insurance, to professional risk bearers, their purpose is to protect their districts against serious losses. These professional risk bearers or insurance carriers provide such protection in return for a monetary consideration known as an insurance premium. If such protection is related to property, it is called property insurance; if it protects against possible claims for damage, it is referred to as liability insurance; and if it is concerned with protection against illness, unemployment, personal accidents, and the like, it is designated as social insurance.

Property insurance may be secured to protect the school district against property damage or loss caused by fire, windstorm, hail, theft, burglary, vandalism, and other related hazards. Another type of property risk is one encountered when a building, often unprotected from the standpoint of occupancy, is under construction. The risks involved in moving certain types of equipment, such as music instruments, band uniforms, athletic equipment, audiovisual equipment, folding chairs, and books from place to place constitute another type of property risk. In some cases school organizations maintain certain cash balances, and the possible theft of these balances is another property risk. The operation of district-owned automobiles, trucks, buses, and other types of motor vehicles may create other property risks, as well as the operation of boilers, machinery, and water heaters in school facilities. Glass, now used extensively in many school buildings, is subject to breakage and this constitutes a property risk. Finally, there are certain property risks involved in the construction of school buildings and in the delivery of equipment and supplies, and where the school district may need to be protected against failure of contractors to perform in accordance with certain specifications and contractual agreements.

Liability insurance, on the other hand, protects the school district against lawsuits and claims resulting from accidents or from acts of negligence which have caused damage to, or loss of, the property of others, or bodily injury (including that resulting in death) suffered by any person or persons not employed by the district. Such property loss or damage, and such bodily injury or death may result as a consequence of the existence, maintenance, and use of buildings, playgrounds and playground equipment, automobiles, buses or trucks, boilers and water heaters, and elevators. Other types of school district liability include such risks as those involved in serving food which may be spoiled in the school cafeterias, or possible malpractice by school nurses, doctors, dentists, and psychologists. In some instances there have been charges of negligence against teachers and other school employees. Some districts may feel obligated to protect such employees against tort action.

Social insurance, while not purchased extensively by school districts even where such coverage is permitted, may become significant in the future. This coverage may include protection to school employees against loss of salary, against medical and hospital expenses, and against surgical expenses resulting from accidental injury, illness, or other causes of this nature.

SOME BASIC PRINCIPLES OF SCHOOL INSURANCE

The problem of protecting school districts against possible loss, whether that loss represents property, finances, or forfeiture of funds through adverse court decisions in damage suits, is one that requires careful consideration by local school authorities. The school insurance program should be designed to: (1) Protect the community's investment in school buildings and equipment; (2) conserve the financial resources of the school district from the standpoint of property protection and from the standpoint of protection against the payment of large liability claims; (3) secure the type and form of protection most needed by the district; and (4) relate school property protection to student and school employee protection by removing any hazards which endanger the property and the life and safety of both students and employees.

Though not intended as exhaustive, the following list of insurance principles may be found to be of value to school authorities who plan and administer local school district insurance programs.

1. Risks should be distributed. Whether the insurance carriers are stock or mutual companies, the principle is to make the resources collected from the many available to indemnify the insured losers. Boards of education often give recognition to this principle of spreading risks when they distribute their insurance business among several reputable companies or associations. Insurance companies themselves often spread the risks they assume by limiting their coverage in specific areas so that holocausts or area calamities may not be permitted to create excessive demands on their reserves. Another way by which insurance companies help spread the risk of catastrophic loss is by reinsuring.

2. The school district's risks and obligations should be protected. School officials are obligated to protect the district's assets and resources. They need to determine whether or not it is judicious for them to accept risks without insurance.

3. The school district should obtain maximum protection of the district's interests at minimum cost consistent with such protection. School officials need to determine whether or not it is wise to spend district funds for insurance protection against minor damages that might be little more than ordinary wear and tear. The district might insure against any and every loss, since it is possible to purchase insurance for almost every type of risk. However, the cost to insurance companies for processing minor claims may be nearly as much as the cost for processing larger and more important claims, and therefore the premiums may be excessive in relation to the risks involved. A careful analysis of risks, the use of coinsurance where it is applicable, and the purchase of coverage with deductible features are some of the ways by which school properties may have maximum protection at minimum cost.

4. The cost and the coverage of school insurance should be commensurate with the risks involved. For various areas where data have been assembled for years, the probable risks are pretty well established and the rates can be developed to fit the risks. For instance, fire loss ratios are well established, and fire insurance rates are determined in part by these loss ratios. However, certain other lines of insurance do not have experience tables covering long periods of time. In such cases, there may be justification for rates that build up reserves until such time as these reserves seem to justify reducing the rates.

5. Basic to sound insurance practices is the principle that premium payments over a long period of time should automatically exceed loss payments or loss indemnification. This is axiomatic, since premium payments must cover indemnities, costs of doing business, taxes, and any other costs attributed to the operation of the insurance business.

It is of interest to the insured to ascertain that an insuring company's spread between premium collection and indemnities paid is limited as much as is consistent with sound business administration.

6. The insured is not expected to make a profit as the result of an insured loss. Insurance companies generally reserve the right to repair damaged property so that it will be in as good condition as it was before the damage occurred. However, except in the case of glass insurance, most companies pay cash for all insured losses. These cash indemnifications are limited only by the insurable value, or by the face amount of the policy, at the time of the loss. The theory back of this principle is that insurance is not a gamble, and that it would be contrary to public interest for insurance companies to enter into contracts whereby policyholders could profit through insured losses. The principle is further strengthened in all but a few States by restrictions which limit indemnification to the actual value of the property at the time of loss. A few States, however, have valued-policy laws. Although their validity is sometimes questioned, these laws are intended to require the insurance company to pay the full face value of the policy, regardless of the actual value of the insured property, when there is a total loss. However, it is important that school authorities not waste premium money paying for property coverage in excess of the insurable value of the protected risk, or in excess of the amounts of collectible indemnities.

Chapter III.—Areas of School Insurance Coverage

THE TYPES of insurance protection which school boards may find it necessary to purchase fall under two main categories, namely: (1) Protection of the school district's physical properties, tangible assets, and credits; and (2) protection against claims of liability.

The first category includes: (*a*) Existing buildings and the contents of these buildings; (*b*) buildings which are under construction and all equipment stored either in these buildings or on the premises of such buildings; (*c*) equipment that may be moved from place to place; (*d*) glass; (*e*) property subject to burglary, robbery, and theft; (*f*) property and monetary considerations requiring surety protection; and (*g*) transportation equipment.

The second category, public school district liability, includes two broad areas, namely: (*a*) Personal liability, and (*b*) property damage liability. Personal liability includes the responsibility of the school district for injury to, or death of, persons of the public, while property damage liability covers district responsibility for damage to, or destruction of, property belonging to the public. Both types of liability may result from the school district's owning, leasing, operating, or maintaining any type of school facility or equipment or from providing any kind of service, such as food service, medical service, transportation service, and elevator service, for students and others.

PHYSICAL PROPERTIES, TANGIBLE ASSETS, AND FINANCES

The terms "physical properties," "tangible assets," and "finances," as used in this study, include buildings, equipment, money, securities, automobiles, buses, trucks, buildings in process of construction, or any other type of tangible possessions that may be damaged, detroyed, or stolen.

Buildings and Contents Insurance

Some of the more common causes of destruction or damage to school buildings and their contents are fire, lightning, earthquake, windstorm, hail, explosion, riot, riot attending a strike, accidents of aircraft or vehicles, smoke, and malicious destruction. All these, plus other possibilities for financial loss, such as the cost of debris removal, failure to return unearned premiums, and the like, may be covered by the standard fire insurance policy with the numerous endorsements to it which are available.

The Basic Fire Policy

In general, the basic fire insurance policy covers a building, a building and its contents, or a group of buildings and/or their contents against all direct loss by fire, lightning, and removal of contents from the premises endangered by fire or lightning. However, this basic policy may be modified by adding waivers, endorsements, and permits. To be effective these must be signed by an authorized representative of the insurance company, and they must be attached to the policy.

WAIVERS

If an insurance company agrees to surrender any right which exists in the basic policy, this surrender is called a waiver. The most common waivers are those which eliminate the necessity of making an appraisal and submitting an inventory of loss under the provisions of the coinsurance contract, provided, however, that the total loss, in such cases, is less than 2 percent of the total effective insurance; and those which nullify a provision of the insurance policy that voids the policy if there is other insurance on the property.

Another term which is sometimes used interchangeably with the term "waiver" is "estoppel," but there is an accepted distinction between the two terms, although both imply a relinquishment of right. A waiver is intentional and must be in writing, while estoppel is based upon misleading conduct or ignorance and precludes the alleging or denying of a fact because of previous action, allegation, or denial by which the contrary has been admitted, implied, or determined.

ENDORSEMENTS

The addition of forms and clauses to the fire insurance policy calling for certain basic changes in the policy are known as endorsements. Among the more common types of endorsements to the fire policy are: (*a*) Extended coverage, (*b*) windstorm and hail, (*c*) unexpired premium, (*d*) vandalism and malicious mischief, (*e*) fallen building, (*f*) rental value, (*g*) explosion, and (*h*) general exclusions.

Extended coverage extends the fire insurance policy to cover the additional hazards of windstorm, hail, explosion, riot, riot attending a strike, civil commotion, accidents of aircraft or vehicles, and smoke damage. This endorsement does not increase the amount of insurance on a building or on its contents, but simply provides that the specified amount shall include, in addition to damages done by fire and lightning, any damages caused by the perils listed above.

Windstorm and hail endorsement, like extended coverage, does not increase the amount of coverage, but simply extends the same amount of coverage to include the two specific hazards, windstorm and hail. If extended coverage is used, it is obvious that an endorsement covering windstorm and hail would not be necessary.

Unexpired premium endorsement is designed to protect the insured against loss of premiums paid to the insuring company far in advance of an insured loss. For example, if the premiums on a 3- or a 5-year term policy have been prepaid, and if total loss involving a sizable amount of insurance should occur soon after the effective date of the policy, the company would be considered as having earned the premiums, even though they were paid for 3 or 5 years beyond the date of the loss. The amount of funds involved could be considerable, and the school district would suffer the loss of these funds. However, if in this case there is an unexpired premium endorsement, and if a total loss occurs near the beginning of the policy period, or at any time up to a date near the expiration date of the policy, all unearned premiums will be returned to the policyholder.

In case there is a partial loss covered by a prepaid policy, the company is considered as having earned the entire premium, but the total amount of insurance in force is reduced by the amount of indemnification paid by the insurance company. This means that premiums have been paid on full coverage for the effective life of the policy, but the insurance company is obligated only for the reduced amount of coverage for the remaining life of the policy. In this case, the unexpired premium endorsement provides for an adjustment in the total premium.

It should be noted that some State laws make an exception to this general rule in that they stipulate that in the event of a loss payment not exceeding $500, the amount of insurance in force cannot be reduced and that there must be an automatic reinstatement of such loss without additional charge by the insurance company.

Vandalism and malicious mischief, an endorsement covering direct property loss caused by the acts of racketeers, pranksters, cranks, hoodlums, and others may be added to the fire policy as a precaution against loss resulting from willful or malicious physical injury to, or the destruction of, property.

Fallen building endorsement provides protection for the insured in case a building falls before it is destroyed by fire. The basic fire policy excludes fallen buildings as a condition of paying indemnity unless this condition results from a fire; that is, after the inception of a fire. Therefore, unless this endorsement is secured, insurance companies are not liable for damages resulting to fallen buildings, even though they burn after falling.

Rental value is another type of endorsement that can be added to the fire policy. Though seldom used for school property, this endorsement can be employed by school officials to provide for the payment of the estimated rental value of the described property in order to make funds available for the payment of rent on other quarters during the time required to rebuild or repair a structure which has been destroyed or damaged.

Explosion endorsement protects against loss resulting from explosion, excluding explosion originating within steam boilers, steam pipes, steam turbines, steam engines, or flywheels, but since explosion is included under extended coverage, the explosion endorsement would not be required if extended coverage is used.

General exclusions endorsement becomes important only when the coinsurance clause is a part of the insurance contract. This importance will be explained in a later section of this study. In determining the insurable value of a building, this endorsement permits the insured to exclude the costs of such unburnable items as architect's services and land, excavations and fills, piers and other supports below the undersurface of the lowest floor of a basement or below the surface of the ground where there is no basement, sidewalks and retaining walls, and other items that are not likely to be damaged by fire.

PERMITS

Most standard fire insurance policies stipulate that certain conditions must always prevail in order to keep the policy in force. Some of these are: (*a*) There shall be no change in occupancy; (*b*) there shall be no alterations, additions, or major repairs; (*c*) though generally waived for schools, there is a stipulation that the premises are not to remain vacant for more than 60 consecutive days during the year; (*d*) there shall be no other insurance (or if other insurance is permitted, the company agrees to pay only its pro-rata share of any loss); and (*e*) no insurance is permitted on buildings located on a leased site. Any or all of these, and perhaps other restrictions, may be removed by contract addition of permit attachments or inclusions granting the insured the right to violate these restrictions, or by giving the insured permission to do certain things, as the case may be. If a permit increases the hazard or hazards, there is generally a charge for it; if there are no added hazards, there likely will be no charge. However, permits, like waivers and endorsements, may be incorporated in the original contract or they may be secured as needed, but must be signed by a representative of the company and must be attached to, and become a part of, the policy.

Builder's Risk Insurance

Buildings that are under construction and equipment and supplies stored either in the building or on the premises may be protected by a modified form of the fire policy known as builder's risk insurance. The standard fire policy is modified by attaching an automatic builder's risk form to the standard fire policy or to allied policies, such as tornado, riot and civil commotion, or others covering buildings under construction. Building additions, attachments, permanent fixtures, heating fixtures, lighting fixtures, gas, water, and steam pipes, electric wiring, plate and stained glass may be included in this policy. Although there is some question as to board authority to purchase protection for property belonging to the contractor, the automatic builder's risk form may cover builders' sheds and machinery, tools, implements, utensils, apparatus, materials and supplies of every description entering into, or used in connection with, the construction of the building. As a general rule, insurance companies require 100-percent coverage on the contract cost of such buildings, excluding the cost of excavations, brick, stone, or concrete foundations below the lowest basement floor or, if there is no basement, below the surface of the ground. It is required that the policyholder keep an accurate set of books to show the value of the insured property as work progresses, and it is required that a report be submitted to the insurance company every 30 days showing the value of construction work as it advances. The increase in value of construction plus the construction values stated in the last report and those of previous reports indicates the total amount of insurance in force at any particular month's end. Although some companies allow some leeway in reporting, as a general rule, failure of the policyholder to submit these monthly reports may void the policy. Unless specifically endorsed, all coverage on buildings under the builder's risk policy ends when the building is finished or when it is occupied for any purpose whatsoever.

Inland Marine Insurance

Briefly, inland marine insurance refers to the various coverages available for valuable property being transported from one place to another. The method of transportation may be by motortruck, by horse-drawn vehicle, by railroad, by river boat, by lake and coastwise steamers, by ferries, and by aircraft express. Inland marine policies are often called floaters because they cover property in transit from one place to another. Many such contracts are called *all-risk* policies, because, with few exceptions, they cover against all risks. Generally, companies offering inland marine insurance require 100 percent coverage to value.

Many school districts, and sometimes individual schools or simply student organizations within schools, purchase this type of all-risk insurance to cover a variety of equipment, such as athletic equipment, musical instruments, uniforms, audiovisual equipment, costumes, public address systems, books, and other items, which may be moved from one school building to another, or, in some cases, from one school district to another, as might be the case with athletic equipment, musical instruments, and bandmen's uniforms.

However, as has been pointed out in previous paragraphs, local school officials will need to decide whether or not they wish their districts to assume the risks involved in inland marine protection, since most of these risks probably could be considered as minor, or whether their districts should be protected against such losses, as well as against calamity losses.

Boiler and Machinery Insurance

Boiler and machinery insurance is also known as powerplant or engineering insurance. It offers protection against loss or damage resulting from the explosion or rupture of vessels subjected to pressure and against losses caused by breakdown or limited breakdown of certain types of machinery, such as engines, pumps, compressors, water or steam turbines, and electric apparatus. Generally, loss or damage attributed to the former, that is, loss caused by an explosion or a rupture of vessels, is called a direct loss or damage, while loss attributed to breakdowns is referred to as indirect loss or damage.

Policies covering direct loss or damage protect the insured against loss or damage caused to the objects insured, to other property of the insured, and to the property of others for which the insured may be liable. Such policies may also cover liability of the insured for bodily injuries, or death resulting therefrom, to persons of the public.

On the other hand, indirect loss or damage policies protect the insured against indirect loss or damage, including such things as use and occupancy, consequential loss, power interruption loss, and expediting charges. For use and occupancy, a powerplant policy pays a certain amount per day, called the *limit of daily indemnity*, for the time the insured is wholly prevented from carrying on the regular operations because of an accident to an object designated in the policy which causes loss of use of the building. Consequential loss may include damage caused by the freezing of water pipes in buildings that have no heat as the result of the accident. Indemnification for power interruption loss may include such things as damage resulting from food spoilage because of lack of electric power to keep electrically powered food storage units in operation. Expediting charges include expenses involved in getting the machinery back into operation, such as rush express shipment charges for parts, additional charges for overtime labor, and other charges involved in a rush job.

Powerplant insurance may be purchased for any or all of the following types of equipment: Boilers, furnaces (not hot air furnaces), hot water storage tanks, water pressure tanks, air compressor tanks, refrigerator units, motors, air-conditioning units, and compressors.

The question might arise as to whether or not low-pressure boilers should be insured. While the risk in connection with low-pressure boilers may not be as great as with high-pressure boilers, yet, contrary to popular belief, low-pressure boilers do sometimes explode.

Each powerplant insurance policy is issued with a specific amount of insurance as a maximum limit in the event of an accident to one or more objects covered. However, the policy may allow different limits for each accident to each boiler. If local boards of education purchase powerplant insurance, it is important that there be sufficent maximum limits to cover the value of the objects insured, the value of other property of the insured which is subject to damage from the hazard insured against, the liability, if any, for damage to the property of others subject to such hazard, and the liability for personal injuries to the public when such coverage is required or desired. It should be pointed out that the maximum limit specified in the policy is available for every accident occurring during the policy year.

Powerplant insurance policies are generally written for a period of 3 years, but they may be written for a shorter term or for as much as 4 years.

Insurance companies require prepayment of powerplant insurance premiums, but arrangements may be made for the premiums to be paid in three installments as follows: (*a*) For an additional charge of 10 percent of the total premium, 50 percent of the premium may be paid on delivery of the policy, 30 percent on the first anniversary, and 20 percent on the second anniversary; or (*b*) for an additional charge of 20 percent of the total premium, payments may be made in three equal annual installments.

Attention should be directed to the fact that, while insurance companies are not required to provide inspection services for the boilers they insure, a great many of them do provide this service, and from the standpoint of preventing accidents, it may be quite as valuable to the policyholder as the insurance coverage is from the standpoint of protection against loss. Frequent inspections may reveal weaknesses, or conditions that may be hazardous, in boilers, and with proper attention and repair, these conditions can be corrected, thus preventing serious accidents. This type of service should be insisted upon by all local school authorities when powerplant insurance is purchased, and insurance companies furnishing the most complete and satisfactory inspection services should have first consideration in the purchase of powerplant insurance.

Glass Insurance

In recent years architects and school plant planners have been designing school buildings in which great quantities of glass, ranging from regular windowglass through double-strength glass, polished wired glass, plateglass, and sometimes tempered glass, are used. If school districts have buildings which contain a great deal of glass, it may be advantageous for the authorities to consider glass breakage protection. Such protection promises to reimburse the policyholder for loss or damage resulting from the accidental or malicious breakage of the glass which is covered by the policy, or to replace the broken glass; to pay for, or replace, glass damaged by chemicals accidentally or maliciously applied; to repair or replace frames encasing and contiguous to such glass when necessary because of damage; to install temporary plates in openings, or to board up openings which contained insured glass when necessary, because of unavoidable delay in repairing or replacing the glass; and to remove or replace obstructions, when necessary, in replacing damaged glass.

It should be remembered that neither the fire policy with an extended coverage endorsement nor the fire policy with the vandalism and malicious mischief endorsement covers glass breakage, except that, under the former, if breakage is caused by fire or by any of the other perils covered by the endorsement, such breakage is covered; and under the latter, the insuring company accepts liability only for glass building blocks, not for any other type of glass.

Indemnification is limited to the actual cost of replacing any damaged or broken glass, and since most insurance companies which sell policies covering glass have standing contracts with suppliers of glass, it may be possible for the insurers to provide replacement for damaged or broken glass more cheaply than boards of education can, hence some companies do replace it. Salvage of broken glass is a prerogative of the insuring company.

Burglary, Robbery, and Theft Insurance

Another type of property protection which local boards may wish to consider is insurance coverage against burglary, robbery, and theft. There are technical distinctions existing with respect to the definitions of each of these three terms.

Burglary, for insurance purposes, is usually defined as loss caused by any person or persons "making felonious entry into the premises by actual force or violence." It should be pointed out, however, that there are two types of burglary insurance, one known as open stock and the other known as safe burglary. Open stock burglary means the felonious taking of furniture, fixtures, and equipment from the insured when the premises are closed for business, but entry must be made by the use of force as indicated by visible evidence at the place of entry. Under this definition and under these conditions, open stock burglary insurance policies do not cover the loss of money or securities even though felonious entry is made after the school building has been closed for the day; nor does such a policy cover the loss of any item that might be stolen if the burglar entered through an unlocked door or window; nor does the policy cover the loss of any item that might be stolen during the schoolday while the building is open for business.

Robbery, for insurance purposes, is defined as "the taking of property from the insured or from his employees by violence, by force, by putting the person in fear of injury, or by other unlawful means." It is not essential that there be both violence and fear. It has been held that if a person is put in fear by threats, it is not essential that there be further violence. The term "property" refers to money, securities, or other tangible possessions of the insured whether or not they are in his care. In other words, if a robber enters a school building and forces the principal, or any employee of the school, through violent means or through a threat of violence, to open the school safe and remove the contents and turn them over to the robber, such loss is protected if insured. It is not essential that such property be located on the school premises at the time of the robbery.

Theft and larceny are defined as "stealing or taking the property of another," and usually no distinction is made between the two terms. Theft and larceny may include the taking of money, securities, or other property from school premises or elsewhere, neither forcible entry, violence, nor threat of violence being necessary for insurance coverage to be effective. This means that any person may enter a school building by using keys, or enter it through an open window, or door, steal money, securities, or equipment, whether these properties are under lock or not, and if the property is covered by theft insurance, the school district is protected.

As has been indicated, school districts can be protected against the loss of merchandise, furniture, fixtures, and equipment by purchasing the Burglary Open Stock policy; the loss of money, securities, and other property stored in a safe, vault, or chest may be covered by purchasing the Safe Burglary policy; the loss of money, securities, or other property in the custody of a school employee may be covered by purchasing the Robber policy; and the loss of money, securities, or other property, whether the conditions of the other three types of policies have been met or not, may be covered by the purchase of the Theft policy. However, with the special conditions and limitations imposed by the Open Stock, the Safe Burglary, and the Robbery policies, it appears that difficulties may be encountered by school districts in collecting claims covered by such policies if doubt exists concerning any of the conditions required to be present before such policies are effective.

In order to meet the objections to these special conditions, insurance companies have developed a broader policy form, known as the Broad Form Money and Securities policy, which can be used to replace the Safe Burglary and Robbery policies, and if used along with the Open Stock policy, the two will afford ample protection for all moneys, securities, furniture, and equipment which may be located in a given building. (The Inland Marine Floater policy has been discussed in connection with equipment that may be moved from place to place.)

The Broad Form Money and Securities policy is broader in its coverage than a combination of Safe Burglary, Robbery, and Theft policies. It covers the loss of money and securities within the premises caused by "destruction, disappearance, or wrongful abstraction thereof" and the loss of, or damage to, property other than money and securities (except by fire) caused by robbery or safe burglary; it covers the loss of money and securities, and the loss of properties other than money and securities occurring outside the premises, caused by "destruction, disappearance, or wrongful abstraction thereof" when being conveyed by messenger. It should be pointed out, however, that the foregoing coverages are contained under two optional insuring clauses, one covering inside the premises and the other covering outside the premises, either or both of which may be purchased to cover both money and securities or securities only. If both insuring clauses are used, the premiums are higher than if only one insuring clause is used.

Other losses covered by the Broad Form Money and Securities policy are: (*a*) Destruction of money and securities by fire; (*b*) theft of money and other property from an unlocked safe, vault, or chest; (*c*) money stolen from a cash register; (*d*) damage to a safe or other property if explosives are used to gain entry; (*e*) damage to a locked cash register from which money is stolen; (*f*) disappearance of money being conveyed by a school employee to a bank for deposit; and (*g*) loss of money from the school safe if the principal or any other employee is forced to open the safe for robbers.

It is important that school officials remember that practically all insurance companies which offer protection against the loss of money and securities, as well as the loss of other valuables, require the insured to keep books and accounts in such a way that the actual amount of loss sustained can be accurately determnied.

Surety Insurance

For the purpose of this study, surety protection for school districts has been divided into two broad categories, one designated as fidelity coverage and the other as performance coverage. Fidelity coverage protects against loss caused by the dishonest or fraudulent acts of school district employees; performance coverage, against loss caused by debts, defaults, or miscarriages of an individual or a firm which has agreed to perform certain specific services or to deliver certain supplies and equipment in accordance with the terms of a contract.

Technically, suretyship protection is not classified as insurance, but is referred to as bonding. The distinction between insurance and bonding arises from the fact that insurance is provided through a two-party contract, while surety bonds are made effective by tripartite contracts. In an insurance contract, the insurer agrees to indemnify the insured for any insured loss in return for the payment of a preimum. In surety bonds, a company, organized for the purpose of issuing such bonds and known as *surety*, *insurer*, *guarantor*, or *promissor*, guarantees the *beneficiary*, sometimes called the *obligee*, against loss caused by debts, defaults, or miscarriages of an individual or a firm which has agreed to perform certain specified services or to deliver certain supplies and equipment for, or to, the beneficiary. The employee, individuals, or firms are known as the *principal* or *obligor* in the tripartite contract. As in insurance, surety bonds require the payment of a premium as the "consideration" given by the beneficiary in return for the "guarantee" furnished by the surety. In some cases, however, one or more individuals agree to sign as surety on a bond, usually without charge, and in such cases the instrument is known as a *personal* bond.

It should be pointed out that there are two types of surety bonds, one a suretyship bond and the other a guaranty bond. Although similar, these two types of bonds are not the same. In the suretyship bond, the beneficiary has immediate recourse against the surety for the recovery of any bonded loss, while under the guaranty bond, the beneficiary has no recourse against the surety for any bonded loss until all remedies against the dishonest employee or the defaulting individual or firm have been exhausted by the beneficiary. In other words, under the surety-type bond, the guarantor becomes liable when the employee commits a fraudulent act or when an individual or firm does not perform in accordance with the terms of a contract. On the other hand, under the guaranty-type bond, the guarantor becomes liable only if recovery cannot be made from the dishonest employee or from the defaulting individual or firm.

FIDELITY COVERAGE

School districts may secure fidelity coverage by the purchase of fidelity bonds, of which there are more than 300 types. Since adequate fidelity coverage may be obtained through one or more of four different kinds of bonds, this discussion will be limited to these four kinds, namely: (*a*) Individual Fidelity bond, (*b*) Name Schedule bond, (*c*) Position Schedule bond, and (*d*) Blanket bond.

The Individual Fidelity bond is written on an individual employee named in the bond for any specified amount. It covers losses caused by the individual employee's connivance with others and losses occurring while the individual employee is performing the duties of any position as an employee of the school district, all of which must occur during the effective period of the bond, even though some or all of them may be discovered within a specified period after the termination of the bond.

The Name Schedule bond covers the dishonesty of any specified employee, designated by name on the bond, to an amount limited by that shown opposite the name. As personnel changes occur, names may be added or deleted, coverage for each employee being determined by the date on which each employee's name appears on the bond.

The Position Schedule bond covers specific positions, identified and enumerated in the bond. It differs from the Name Schedule bond in that the position rather than the individual is insured. Changes in personnel do not interrupt coverage. When additional employees are hired to fill similar positions, a 60-day automatic coverage is given, but the school district must increase its coverage before the expiration of the 60-day period.

Blanket bonds are of two types, one known as the Blanket Position bond, and the other known as the Primary Commercial Blanket bond. The former covers any dishonesty loss which the school district may suffer as the result of fraudulent acts of any of its employees, each employee being covered up to the full amount of the bond. The bond may be written for a minimum coverage of $2,500, and in multiples of this amount to a maximum of $100,000. The Primary Commercial Blanket bond also covers loss by the school district because of the dishonest act of any employee, but the aggregate coverage is limited to the amount specified in the bond. This establishes a top limit for which the surety is liable on an aggregate basis. However, if a loss is paid under this bond, it automatically restores itself to its original top limit. The minimum amount of coverage obtainable under this type bond is $10,000, with no ceiling on the maximum amount.

Under both the Blanket Position bond and the Primary Commercial Blanket bond, all school district employees are classified as either class A (employees who actually handle money, negotiabl securities, or salable merchandise); class B (employees, such as janitors or watchmen, who do not handle money or negotiables directly, but who have access to such funds or property); or class C (all other employees).

All fidelity bonds may be written on a 3-year basis, and on this basis, the cost is generally two and one-half times the annual premium.

If fidelity bonds are included in the school district's insurance pro-

16

gram, school authorities should observe certain precautions, among the more important of which are:

1. If a number of school district employees are bonded, all who are bonded should be covered under the blanket-type bond.
2. All fidelity bonds, all moneys and securities policies, and all burglary and robbery policies should be written with the same company in order to prevent arguments between (or among) companies as to which company is liable when a loss occurs.
3. All questions on fidelity bond applications should be answered fully, accurately, and without reservation by school authorities.
4. The fidelity bond contract form should include in writing whether or not cumulative liability is to be allowed so that the total penalty (the amount stated as the limit for which surety is liable) can be set accordingly.
5. Some school official should be designated by the board of education as the individual who is charged with the responsibility of complying strictly with the company's "notice of loss" provision in case there is a loss.
6. School district records should be kept in such a manner that the district can furnish unquestionable proof of loss. Complete audits of all school accounts should be made at least once each year. Since most bonds remain effective for several months after their expiration dates, such audits may reveal losses resulting from acts of dishonesty by employees in time for recovery to be made.
7. School districts should watch premium costs of fidelity bonds and obtain quotations from different companies.
8. Since there is an interrelationship between theft and fidelity coverage, theft insurance, if used, should be purchased along with fidelity bond coverage from the same company.

PERFORMANCE AND CONTRACT COVERAGE

The second type of surety protection with which school districts may be concerned involves the performance of individuals and firms that have contracted with boards of education to perform certain services or to furnish certain supplies and equipment in accordance with the terms and specifications of a contract. In general, such performances are related to school construction, including site development, and to the purchase of all types of materials, supplies, equipment, and other merchandise.

In these categories school boards frequently spend large sums, and it seems reasonable to assume that they will want to use every precaution to safeguard such expenditures against possible losses caused by debts, defaults, and mismanagement on the part of contractors and of the suppliers of materials and equipment. In most States, statutory requirements compel public school officials to award contracts calling for expenditures in excess of certain stipulated amounts to the lowest responsible bidders. Likewise, in many States, supplies, equipment, and other merchandise for the public school district must be purchased on the basis of competitive bids.

Surety bonds which provide protection to the school district against loss caused by the acts of dishonest or incompetent bidders are called performance or contract bonds. These bonds guarantee the performance of those to whom contracts have been awarded, and they guarantee payment for all labor and for all materials used in fulfilling the contract.

Like other types of surety bonds, contract bonds are tripartite agreements entered into by the principal (the contractor), the beneficiary (the school district), and the surety (the bonding company). They may be written to cover whatever obligations the contractor assumes when he accepts a contract.

Three contract bond forms are of particular interest to school officials. They are: (*a*) The Bid bond, which may be used in lieu of a cash deposit in some States, (*b*) the Performance bond, and (*c*) the Payment bond. These three types of bonds, properly executed and in adequate amounts, eliminate risk and uncertainty for boards of education when they embark on school construction projects. By using proper sureties boards of education can protect their districts, and perhaps themselves, from the moment bids are opened to the final acceptance, and sometimes beyond the final acceptance, of the completed job. A brief description of each of the three types of contract bonds will be given in the following paragraphs.

The Bid bond, usually written to cover at least 5 percent of the total bid, and furnished by the bidder, guarantees that the successful bidder will enter into a contract in good faith, and that he will furnish an acceptable Performance bond to the school district. This protection is important in that irresponsible bidders will have little opportunity to enter their bids, and if a bidder to whom a contract has been awarded fails to accept and sign an acceptable contract, the school district can collect from the surety the penalty to which it is entitled as compensation for delay and for the inconvenience of readvertising for bids.

A similar type of bond, or cash deposit, may be required in connection with competitive bids covering the purchase of supplies, materials, and equipment by school boards. Firms submitting bids on such items should provide such bonds and thus guarantee that this merchandise will be delivered in accordance with the terms, specifications, and conditions set forth in the award contract. This bond, or cash deposit, protects against the risk that some firms may accept a contract for delivery and then default. It also protects boards against the delivery of merchandise that fails to meet prescribed standards. The specified penalty, or limit of coverage, for these bonds should be at the discretion of the local board, but the amount should be sufficient to protect the district against inconvenience, loss of time, substitution of inferior merchandise, and other elements that may need to be considered.

The Performance bond guarantees that contractors who have agreed to construct school plants will faithfully perform all work and use all materials in connection with their projects in accordance with the terms, conditions, plans, and specifications set forth in the award contracts, and, further, if these contracts contain maintenance clauses whereby contractors agree against defective workmanship and materials for a stated period after the acceptance of the work, these are also guaranteed by the Performance bond.

Most local boards of education will want to protect their districts to an amount which is as much as, or somewhat in excess of, the maximum funds that might be risked on the projects under construction. This practice may also protect the board against a certain amount of criticism if a contractor fails.

In the event a firm fails to fulfill its contract, or if the school authorities are not satisfied that the contractor is proceeding in accordance with the terms of the contract, both the surety and the contractor should be given written notices immediately. The surety can then take the necessary steps to satisfy the board and to correct the deficiency. In any case the surety should be liable to the school district for all costs in excess of the unpaid balance on the original contract.

The Payment bond protects the school district against any liability for labor and materials bills in connection with school construction jobs where the contractors fail to pay for all labor and materials used on such jobs. In most States public school buildings are immune from liens imposed by the furnishers of labor and materials.[1] In cases where school districts, by court action, may be held liable for such suppliers' claims, a Payment bond, stipulating a penalty of not less than 10 percent of the total contract cost, may be purchased to protect the school district against double payment for labor and/or materials.

Automobile and Bus Insurance

In the preceding sections of this study, six types of school property protection have been discussed. The present section deals with a

[1] N. E. Viles. *Local School Construction Programs.* Bulletin 1957, No. 20, U.S. Office of Education. Washington: U.S. Government Printing Office, 1957. p. 35–36.

seventh type of property protection, that for automobiles, schoolbuses, station wagons, trucks, and other types of motorized transportation equipment. Insurance covering the risks involved in owning, operating, and maintaining equipment of this type is concerned with physical damage to the equipment itself and the ability of the owner for physical damage done to the property of others and for the injury to, and/or death of, persons of the public, including the students who ride the buses.

Although both types of coverage may be secured under one policy, only that portion of the coverage which protects against physical damage to the owner's property will be discussed in this section. School district liability insurance, including liability for the ownership, operation, and maintenance of transportation equipment, will be discussed in a subsequent section of this study.

There are numerous hazards which may cause damage to, or complete loss of, school district transportation equipment. Among the more frequent hazards encountered are: Fire, theft, explosion, earthquake, windstorm, hail, water, flood, vandalism, riot and civil commotion, missiles, falling objects, lightning, glass breakage from any cause, and collision or upset.

The All-Risk Policy

In most States, one all-risk automobile policy covering all types of physical damage to the insured automobile and all personal and property liability to which the school district may be subject as the result of an accident involving a district-owned automobile may be purchased from any of a number of insurance companies. This all-risk policy may include: (*a*) Comprehensive (loss or damage to the automobile, except by collision and upset, by fire, theft, and windstorm); (*b*) collision or upset; (*c*) fire, lightning, and transportation; (*d*) theft (broad and deductible forms); (*e*) windstorm, earthquake, explosion, hail, and water; (*f*) combined additional coverage; and (*g*) towing and labor costs. These coverages will be described in the following paragraphs.

COMPREHENSIVE

Comprehensive coverage pays for any direct and accidental loss or damage in connection with an insured automobile which may occur through glass breakage, falling objects, missiles, fire, theft, explosion, earthquake, windstorm, hail, water, flood, vandalism, and riot or civil commotion. This coverage does not include damage caused by collision or upset. The indemnification for loss caused by any of the specified perils is the actual cost of repairing the damaged parts, or in case of a total loss, the actual cash value of the automobile itself.

COLLISION OR UPSET

Collision or upset coverage protects the insured for actual loss or damage to the insured automobile, which occurs during the policy period, provided the damage is done "solely by accidental collision with another object or by upset." The question of negligence does not enter into the settlement of a claim under this coverage, but the collision must be accidental. This coverage does not include damage: (*a*) Caused directly or indirectly by fire; (*b*) to any tire due to puncture, cut, gash, blowout, or other ordinary tire trouble, or, in any event, loss or damage to any tire unless caused in an accidental collision which also caused other loss or damage to the automobile; (*c*) in excess of the actual cash value of the automobile at the time of the accident; (*d*) occurring while the automobile is being operated in any race or speed contest; and (*e*) while being operated by any persons under the age fixed by law or under 16 years.

Collision insurance may be either full coverage collision form, or a deductible collision form (with either $50, $100, $250, or $500 as the deductible amount, except that the $50 and the $100 amounts are not applicable to buses). There is no company limit of liability stated in collision coverage, but, as previously stated, the liability of the company is limited to the actual cash value of the automobile and equipment, less any specified deductible amount, at the time of the accident. If the loss is not total, the insurance company is liable only to the extent of the actual cost of making repairs or replacement of parts, less any specified deductible amount.

The purpose of deductible collision insurance is to eliminate the handling of small claims by insurance companies. At the same time, the insured is protected against serious loss at much less cost than is possible without the deductible clause. Many school districts which operate pupil transportation systems have their own maintenance shops, and in these shops they can repair small damages much more cheaply than they can purchase full-coverage collision insurance.

The subrogation clause, which is a part of the automobile insurance contract, may become important in the adjustment of collision-loss ratios. Where the negligence of a third party is responsible for an accident, the insurance company usually takes action against such party to recover the amount of the loss. This feature of the policy was created to help decrease the loss ratio for collisions.

FIRE, LIGHTNING, AND TRANSPORTATION

Any direct and accidental loss of, or damage to, an insured automobile caused by fire or lightning; by smoke or smudge due to a sudden, unusual, and faulty operation of any fixed heating equipment serving the premises in which the automobile is located; or by the stranding, sinking, burning, collision, or derailment of any conveyance in, or upon which, the automobile is being transported on land or on water may be covered by the fire, lightning, and transportation clause of the all-risk automobile policy.

THEFT

If the automobile comprehensive coverage is not purchased, school officials may find theft coverage for passenger cars desirable, but both comprehensive and theft are not required as separate insuring clauses.

The Broad Form Theft coverage protects the insured against loss of, or damage to, an automobile caused by theft, larceny, robbery, or pilferage. The Deductible Form Theft coverage is exactly the same as the Broad Form, except that $25 is deducted from the amount of each loss not occasioned by the taking of the entire automobile. Theft insurance is usually carried by school districts on passenger cars and small trucks, but not on schoolbuses, since it is unlikely that anyone would try to steal a schoolbus. However, if this coverage is desired for schoolbuses, primarily for the protection of tires, tools, fire extinguishers, batteries, signal lights, and the like, it may be obtained by paying additional premiums.

WINDSTORM, EARTHQUAKE, EXPLOSION, HAIL, AND WATER

If comprehensive coverage is not required, protection against loss of, or damage to, an automobile caused by windstorm, hail, earthquake, external discharge or leakage of water, except loss caused by rain, snow, or sleet, if desired, may be secured by the all-risk automobile insurance policy under the "Windstorm, Earthquake, Explosion, Hail, and Water" clause.

COMBINED ADDITIONAL COVERAGE

The Combined Additional Coverage clause of the all-risk policy is really an extension of the last-named coverage in that it protects against exactly the same perils, but coverage is extended to include loss of, or damage to, an automobile which is caused by riot or civil commotion, the forced landing or falling of any aircraft or of its parts or equipment, and flood or rising waters. If this coverage is desired, it is obvious that the "Windstorm, Explosion, Hail, and Water" clause will not be required.

TOWING AND LABOR COSTS

Technically, insurance which protects the school district against towing and labor costs for automobiles is not physical property damage insurance, but since this coverage is a phase of the automobile policy, it is included here. This coverage pays for towing and labor costs necessitated by the disablement of the automobile, provided the labor is performed at the place of disablement.

It should be remembered that, even though the automobile all-risk policy lists each of the foregoing types of coverage, only those types for which premiums have been paid are effective. This is shown on the face of the policy for each particular coverage.

As has been previously suggested, liability of insurance companies for physical damage to insured automobiles is generally limited to the actual cash value of the automobile itself at the time of the accident or to the actual cost of repairing and/or replacing the damaged parts. However, in addition to the Actual Cash Value Form, there are two other forms, either of which may be used as a means of determining the company's liability for damages to an insured automobile. One is known as the Stated Amount Form, which specifies the exact amount of liability the company assumes on an automobile in case of total loss. The other, known as the Comprehensive Form, is available for public automobiles and certain types of fleets, trailers, and the like. This form uses the stated amount method to determine the extent of company liability. Both of these forms are available for fleets, but the Actual Cash Value Form is not available for fleets.

As a general rule, school districts which operate five or more automobiles or schoolbuses purchase both physical damage and liability insurance protection under the fleet plan rather than under the individual vehicle plan. The fleet plan provides some savings in premiums and eliminates the necessity of handling several insurance policies.

LIABILITY INSURANCE

Several types of insurance coverage for the physical properties of school districts have been discussed in the preceding pages of this study. The present section will be devoted to a discussion of insurance coverage for school district liability.

As has been previously stated, school districts are subdivisions of State governments, and under the tradition of common law, neither the State nor its political subdivisions can be sued without their consent. This means that school districts located in States that still recognize common law may not be held liable in tort action. However, recent legislation in some States has limited or removed this immunity. In States where immunity has been removed, suits may be brought against school districts for damage to the property or injury to persons attributed to the alleged negligence of the school board or of any of its employees. In some States where general immunity is accepted, court decisions involving liability have been rendered against some school districts, particularly where such districts carried liability insurance coverage, but in most cases, such decisions have not assessed damages beyond the limits of the insurance carried.

Some school and other public officials feel that the school district should provide full liability insurance protection covering not only the students but all others who are permitted or encouraged to be on school premises or ride school buses. Others, particularly some who have studied school district finances and liability claims, contend that unlimited liability may wreck school district finances. On the other hand, some question whether there can be such a thing as limited liability. These people want to contine to use governmental immunity for the protection of their school districts. Basically, the problem is not so easily solved, either by holding that the school district should do nothing about liability or that it should accept full obligation. It should be remembered that, under present-day programs, States have compulsory school attendance laws, and the child who is not able to attend a private school or is unable to afford a tutor may be required to attend a public school. In addition to this, the school may be so located that he has to ride on a schoolbus. Then, after he arrives at school, he does not choose his own room or location in the building but goes where he is directed. Furthermore, parents and others are often encouraged to attend various games or other functions under the auspices of the school. Accidents can happen to students and to adults who may be on school premises. These illustrations are not given to show that the school district should or should not accept any degree of liability. Rather, they are given to show the problems to be faced whether schools do or *do not* accept some type of liability obligation.

It is not the purpose of this discussion to justify or to criticize the purchase of liability insurance by school boards. Rather, the purpose is to discuss the scope and the implications of liability insurance coverage for school districts. School district liability is concerned with any injury to, or death of, any person and damage to, or loss of, the property of others caused by negligent acts of school district employees or resulting from the ownership, operation, and maintenance of any school facilities, including buildings, equipment, elevators, playgrounds, and transportation equipment.

For the purpose of this study, there are two types of school district liability, one designated as *personal* and the other known as *property*. The former is concerned with responsibility for injury to, or death of, persons of the public, while the latter involves responsibility for damage to, or loss of, property of others.

Personal Liability Insurance

Many school officials recognize an obligation to protect their districts against various claimants. Some of these claimants may involve possible district obligations for injuries to or death of individuals. Such claims are often difficult to anticipate and to evaluate. In fact, some court cases have indicated a possibility of assessing damages for inconvenience, mental anguish, or other nontangible characteristics which are not easily measured in dollars and cents. Because of these conditions, school officials are never quite sure of the extent of the district's obligations for such risks. Then, too, there seems to be a danger that jury settlements of claims may award "all the traffic will bear," which means that school districts may pay rates that are high enough to provide the funds needed for such awards. Some States have tried to counteract such tendencies by establishing fixed limits for certain types of injuries. However, this procedure seems to enter into the field of accident insurance. Under most State laws, insurance companies pay no liability, no matter what the nature of the claim, until the courts have fixed the extent of the liability of the insured. One possible exception to this may be found where insurance companies, feeling that they can settle claims with some financial advantage to themselves, agree to out-of-court settlements. In such cases, the claimant agrees to accept a fixed amount, in return for which he signs a release document.

Some of the more common types of insurance coverage designed to protect school districts against personal liability claims are: (1) Owners', Landlords', and Tenants'; (2) Products; (3) Professional (Malpractice); (4) Workmen's Compensation; (5) Accident and Disability; (6) Comprehensive Public Liability and Property Damage; (7) Personal Liability and Property Damage; (8) Elevator; and (9) Automobile Public Liability. These types of personal liability protection will be discussed in the following pages.

OWNERS', LANDLORDS', AND TENANTS'

An owner or a tenant of any property, including school districts in States where governmental immunity has been waived, may be held legally liable for injuries to, or death of, persons of the public when such injuries or death may be occasioned by the existence, ownership, operation, use, and maintenance of any kind of property. The Owners', Landlords', and Tenants' Public Liability policy, sometimes called General Public Liability insurance, is issued to owners, lessees, or tenants of property which is not used for manufacturing operations. This policy promises to indemnify for loss from claims made upon the policyholder as the result of an accident causing bodily injury to, or death of, any person not employed by the policyholder, while this person is on the premises, or adjacent walkways, of the policyholder. This policy also covers the hazards in consequence of the existence, maintenance, or use, including ordinary repairs, of the property or premises. However, the policy does not cover liability resulting from extraordinary repairs, additions to, structural alterations in, or demolition of the premises; nor does it cover the installation of new equipment. Further, it provides no coverage for liability caused by any person hired who is under the legal age limit or, if there is no legal age limit, under 14 years of age. Still another limitation of the policy is that it specifically excludes any liability assumed by the policyholder or any imposed upon him by any workmen's compensation law.

The standard limit of the policy is $5,000 for bodily injury (or death) of one person, and, subject to this same individual limit, the standard maximum limit for bodily injuries (or deaths) resulting from one accident is $10,000. Higher limits may be purchased for a small additional charge.

This type of policy is issued for a term of 3 years. If the premium is paid in advance, or if it is paid in certain specified installments, a term discount may be secured on the total premium. It should be noted here that not only personal liability but also property liability may be purchased under this policy. A further statement will be made with respect to its coverage under the discussion of property liability.

PRODUCTS PUBLIC LIABILITY

A second form of liability protection, designed primarily to protect merchants and manufacturers but recently used to protect school districts, is the Products Public Liability policy. This policy covers losses arising out of the possession, use, existence, or consumption of products manufactured or sold by the insured. Consumption or use of such products, however, must take place after the insured has relinquished possession of the product involved.

School cafeteria services are responsible for preparing and serving food to pupils and employees. School districts may be interested in ample protection, since there is always some chance that such food might become contaminated and thus injure the lives and health of those who eat it. This policy protects the school district whether such food is consumed on or off the premises.

However, it should be pointed out here that food consumption can be covered by endorsement to the Owners', Landlords', and Tenants' policy, by the Combined Comprehensive Liability policy, or by the regular Public Liability Policy.

PROFESSIONAL (MALPRACTICE) INSURANCE

A third type of personal liability protection which has become of interest to school authorities is Professional (Malpractice) coverage. This coverage, originally developed to protect medical professional personnel against claims arising from damaging mistakes or malpractice acts, has been expanded to include liability arising from assault, slander, libel, undue familiarity, and other types of claims. It is probable that only school districts which employ doctors, nurses, dentists, and psychiatrists may have a need for the protection afforded by this policy.

WORKMEN'S COMPENSATION INSURANCE

A fourth type of personal liability protection for school districts is Workmen's Compensation insurance, which may be defined as insurance against any liability imposed by law upon employers to compensate their employees (or the dependents of such employees), according to the definite schedule of benefits provided in the compensation act of the State, for any injury sustained by such employees by accidents arising out of, and in the course of, their employment, generally without regard to negligence or fault of either the employer or the employee.

In most States where workmen's compensation insurance is required by law, the Standard Workmen's Compensation and Employer's Liability Policy is used. This policy is made applicable to the specific conditions of each particular State law by attaching a State endorsement containing the important provisions of the compensation law of the particular State, or by quoting the legal title of the compensation act of that State and stipulating that the provisions of the law are incorporated in the policy just as if printed therein.

This policy agrees to pay promptly to any legally hired employee who, during the policy period, sustains injury (or occupational diseases in some States) arising out of, and in the course of, employment (or, in the case of death caused by such employment, to pay to his dependents) the stipulated benefits designated by the compensation law of the particular State. In addition, the insurance company agrees to pay charges for the necessary surgical, medical, or hospital, and surgical apparatus or appliances and charges for medicines, as provided in the State statutes. In the event of fatal injury, the policy provides whatever funeral expenses are required by the provisions of the act in the particular State. It also gives the employer a secondary protection against legal claims for injuries to legally hired employees based on the underlying negligence of the employer. It further agrees to defend the insured against any suits or other proceedings (even though groundless, false, or fraudulent) which may be brought against the insured by reason of injuries demanding damages or compensation.

At the present time, all 49 States and all Territories of the United States have workmen's compensation laws, but in some States coverage is elective, while in other it is compulsory. In States where coverage is elective, the employer has the option of either accepting or rejecting the provisions of the law, but in case he rejects coverage, he loses the customary common law defenses—assumed risk of the employment, negligence of fellow servants, and contributory negligence. Before the passage of compensation laws, these defenses were used by employers to defeat claims by injured employees. The employer might show that the injury was due to the ordinary risks of the work, risks with which the worker was familiar, or to the negligence of fellow workers (fellow servant rule), or that the employee, by his own negligence (contributory negligence), caused the injury.

On the other hand, in States where compensation coverage is compulsory, every employer who is subject to the law must comply with the provisions of the law, and, in all except two of these States, all employees subject to the law must accept its provisions. In the two excepted States, employees may reject the coverage, but if they do reject it, their only recourse in case of accidents is to bring damage suits in the courts.

In most States weekly compensation benefits generally run between 60 and 65 percent of the employee's salary, to a stipulated maximum, and not to exceed a maximum number of weeks, depending upon the seriousness of the accident. Death payments, on the other hand, are generally based on the deceased employee's wages and on the number of dependents. Compensation payments usually start on the eighth day after an accident, while medical payments start immediately after an accident.

ACCIDENT AND DISABILITY INSURANCE

Disability means loss of powers through accident or sickness. Usually, disability insurance policies are specialized and apply only to restricted hazards, such as accidents only, or only disease and sickness, or to hospitalization only, or to medical care only. In recent years, however, casualty companies have offered a combination disability policy, both as to individual coverage and as to group coverage. This is known as the health and accident insurance policy. In conjunction with this policy, some companies and some non-profit-making organizations offer hospitalization and surgical-medical benefits. Some commercial companies go even further by offering death and dismemberment benefits with such policies.

Under the group plan, health and accident benefits include weekly amounts to insured persons. These benefits may vary with the size of the group, with the type of occupation, and sometimes with the companies providing the coverage. Generally, maximum weekly benefits are limited to certain maximum amounts and for fixed maximum periods of time. However, it should be pointed out that most sick and accident insurance policies for employees specifically exclude company liability for any illness or injury which may be covered by the workmen's compensation policy.

If hospitalization and surgical-medical benefits are included as a part of group disability insurance, these benefits protect the insured person, and under certain conditions members of his family, against the serious hazards of hospitalization costs and surgical-medical expenses. Essentially, hospitalization and surgical-medical protection is a system of prepaid hospitalization and surgical-medical care.

Benefits under this type of coverage may range from a fixed maximum amount of hospitalization coverage for each accident or illness to the total cost of hospital care for a specific number of days for each accident or illness. The surgical-medical coverage generally pays according to a fixed schedule for various types of surgery and provides a fixed amount for each visit of the physician up to a maximum number of visits. Benefits may be paid either directly to the hospital and to the attending physician or directly to the insured, upon presentation of a statement of charges for services rendered, depending upon the plan of coverage and upon policy conditions prescribed by the insuring company.

If accidental death and dismemberment benefits are included as a part of the group health and accident insurance plan, their broad purpose is to pay for the relatively serious permanent disabilities (including death) for which group accident and health benefits are inadequate. Benefits under this coverage may be paid either as a lump sum for each dismemberment (or for death), or the total amount for which the company is liable, usually specified in the policy form, may be spread over a given number of monthly payments at the discretion of the insured or of his beneficiary.

Premium payments for group disability insurance are generally made on a monthly basis, in advance, and may be paid entirely by the employer, or may be withheld from all insured employees' wages and salaries by the employer and transmitted to the insurance company, or the employer and the employee may each pay a share of the cost, based upon a previous agreement between the two. Where the employee pays all or a part of the premium, the employer acts as an agent, collecting the employee's share, and transmitting the total monthly payment to the company.

Available data showing the extent to which school districts purchase outright, or participate in the purchase of, disability insurance for their employees indicate that, for those school districts where accident coverage is known to be provided for teachers, 18 percent of the districts pay the total cost, and in 4 percent the cost for accident insurance is shared by both the teachers and the school district. In school districts where health insurance is known to be available under the group plan, 1 percent of the districts pay the total cost, while 3 percent share the cost with the teachers. In districts where group hospitalization is known to be available to the teachers, 1 percent of the districts pay the total cost, while 4 percent share the cost with the teachers. In districts where group surgical insurance is known to be provided for teachers, 1 percent of the districts pay the total cost, and 3 percent share the cost with the teachers. In districts where group life insurance (death benefits only) is known to be available to teachers, 2 percent of the districts pay the total cost, while in 6 percent of these districts, the cost is shared with the teachers.[3] It should be noted, however, that these data are reported from urban districts, and that in these districts the teachers are paying most of the cost of such coverage.

If there is any doubt of the legality of using school funds for health and accident, hospitalization and surgical-medical, and accidental death and dismemberment insurance for school employees, school officials who contemplate coverage in any of these areas may find it desirable to get the opinion of the attorney general on this point before they embark on an insurance program involving these coverages, if the school district is to pay all or any part of the cost of the program.

Closely related to accident and disability insurance for school employees is accident insurance for students. Boards of education are

[3] National Education Association of the United States (Research Division). *Special Memo: Teacher Personnel Practices, Urban School Districts, 1955–56.* Washington: D.C.: the Association, 1956. p. 33.

interested, for the most part, in two types of student accident insurance. One concerns the student who is accidentally injured while playing on the school premises by falling, by being hit by a flying object accidentally thrown by another person, by using any type of school equipment, or by any other accidental means. The other concerns the student who participates in the school's athletic program in any way.

Unless negligence of school officials (including teachers) can be shown to have been the cause of, or to have contributed to, accidents to students on the school premises, it is doubtful that school districts, including those which enjoy no immunity from liability, could be held liable for injuries (or death) sustained by students from such accidents. On the other hand, if school officials encourage pupil participation in certain activities, and if such actions contribute to accidental injury, there may be damage claims, particularly in States accepting some degree of obligation in these areas. Accident insurance as it pertains to schoolbus accidents, and school district liability therefor, will be discussed under automobile liability coverage.

During the past few years, several companies have been exploring the idea of pupil accident insurance paid for by the parents through either the school principal's office or through some group such as the parent-teacher association. Such plans come under a form of group insurance serviced by one master policy which is generally retained by the principal or by the sponsoring organization. Individual premium payments have ranged from about $1.25 to about $2 per child for the school year. Such policies cover almost all kinds of accidental injuries except those incurred while the insured child is participating in any interscholastic sports event, and they are effective each schoolday of the year (but not Saturdays, Sundays, and holidays) from about an hour before the opening of school each day to about an hour after the close of school each day. This coverage generally pays the medical costs for the treatment of injuries, and some policies pay surgical fees up to a specified maximum if surgery is necessary in the treatment of such injuries. Students covered by this policy are protected while they participate in physical education activities, intramural sports, other play activities, and while performing any other duties, except as participants in interscholastic sports, in connection with their schoolwork.

In some cases the payment of anual premiums of $1.25 to $2 per pupil have relieved parents of paying several hundred dollars in surgery, hospitalization, and medical care costs which were paid by the insurance companies. One difficulty arises from the fact that all students are not always covered. Some parents feel they cannot afford to pay the small premium; others feel that their children will not be involved in accidents; and many schoolchildren do not obtain the protection that is available. An acceptable plan that will provide accident coverage for all children who are enrolled in schools would merit consideration.

Accident insurance covering students who participate in interscholastic sports can be purchased from most casualty and from some life insurance companies. In many cases premiums for this type of insurance are secured from receipts for admissions to sports events or from other income resulting from the operation of the athletic program. In some instances, the parents of students who participate in athletic events pay the premiums; in other instances some sponsoring organization, such as a local civic club, pays the bills; and in a few States, the State athletic association allocates certain funds, generally derived from their State basketball tournaments, to local schools for the purpose of helping defray the cost of accident insurance for school athletes.

COMPREHENSIVE PUBLIC LIABILITY AND PROPERTY DAMAGE

A comparatively recent development in liability insurance is the Comprehensive Public Liability and Property Damage insurance policy. It is also known as the All-Risk, the Blanket, or the Combination policy. It covers all hazards, including automobile hazards, which might cause bodily injury (or death resulting therefrom) as well as those hazards which might cause property damage. If some particular form of coverage offered by this policy is not desired, this form is eliminated by inserting the words "Not Covered" in the schedule for that particular form. The policy has three insuring clauses, one covering bodily injury liability and two covering property damage liability. The bodily injury clause has a single set of limits—a limit per person and a limit per accident—each applying regardless of the cause of the accident. However, there is an aggregate limit which applies to liability claims involving products. Of the two insuring clauses covering property damage liability, one covers the automobile hazard and is mandatory, and the other covers other property damage liability hazards and is optional. More will be said about this policy under the section on property damage liability.

Some authorities on school insurance believe that this policy affords the best liability protection available. It has the advantage of requiring only one policy for protection against all tort liability. Therefore, if this policy form is used, other types of liability policies will not be required.

PERSONAL LIABILITY AND PROPERTY DAMAGE

The Personal Liability and Property Damage policy offers protection to school officials which is not generally included under personal liability policies. Most personal liability policies cover liability arising from assault, slander, libel, false arrest, false imprisonment, and the like while the insured is performing on-the-job responsibilities, but not while he is outside the scope of his employment. If coverage for both on and off the job is required, this may be secured under special personal liability policies.

ELEVATOR

Some school buildings have elevators, and for this reason a brief discussion of elevator insurance is given here. Where school buildings are equipped with passenger-carrying elevators, boards of education having control over these buildings may need to be protected against possible liability suits involving injury to students, employees, and visitors who may use these elevators.

Elevator coverage may also include escalators and can be purchased either in connection with the Owners', Landlords', and Tenants' policy by properly designating and describing each elevator or escalator and by paying the required premium or under a separate Elevator Public Liability policy. Under the Elevator policy, standard limits of liability are $5,000 for one person, and, subject to individual limits, $10,000 for injuries or deaths caused by any one accident. Higher limits are available for additional premiums.

AUTOMOBILE PUBLIC LIABILITY

Automobile Public Liability coverage protects the insured from claims by the public for injuries to persons (or death resulting therefrom) and for damage to or destruction of property of others resulting from ownership, operation, and maintenance of automobiles, schoolbuses, trucks, and other motorized transportation equipment. Property damage liability which might be caused by the operation of this equipment will be discussed in a later section.

Schoolbus operation has become a sizable business in the United States, and although schoolbuses are not frequently involved in serious accidents, they do sometimes have them. Insurance practices with respect to liability protection incident to the operation of publicly-owned schoolbuses vary greatly among the States. In about 33 percent of the States, insurance protection is made compulsory by State law; in about 8 percent of the States, it is required by administrative regulation; in about 36 percent of the States, it is optional but is authorized by State law; in about 9 percent of the States, it is optional but may be purchased under implied powers of boards of education; in about 10 percent of the States, it is prohibited by court decisions, attorney general rulings, or other rulings; and finally, in about 4 percent of the States, there is no clearly defined status of schoolbus liability insurance.[3]

With respect to liability insurance requirements for privately operated schoolbuses, State practices have equally wide variations. Insurance protection is required by law in 54 percent of the States, is required by administrative regulations in 6 percent, is optional but authorized by law in 15 percent, is permissible under the board's implied powers in 19 percent, and has no clearly defined status in 6 percent of the States.[4]

Automobile public liability insurance is available under the Comprehensive Automobile Liability policy or under the Comprehensive Public Liability and Property Damage policy. Both policies are offered by many insurance companies in most of the 49 States.

Property Damage Liability Insurance

Several types of insurance protection covering school district liability for injury to, or death of, persons of the public were discussed in the preceding section of this study. The following pages will be devoted to a discussion of various types of insurance protection covering damage to, or the destruction of, property of others caused by the district's ownership, operation, and maintenance of any kind of property, or damage to the property of others caused by the activities of a third party with which the school district has contracted to perform certain services. These types include: (1) Automobile and Bus—Collision; (2) Contractual Public Liability and Property Damage; and (3) Comprehensive Public Liability and Property Damage.

AUTOMOBILE AND BUS—COLLISION

Both the Comprehensive Automobile and the Comprehensive Public Liability and Property Damage policies provide protection to school districts for damage to the property of others caused by dis-

[3] E. Glenn Featherston. *Liability and Property Damage Insurance on School Buses.* Circular No. 486, Office of Education. Washington: U.S. Government Printing Office, 1956. p. 3.

[4] Ibid.

trict-owned automobiles, buses, trucks, station wagons, and other types of motorized transportation equipment. Under the terms of these policies, the insurance company agrees to pay on behalf of the insured all sums which the insured shall become legally obligated to pay by reason of liability imposed by law for damages because of injury to, or destruction of, the property of others either on or off the highway. In addition, the Comprehensive Automobile Liability policy protects the school district against liability from the use of privately owned transportation equipment by employees or by outsiders in the business of the district. However, if the school district does not carry the broad form of the standard Comprehensive Automobile Liability policy, nonownership liability coverage may be obtained by the purchase of a Nonownership Liability policy. It covers essentially the same types of liability as those outlined above.

CONTRACTUAL PUBLIC LIABILITY INSURANCE

Contractual Public Liability insurance is of interest to school officials whose districts have assumed additional liability through the use of rented or leased property where the lease contract has a clause which "holds harmless" the owner of the property, thereby placing liability for any kind of damage resulting from the operation or use of the property on the lessee. Another type of liability—both personal and property—which may be assumed by the school district is brought about by the deposit of materials on the streets or sidewalks to be used by a contractor working for the district. Liabilities such as these are created by a third party with which the school district has contracted to perform certain services. Insurance coverage for contractual public liability may be written as a separate policy, as a part of the Owners', Landlords', and Tenants' policy, or in connection with one of the other basic liability policies.

School officials whose districts have assumed any form of contractual liability may want to insist that all contractual agreements between the district and others contain the "hold harmless" clause for the district. If this is not done, it may be necessary for these officials to consider insurance coverage for contractual liability. If this coverage is desired, it should include both personal and property liability protection.

COMPREHENSIVE PUBLIC LIABILITY AND PROPERTY DAMAGE INSURANCE

As has been previously mentioned, the Comprehensive Public Liability and Property Damage insurance contract is looked upon by many school insurance authorities as the best all-risk liability coverage that is available to school districts. The property damage section of this contract has two insuring clauses, one covering the use and operation of automobiles and the second covering other types of property damage liability. In general, it can be said that the various types of property damage liability for which the school district may be obligated are covered under the provisions of the Comprehensive Public Liability and Property Damage policy. In fact, the policy covers all types of liability—personal and property—which may be covered by the Owners', Landlords', and Tenants' policy, the Comprehensive Automobile policy, the Elevator policy, the Owners' and Contractors' protective policy, the Products policy, the Contractual Public Liability policy, and other miscellaneous and uncommon liabilities. Since this policy form will eliminate the necessity for several other policy forms in most of the 49 States, it deserves the consideration of school officials.

Chapter IV.—Authority of School Boards to Purchase Insurance

THE PRECEDING CHAPTER of this study was devoted to a discussion of some of the areas of insurance coverage for public school districts. This chapter will deal with two major topics, namely: (1) Legal basis for school board authority, and (2) developing school board policies with respect to the school insurance program.

LEGAL BASIS FOR SCHOOL BOARD AUTHORITY

Legal authority for the operation of the public schools in each of the 49 States is based upon their respective constitutions and upon the enactments of their legislatures. Since both the State and the local authorities accept certain responsibilities, it is often stated that school administration is both a State and a local function.

Our educational machinery includes State departments of education, State boards of education, local school districts, and local boards of education, each with certain defined authorities and duties.

Legislative enactments, constitutional limitations, and State board of education regulations may prescribe the powers and obligations of the local school districts and establish limits on spending school funds. Some of these powers and obligations include the authority to purchase school sites, to construct school buildings, to provide other property needed for conducting the public schools, and in general to protect the property and other assets of the districts. School district authority to manage and control such property involves responsibility for its maintenance, repair, and protection, and the courts have held that, within legally prescribed limits, local boards may spend school funds for these purposes.

In some States, there are statutory requirements which make the protection of school property by local boards mandatory; in other States, such authority is specifically given by law, but local authorities, at their discretion, may or may not spend school funds for the protection of school property; in still other States, laws may neither give nor withhold such authority, but in such cases, it is generally recognized that local boards have permissive or implied powers to spend school funds for the protection of school property. In addition to statutory provisions, there may be State board of education regulations concerning local board authority for spending school funds for the protection of property. In some States, these regulations, if properly registered, have the effect of laws and therefore must be respected by local school authorities.

In addition to providing protection for the school district against property loss, school boards are confronted with the problem of providing insurance protection for their districts against various types of claims involving district liability. This problem is quite different from the problem of property protection, because, in many States, school districts as subdivisions of the State government cannot be held liable in tort action. This immunity is based on the concept that "the king can do no wrong," a concept handed down by common law.

There are at least two approaches to the school liability problem. In States where immunity is not waived, the question may arise as to whether or not money spent on liability protection is legally spent, if the school district cannot be held liable. Insuring clauses, unless they waive district immunity, agree to protect the district against suits for damages for which the district is liable. Therefore, if there is no district liability, insurance companies may claim that there are no grounds for action and thus refuse to pay all liability claims. In such cases, then, the expenditure of funds to protect the district against tort action could be considered a waste of money since it buys nothing of value for the school district. In other words, the mere purchase of liability insurance may not necessarily waive governmental immunity, although, in some cases, the courts have held that school districts are liable to the extent of insurance carried. This being the case, there is a question whether school districts which enjoy governmental immunity should purchase liability insurance.

On the other hand, some States have enacted laws which remove all of their subdivisions from governmental immunity, and some of these States have made the purchase of liability insurance protection mandatory for their school districts. California, Washington, and New York are States that have waived governmental immunity, and efforts are being made to do the same thing in some other States. Since several States now accept some degree of liability, it may be desirable that local school officials consult an attorney to determine the status of their States with respect to school district liability. If liability insurance protection is required or permitted, local officials may feel obligated to secure this coverage. If such protection is not required or permitted, money spent for such insurance may be wasted.

There are other ways than by the purchase of insurance from commercial carriers by which school boards can provide protection against loss. One of these is what is normally known as self-insurance, which is a plan by which the local board builds up reserve funds for the replacement of losses. Obviously, many school districts cannot build up sufficient reserves to cover such obligations for major properties or for major claims of other types. Such districts ordinarily buy insurance protection. On the other hand, some of the larger school districts which have widely dispersed properties and which can carry sufficent reserves do set up plans of self-insurance. However, it should be pointed out that in a few States the building of major reserves is questioned in making State allocations for the next school year. In other States it is doubtful that, under exisiting statutes, major reserves can be accumulated by school districts. Such restrictions, imposed either by State patterns for distributing school funds or by statute, may limit the activities of some school districts in building self-insurance reserves.

Another way by which school districts may handle the problem of protecting school property is to assume the risks themselves. By the self-assumed risk plan, the board does not build reserves for replacement of losses, but expects to raise the money when necessary through bond issues or by increasing taxes to replace major losses. Obviously, this plan requires either ample free bonding capacity or the ability to levy sufficient taxes to raise such funds. A number of State governments have adopted a self-assumed risk pattern for State-owned colleges and other institutional buildings. It should be pointed out, however, that in such cases there is a considerable spread of risks and that there is a diversity of property holdings which could not be true with smaller school districts. Past experience seems to indicate that States do have ample resources to handle such replacements, but past experience also indicates probable delays in getting State authorizations and appropriations of funds for such replacements.

There is still another pattern of self-insurance. This plan is now followed in several States. Under it, the State sponsors and provides a staff member for a cooperative type of insurance for school buildings—and in some instances other public buildings. For the most part, these are self-supporting cooperative insurance enterprises with losses and expenses paid from premiums by contributing members. In a few cases, these cooperative organizations purchase block coverage to protect against excess losses, and in at least one case, the State came to the rescue in an unusually large loss in order to help preserve the cooperative pattern without requiring excessively large reserves. It is not the purpose of this discussion to recommend or to criticize such cooperative arrangements. Some of them have existed for nearly a half century, while some others are more recent in origin. States which have such plans claim that they are economical, while some States that do not have them, as well as certain insurance officials, question the economy of such programs.

Regardless of the procedure used, local boards of education do have an obligation to provide protection, general oversight, and management services for the school district's business affairs which have been entrusted to their care. Likewise, school boards have an obligation to protect their districts against damage suits in those States where statutory provisions, court decisions, or precedent make them liable for damage to the property of the public, or for injury to, or death of persons of the public.

DEVELOPING SCHOOL BOARD POLICIES

Several factors will help determine the school board's protection policies. One of these is the size of the school district. As indicated previously, one of the basic principles of insurance is to distribute the risk. If school districts are extensive in area, in size, and in wealth, the risk may be sufficiently distributed so that the replacement of a piece of property lost through fire or otherwise might not require much effort on the part of the district. Such replacement might be made from current or other available funds. On the other hand, small districts having few school buildings and sometimes having their available bonding capacity already obligated to the limit might find the replacement of school property very difficult unless funds are made available through insurance.

Another factor might be the lack of fluidity of school district funds. Replacement needs may be immediate, while the procedures for obtaining funds, though available, might be so complicated that there would be considerable delay in securing replacement of needed facilities.

Another factor that enters into determining board policies with respect to insuring school property is the attitude of the people. Boards recognize the fact that the people expect them to protect the district's interests. Even though some people may object to the amount of taxes levied, boards often feel that it is preferable to levy enough taxes to cover essential insurance premiums rather than to omit insurance protection and risk the need for asking the district to vote bond issues, or to substantially increase tax rates, or to do both, in order to secure funds to cover replacement of unprotected losses.

A fourth factor that must be studied and thoroughly analyzed in determining board policies is the purpose for which coverage is purchased. Some coverage may be purchased against losses through mismanagement rather than through calamity. For example, some insurance policies of the floater type may be applied to property losses such as losses of movable instruments and band uniforms. In some such cases it may be preferable to give more attention to adequate property management than to insure each item against loss. The loss of a few minor items probably would not be a severe blow to the district's finances, but the processing of each claim for minor losses through the insuring companies involves almost as much cost to them as the processing of major claims for major losses. Therefore, the general welfare of the district might be adequately protected at much less cost to the district if insurance coverage were applied primarily to major loss possibilities or to major risks which might involve substantial district financing. This will be touched on again in discussing insurance policies with deductible features.

In establishing the board policies in regard to insurance coverage, boards will want to consider the foregoing factors, and they probably will want to make a study of finances of their districts in order to determine whether or not purchased protection is feasible, and if so, to what extent, whether partial or total self-insurance is practical, or whether it is desirable for their districts to assume the risks. Then, in light of the types of risks, the probable extent of such risks, and the maximum possible damage claim that might be anticipated, boards are ready to estimate the amount of coverage that should be purchased for each type of risk. It is not always easy for them to determine the exact amount of coverage to purchase on nonproperty risks, but since it is not difficult to establish property values, it is usually easy for them to determine the amount of coverage to carry on physical properties.

Chapter V.—Developing the Local School Insurance Program

THIS CHAPTER will be devoted to a discussion of school board procedures in developing and administering the local school insurance program. Major elements in these procedures include: (1) Placing responsibility for the school insurance program; (2) designating risks to be covered; (3) determining amounts of coverage; (4) securing lowest premium rates; (5) setting up the program; (6) selecting the carriers; (7) spreading the risks; (8) distributing the business; (9) keeping adequate records; (10) reviewing the program; (11) making claim settlements; and (12) reorganizing the program.

PLACING RESPONSIBILITY FOR THE SCHOOL INSURANCE PROGRAM

Legal authority for local school administration is generally vested in local boards of education. In most cases the superintendent and/or business manager serve as executive officers to carry out board policies and regulations. One of his or their responsibilities is that of administering the insurance affairs of the school district. In large school systems an assistant administrator may be assigned the task of directing the insurance program. Regardless of how it is handled, final decisions on school insurance matters are obligations of the board. For additional advice and assistance in administering the school insurance program, the local board may wish to consider one or more of the following suggestions:

1. The board may appoint an insurance supervisor who should maintain adequate records, recommend coverages, and organize the program under the patterns and directions set up by the board.
2. The board may wish to appoint some local agent to advise on procedures and to serve as a liaison officer in case of losses.

3. The board may wish to use a committee of the local insurance agents' association to advise on procedures, coverages, and loss settlements.

In all cases, however, final decision on types of coverage, amounts of coverage, selection of carriers, and allocation of business to local agents is an obligation of the board.

DESIGNATING RISKS TO BE COVERED

Since final responsibility for the school district's insurance program rests with the local board of education, the board will want to give consideration to the problem of determining just what risks need to be covered to protect the district's properties and financial resources. On some types of risks, boards may feel that the hazards are so great that full or maximum coverage should be purchased. In other areas, they may feel that risks are slight and that losses might be nominal, and hence full coverage may not be required. One problem that often puzzles school officials involves an area where losses are rare, but such losses when they do occur might be of the calamity type. In such cases local boards often plan to carry full coverage of some type.

In order to determine the types of risks to be covered, school boards will need to have assembled data on insurance costs, on loss histories, and on loss ratios for the types of risks being considered for coverage. This does not require as much bookkeeping as might be anticipated. Local officials also need to study the rate pattern to determine which hazards might be eliminated. In some cases a change in the type of coverage may prove adequate and more economical. It should be pointed out that the same type of risk may vary from school district to school district, and in districts where the risk is considered slight, boards may want to assume the risk rather than pay the insurance costs. For instance, some districts may have a long history of no thefts, and hence may not feel the need for theft insurance. Other districts may have the need for theft insurance for certain buildings and for a limited number of items. As an illustration, some districts may purchase theft insurance for typewriters, adding machines, and other types of office equipment, while other districts may find it necessary to purchase insurance protection for money in a safe. In any event, the selection of risks to be covered is a task requiring an analysis of several types of data, the exercise of good judgment, and the district's capacity to absorb uninsured losses.

DETERMINING AMOUNTS OF COVERAGE

Since it is sometimes difficult to evaluate certain types of risks, it is not always easy for boards of education to determine the amounts of coverage that should be carried for each of these types of risks. In general, property and fidelity risks are not too difficult to evaluate, but in the areas of liability, casualty, and social service coverage, there are few established criteria. Automobile insurers have established norms for automobile hazard insurance, but the lack of long-range experience and the indefiniteness of some State laws and regulations concerning school district liability in tort make it difficult to determine whether and, if so, how much coverage the district should carry. Some districts purchase no liability coverage on the theory that the district has no fixed liability; others purchase partial liability protection hoping that such coverage will protect them against costly and troublesome lawsuits; others buy liability protection expecting it to cover all claims. A similar situation exists in regard to casualty and accident insurance. In each case where boards do purchase either casualty or liability insurance, they usually set an arbitrary amount. This may or may not be supported by experience studies.

Likewise, school boards have no valid experience to guide them on the amount of social service obligations the district should assume. Such decisions must often be made as a matter of local policy and in light of competition from other local employers. Whether a school district should purchase sickness insurance, hospitalization insurance, or provide life insurance for district employees is not a matter to be determined here. However, if school boards do make such purchases, they will need to formulate a policy relating to such purchases, and this policy should be made in the light of district finances and other local conditions.

In making a decision as to the total amount of protection needed for physical properties, boards of education will want to take into consideration such factors as: (*a*) Insurable values, which may be ascertained by appraisals and inventories; (*b*) local policy; (*c*) local financial ability; and (*d*) legal requirements, such as State laws, State board of education regulations, and insurance contract stipulations. These factors will be discussed in the following paragraphs.

Insurable Values

One of the basic principles of insurance is that the policyholder should not profit as the result of an insured property loss. This principle, established to discourage willful destruction of insured property by owners, operates through the concept of indemnification. That is, with certain exceptions which will be discussed later, insurance companies are not required to pay more for an insured property loss than it would cost to repair the damage or to replace the property in exactly the same condition as it was at the time of the loss, assuming that insurance coverage is sufficient to pay this amount, but in no event will they pay more than the amount of coverage. Actually, many insurance companies reserve the right to replace damaged parts "stick by stick and stone by stone" just as they were before the loss occurred. In other words, policyholders are supposed to be indemnified for actual loss, no more. Therefore, boards of education will want to insure their school properties for no more than their insurable values. These can be established by appraisals and inventories. For nonproperty risks insurance coverage is determined by attempting to evaluate the risk.

APPRAISALS

School building appraisals may be made by one of several groups, such as by: professional appraisal firms; contractors who have had creditable experience in the building of schools; school plant specialists in State departments of education; school plant architects; local officials or representatives of two or more of the above groups working as a team.

If the building is of recent vintage, information on original cost may be of great value in making an appraisal. Such data should include the original cost of the property to be appraised, giving a breakdown of the total cost of the building proper with respect to architect's fees, other planning and supervisory fees, general construction, plumbing, heating and ventilating, electrical, and equipment costs, together with the date of construction and the dates of major remodeling and additions.

If valid recent data in these areas are available, one method of appraisal would be to take the original cost of the building and apply indices of comparative costs to help determine current replacement costs if erected "as is" under current cost levels; then deduct for depreciation to get present worth; and then in order to get current insurable value, deduct for nonburnable items that would not have to be replaced if the building were to be destroyed by fire. Nonburnable items include excavations, footings, foundations, piping below the lowest basement floor level, underground storage tanks, septic tanks, and disposal fields, if included in original cost.

When the insurable value has been determined, this value can usually be adjusted for several years by the use of building cost indices.

Since building costs do not remain constant, it is often necessary to adjust values, either upward or downward, according to the index. For the past several years, these indices have risen steadily. For example, one general index of construction costs stood at 536 in February 1959 (1913 base equals 100), and this index has risen from 344 in 1948 to the current 536. It is obvious, therefore, that a building constructed at the present time of the same materials and on the same plan as one constructed in 1948 would cost about 56 percent more than it would have cost in 1948.

In most cases it may be found more desirable to use other means to determine current replacement costs. By replacement cost is meant the amount of money it would take to rebuild an existing building, using the same plan and the same kinds of materials as were used for the original building. This cost may be determined by using the appraisal techniques and methods employed by contractors when they prepare bids covering school construction. This includes all materials, labor, anticipated profit, overhead, and contingent costs.

Another method of determining replacement cost is by analogy where cost data of similar buildings erected recently and under similar conditions are used as a basis for estimating replacement cost of the building in question. This method is often used by local officials or by a team composed of the superintendent and others who are in a position to know something about school plants. State department of education school plant consultants usually have current data on school construction costs for comparable buildings over the State. Appraisal teams often use such data in establishing replacement costs. Another method is to ask contractors or others familiar with building values to help estimate replacement costs and present worth.

Regardless of the method, it is usually deemed preferable to establish current replacement cost, depreciate for time used and wear to get present worth, and deduct excludable items to get insurable value. Then determine the desired coverage.

Depreciation means the loss of value to physical property which occurs over a period of time in spite of repairs and maintenance, however adequate they may be. The rate of depreciation for school buildings will vary with the type of construction, the type and quality of maintenance, and perhaps to some extent with the type of treatment they have received by their occupants.

A common practice among appraisal firms is to assign a depreciation rate of from one-half to 1 percent each year for fire-resistive buildings, from 1 to 2 percent each year for brick buildings, and from 2 to 3 percent each year for brick veneer and frame buildings, with a maximum depreciation factor of 50 percent for all types of construction. School officials do not generally agree with this practice. They point out that school buildings, as contrasted with industrial property, may have a useful life of only 50 to 60 years. They feel, therefore, that a higher rate of annual depreciation running up to 1½ percent for fire resistive and to 2 or 2½ percent on ordinary construction should be used. Insurance companies make no agreement with respect to depreciation, but often accept depreciation rates developed under these patterns. It should be pointed out that straight-line depreciation rates based on replacement costs may represent each year an increasing percentage of the current present worth.

It may be determined that the replacement cost of a particular building which was constructed in 1948 is $500,000. Assuming that the annual rate of depreciation for this building has been 2 percent, the total depreciation factor for 10 years would be 20 percent, which, when applied to $500,000, would account for $100,000 in depreciation. This would give a present worth of $400,000. Then, it is probable that the cost of excluded items, such as those previously mentioned, would be about $61,000. If this amount is subtracted from the estimated present worth of the building under consideration, the remaining amount, or $339,000, will be the insurable value of the particular building.

INVENTORIES

Closely related to appraisal, for insurance purposes, is the inventory of the contents of buildings. In the matter of claim settlements, where contents have been insured and losses occur, inventories that are up to date are as important as appraisals. An adequate inventory system is one that provides data on the quantity, the cost, the age, and the condition of each type of equipment used by a school. A running, perpetual inventory, similar to that which is used by merchants to determine the value of stock on hand, may be worth while for school authorities.

In keeping a perpetual record of the contents of school buildings, however, it must be kept in mind that equipment, like buildings, depreciates in value, but the rate of depreciation for equipment is somewhat faster than the rate of depreciation for buildings. It is almost impossible to set up a depreciation schedule for each separate item of equipment; hence insurance companies will accept a reasonable schedule of depreciation covering all items. One such schedule suggests a depreciation rate of 5 percent each year for 14 years, reaching a maximum depreciation of 70 percent during that period. Under this plan the value is then held constant at 30 percent of the original cost for as many years as the items remain in use.

Inventory records, if consumed by a fire that destroys a building and its contents, are of no value in making settlements with insurance companies. For this reason, school officials will want to keep these records in a safe place. This may be accomplished by storing them in a fireproof vault or by providing two or three copies of each inventory, with a copy of each stored at two or three different locations. Unless located adjacent to each other, it is improbable that the two or three other buildings where these records might be stored would be destroyed by the same fire.

VALUED POLICY LAWS

Several States have what are known as valued policy laws which apply to insurance contracts. These statutes attempt to place the responsibility for determining insurable values on officials or representatives of insurance companies rather than upon the owners of property. Some insurance officials contend, and in some cases the courts have held, that the provisions of the insurance contract supersede these statutes. At any rate, school officials in States where valued policy laws are in effect may wish to determine whether court decisions have supported the valued policy law. In any event, it appears that local school officials will want to know the insurable value of their properties in order that they may limit insurance premiums to the amount of coverage they may expect to collect in case of a total loss. School officials usually feel that they are on safe ground if they have reasonable appraisal estimates and insure on the basis of determined insurable values. This is particularly true in instances where coinsurance is used.

Local Policy and Local Financial Ability

Having arrived at insurable values for school properties, local boards of education will want to establish their own policies and regulations as to the risks they wish to cover, the amount of coverage they wish to purchase for those risks, the risks they wish to assume, and whether or not they wish to use coinsurance as a part of their insurance contracts. By and large, local policy may be fairly well determined for the board by the district's financial ability, by the size of the local district, by the attitude of the people, and by the purposes for which coverages are purchased.

If a district is large, is quite wealthy, and has a considerable bonding capacity, it may wish to assume a considerable amount of the district's property risks on the ground that resources are readily available for replacing destroyed property if loss should occur. In addition, it may be felt that there is a sufficient spread of risks to justify self-assumption of many of them. On the other hand, if the district is either large or small, is quite poor, and has little or no bonding capacity, school officials may feel that no major risks can be assumed by the district without endangering its finances and its credit. In such cases, school officials may want to be sure that their district is fully protected against major losses. Regardless of whether the district is large and wealthy, large and poor, small and wealthy, or small and poor, school boards may want to consider various forms of deductible coverage for buildings, contents, automobiles, buses, and trucks, or they may want to consider only partial coverage for all types of risks, or they may want to consider complete coverage for some risks and partial or no coverage for other risks. These are questions that can be answered by local boards of education only after they have made a careful study and analysis of their own situation. However, the development of a local policy which can be defended and followed in administering the insurance program is much more desirable than the purchase of insurance on a haphazard, poorly-planned, indefensible basis.

Legal Requirements

Another factor which may play a part in determining the amounts and types of insurance coverage which should be carried by local school districts is that of legal requirements. Provisions of State constitutions, laws enacted by State legislatures, regulations of State boards of education where these regulations have the effect of laws, and sometimes ordinances and regulatory measures of local governing bodies may make the purchase of certain types of insurance mandatory. Some States require local boards of education to carry property, liability, workmen's compensation, accident, and fidelity and surety insurance. Other States may require no insurance coverage of any kind, and in fact, some States may prohibit the expenditure of school funds for insurance. Wherever there are legal requirements—State constitutions, statutes, regulations, or local ordinances—which make any type of insurance coverage mandatory for local school districts, board compliance is necessary.

There is another legal aspect which may cause local boards of education to carry specified amounts of coverage on certain types of risks provided they decide to insure against these risks. For example, if builder's risk insurance is purchased in many States, the coverage must be 100 percent of the insurance value. Certain types of blanket policies require either the application of the average clause or the use of the coinsurance clause. A more detailed explanation of coinsurance will be given in a later section of this chapter. In such cases, local boards may contract to carry specified percentages of insurable value. The same is true under any coinsurance program. In such cases, the desired percentage can be established by the board of education, not the insurance company. The conditions of the coinsurance clause, when once it has been written into the insurance contract, should be observed, else the board may become coinsurers to the extent of its failure to meet the terms of the contract. To do otherwise might cause the school district to be penalized if a loss occurs to insured property. It is well to remember, therefore, that the insurance contract is a legal document, and its terms may be enforced by either party to the contract.

SECURING LOWEST PREMIUM RATES

After local boards of education have placed the responsibility for administering the school insurance program, after they have designated the risks to be covered and determined the amount of coverage for each type of risk, they will want to purchase insurance at the lowest possible cost so long as this cost is consistent with an adequate, safe, and defensible insurance program. In some cases, boards of education can take certain inexpensive precautions that will effect economies in insurance costs.

The manner in which such economies can be effected will be determined to a great extent by the type of coverage and the type of risk. It is not feasible to enumerate here all of the ways by which the cost of each type of insurance can be reduced. A few illustrations showing how the cost of several types of coverage can be reduced may be of value to local school authorities.

With respect to fire insurance and allied coverages, it has been found that reductions in premium rates may be secured as follows:

1. Using the coinsurance clause with a stipulation of 80 percent (or more) coverage to value can reduce premium rates by as much as 70 percent under certain conditions.
2. Using the 3-year or the 5-year term may effect worthwhile savings as compared with the 1-year term.
3. Classifying all contents of a fixed and permanent nature as a part of the building rather than as contents will reduce insurance costs, since the rate for contents is generally higher than the rate for buildings.

4. The installation of approved fire alarm systems and of fire protective equipment, with proper service and maintenance, will earn credits on individual building rates and therefore bring about a reduction in insurance costs for the particular buildings where these installations have been made.
5. Enclosing open stairways, covering attic openings, repairing ceiling cracks, adding appropriate insulation under stoves, installing pilot lights where needed, and keeping electric circuits properly fused may save estimable amounts on fire insurance costs.
6. Improving the housekeeping practices in school plants and preventing the accumulation of rubbish in basements and attics and under stairway areas will account for considerable savings in insurance costs.
7. Insuring buildings and contents for no more than their sound value will reduce costs in most States because premiums spent for excessive coverage are wasted.
8. Adding an exclusion endorsement when the coinsurance clause is used will permit the school district to exclude the cost of unburnable items for the purpose of determining the amount of coverage required to meet the conditions of the coinsurance clause and thus effect savings through reduced amounts of coverage.
9. Making sure that certain types of equipment insured under the fire policy are not also insured under floater policies will effect savings through the elimination of duplicate premium payments.
10. Using deductible coverage, if it is available, will reduce premium costs.
11. Making periodic checks on the fire protection classification of cities and other protected areas may result in considerable savings in fire insurance costs, since a better classification of a city generally brings about lower insurance rates.

There are other methods by which fire insurance rates may be reduced, but the foregoing list will give the reader an idea as to some things that can be done, at very little cost to the school district, to reduce fire insurance rates.

It is probable that lower rates on automobiles and schoolbus insurance may be obtained if—

1. Properly prepared and detailed specifications for automobile and schoolbus coverage are provided for each insurance agency that may wish to bid on the automobile and bus insurance business for the district.
2. Each local agency is invited to submit bids on the automobile and schoolbus insurance for the school district.
3. Fleet rates are secured.
4. Schoolbuses are insured for the school term only, leaving them uninsured for about 2 months of each year.
5. Schoolbus drivers are carefully selected on the basis of merit and fitness, and are dependable.
6. The loss experience of the school district over a period of years can be shown to be very small.
7. Larger deductible amounts than the usual \$50 to \$100 are written into the policy for collision insurance.

8. The insurance agencies are shown that schoolbuses are rarely used on Saturdays and Sundays, and that they are generally operated for only a few hours each schoolday.

Burglary, robbery, and theft insurance rates may be reduced by the use of coinsurance which is applicable to the Mercantile Open Stock Burglary policy, and by the use of the deductible clause. The principle of coinsurance applies here just as it does with fire insurance policies, and cheaper rates are offered as an inducement to prospective clients in order to get them to purchase more coverage. It has been pointed out that it costs insurance companies about as much to process claims for small losses as it does for more substantial losses. Therefore, if school districts are willing to assume burglary, robbery, and theft losses up to a nominal amount, say $25 to $50, insurance companies naturally offer more attractive premium rates since claims for small losses are eliminated.

Workmen's compensation insurance premiums are based on each $100 of payroll and the risks involved in the work tasks, and rates are generally approved by State bureaus. The most important and direct method of reducing compensation insurance costs is to reduce the severity and frequency of accidents. This may be accomplished by adding mechanical safeguards wherever people work, by improving employee morale through the process of education, and by providing proper organization and management. School districts which purchase workmen's compensation insurance, either voluntarily or in compliance with State laws, will want to keep records of all accidents, and they will want to determine, insofar as possible, the cause of each accident, so that in the future, employees and employer alike will know what to do to avoid similar accidents. A history of few accidents may permit the school district to get workmen's compensation insurance at lower rates than would be the case if it has a history of many accidents. Another way of reducing the costs of coverage for accidents, of which workmen's compensation insurance may be a part, is to see that there is no overlapping in coverage between sickness and accident insurance or paid sick leave and workmen's compensation insurance. If both or all types of protection are available and covering some of the same hazards, insurance companies may refuse to pay multiple benefits for each injury or loss of time. Therefore, premiums paid for one of these coverages might not provide added protection and hence may be considered a waste of funds.

Elevator insurance rates may be reduced by establishing good experience records. The installation of certain safety devices, such as cargate contacts and interlocks, will help establish good safety records. Cargate contacts prevent the operation of the elevator unless all shaft doors are closed, and the interlock prevents the operation of the elevator unless the inner door is closed.

Glass insurance rates are generally quite high. Good experience records may help to establish lower rates, but the use of exterior shields of wire mesh to protect the glass or the installation of wired glass seem to be practical ways of reducing glass insurance costs. The use of shields, though practical for glass protection, may limit exit safety and may prove esthetically undesirable.

Generally speaking, most other areas of coverage in which school districts may be interested, such as powerplant, inland marine, and various types of liability insurance, have premium rates that are largely determined by the extent of coverage or by the maximum liability to which insuring companies may be subjected. There seems to be little that local school authorities can do to reduce premium rates, and thereby effect savings on insurance costs, in these areas.

SETTING UP THE PROGRAM

As has been previously mentioned, administration of the local school insurance program requires some knowledge of the principles of insurance, an understanding of the insurance contract—what obligations are created for the insurance company and what provisions and protections are provided for the insured, as well as the obligations of the insured—and an understanding of the various policy types and policy terms that are available to school districts. Most insurance contracts are fairly well standardized, but policy types, including coinsurance, and policy terms, only briefly mentioned in previous sections, will be discussed more fully in the present section.

Policy Types

Policy types may vary with the kind of coverage. For many kinds of coverage, however, there are at least three definite policy types, all coming within the standard policy form, namely: specific, blanket, and schedule. Coinsurance, a special rider or attachment, may be used with any of these policy forms.

SPECIFIC

Some school districts use specific policies on specific risks. In fact, there may be numerous specific policies, each by a different insurance company, applying to the same risk. It is probable that each of these specific polices carries the provision that the insuring company assumes only its pro rata part of any covered loss on a particular risk. This provision is generally stipulated under the heading of "other insurance," and its purpose is to prevent policyholders from collecting double or even triple indemnity through multiple insurance. The specific policy is used to cover a particular building, or both the building and its contents at one location. If the policy covers both the building and its contents, however, the amount of insurance applicable to each is shown on the policy.

BLANKET

Another type of policy which is used in some States is known as the blanket policy. It covers *x* dollars' worth of protection on all of a group of properties or risks, but this amount of protection does not necessarily apply to any one property. The blanket policy may apply to only one building and its contents or to several buildings and their contents at one location; or it may apply to all buildings and their contents at all locations in the school district. Wherever the blanket policy is used to cover two or more properties, either the distribution clause or the 90 percent or 100 percent average clause must be a part of the policy.

For example, if the blanket policy is used to cover a building and its contents or several buildings and their contents, the total coverage as indicated on the face of the policy must either be divided (distributed) between building coverage and contents coverage, or the average clause must be attached to the policy. The average clause provides that, in the event of loss, the insurance company will pay no greater proportion of the loss than the face amount of the policy bears to the stipulated percent (90 or 100) of the actual value of the insured property at the time of loss, nor for more than the proportion which the amount of the policy bears to the total insurance carried on the property.

School officials who use the blanket policy should be sure that they are carrying the percentage of insurance to value required by the average clause, or that the distribution clause is incorporated in all blanket policies.

SCHEDULE

Another type of policy is what is known as the schedule policy or the specific schedule policy. This type of policy may cover several risks by using an attachment giving a schedule of the risks covered.

The schedule lists the name, the location, and the amount of coverage provided by the policy for each insured object in the schedule. If the specific schedule policy form is used, there will be only as many policies as there are companies handling the business. The chief advantage of the specific schedule policy is that by its use school officials can reduce the number of policies which they have to handle as compared with the number of policies they would need if all policies were of the specific type.

Under the specific schedule type of policy, the cost for each of the risks is computed by multiplying the coverage on that risk by the rate for that risk. The cost for all risks is found by adding the individual risks together, and from this total an average rate is developed. Each insuring company, or each agent writing policies, writes one policy for the allotted amount to the individual company, but regardless of the number of companies writing policies on the particular property or properties, the same average premium rate is used by all. The total cost is the same as if one company had written the entire amount of coverage, but there is an advantage in that all risks covered by the schedule are spread among all companies handling the risks. No company can have a choice of the risks it wishes to cover if it is to share in the business. This plan or policy type has a slight disadvantage, however, and that is for each small loss suffered by the school district, separate claims may have to be filed with each participating company. This disadvantage may be circumvented by designating one of the local insurance agents as the collecting agency for the school board or by an endorsement which allows the school board to make one report to a central bureau. In other instances, the individual who is responsible for administering the school insurance program handles the claims on behalf of the board of education.

COINSURANCE

Coinsurance, though not a policy form, is a policy attachment which is purchased by many school districts, discussed frequently by some, and understood fully by few. In reality, this is a special clause which may or may not be used, at the discretion of the insured, in most cases with a number of different types of coverage. In essence the coinsurance contract provides that the insured must carry insurance up to x percent of value of the risk. This percentage is often set at 80, but may be as high as 90 or even 100 percent, depending upon the wishes of the insured. In a few cases, where insurance companies may require the average clause, they may set the percentage, but in most cases the insured can make this determination.

year. This makes it possible to handle the business by presenting the insurance problem to the board only once each year, unless losses occur or unless a new building is completed and must be covered temporarily until taken into the schedule. By using the specific schedule type policies, and by arranging for one fixed expiration date each year, bookkeeping is simplified and board of education review of the total program is made easier. This also applies to the distribution of the business to local agents. A similar pattern can be adopted by the school board for all insurance other than property coverage.

SELECTING THE CARRIERS

Local school officials usually take the insurance policies that local agents prepare for them without giving much attention to the companies with which the policies are written. When school officials purchase insurance protection, they should purchase the best available for the money. Commercial rating systems like Bests and the Spectator Co. prepare rating schedules for the various insurance companies showing their assets and giving their general rating. These ratings are available for inspection when desired. In selecting an insurance carrier, it is well to remember that the business of the company should be national in scope; its assets should be highly diversified; its loss experience should be good; its capital, surplus, and voluntary reserves must be ample in relation to its premium volume; its surplus to policyholders should not be less than its unearned premium reserve; and the company's management should be in the hands of people of unquestioned ability and competency in the field of insurance.

Although it is not the purpose of this study to indicate the kinds of insurance carriers boards of education should select, it does seem desirable to describe a few of the major kinds of carriers in order to show differences in their patterns of operation. Aside from the self insurance plan and the State-operated plan, both of which have been mentioned previously, two types of carriers will be discussed here. These are stock companies and mutual companies.

Stock Companies

Like any other profit-making organization whose operating capital has been obtained from the sale of stock, stock insurance companies are owned by their stockholders; they are operated by boards of directors elected by these stockholders; and their purpose is to make a profit for the owners. Stock companies may conduct one or several types of insurance businesses, depending upon the nature of their charters. Buyers of insurance as such are not a part of the company. The purchasers of insurance buy insurance protection from these companies for a consideration known as a premium.

Mutual Companies

Numerous types of mutual insurance companies are doing business in the United States today. Many of them are corporations, chartered and operated in a manner quite similar to stock companies, except that they are owned by their policyholders. In other words, the policyholders are not only the insureds but also the insurers. They are generally operated by boards of directors elected by the policyholders. Profits from the business accrue to the policyholders. Like stock companies, they may conduct one or several types of insurance businesses, depending on their charters.

Other variations of the mutual insurance company include those which may not only charge their policyholders the full premium rates on risks which they assume but may also call upon these policyholders for additional assessments if the company's income has not met its operating expenses and its payments to policyholders for losses. Sometimes this additional assessment is limited to x times the annual premium and sometimes the amount is unlimited. In other cases, such as home mutuals, the only charge to policyholders is made through assessments. These assessments provide the operating capital and loss payments for such companies.

School officials will want to know whether they have the right to purchase insurance from mutual companies that issue assessable policies, and particularly whether they have the right to purchase policies from companies that issue assessable policies having unlimited liability for the policyholders. Some States question the authority of boards of education to insure with companies that issue assessable policies, either limited or unlimited. The reason for this is that if such companies had to pay a catastrophic loss, each policyholder in those companies, including boards of education, might be thrown into bankruptcy or insolvency in an attempt to meet the assessment.

SPREADING THE INSURED RISKS

As has been indicated, one of the basic principles of insurance is that all insured risks be spread among several companies. Local in-year. This makes it possible to handle the business by presenting the insurance problem to the board only once each year, unless losses occur or unless a new building is completed and must be covered temporarily until taken into the schedule. By using the specific schedule type policies, and by arranging for one fixed expiration date each year, bookkeeping is simplified and board of education review of the total program is made easier. This also applies to the distribution of the business to local agents. A similar pattern can be adopted by the school board for all insurance other than property coverage.

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SPREADING THE INSURED RISKS

As has been indicated, one of the basic principles of insurance is that all insured risks be spread among several companies. Local insurance agencies may distribute these risks by writing the school district coverage with several companies which they represent. Further, insurance companies themselves may help distribute such risks by refusing to accept more than a certain amount of coverage in a general area. Then, some companies will accept all risks, and then reinsure. That is, they purchase some coverage for these risks from other companies. There seems to be little reason for school officials to expect someone else to make the distribution of their risks. It seems more logical for them to make their own distribution of risks. When they make their own distribution to the various companies, they know how it is made and they know the criteria they have used to select the companies to carry their risks.

DISTRIBUTING THE BUSINESS

The selection of local agencies to whom school insurance business is to be given is a problem that plagues many local school officials. It is a local problem and can be settled only by local officials. Some local agencies provide little service to the school districts, but they expect their share of all public moneys spent for school insurance. Many local agents have little part in the school insurance program other than to write the policy or policies, which may be changed and returned either by the auditing bureau or by the head office of the insurance company. Other agents do provide valuable service to boards of education in setting up the school insurance program, and may feel entitled to more of the school insurance business. Board reluctance to offend, pressures from local agents for a share of the premiums, social and economic standing, and other local factors may have weight in determining what agent receives a share of the local school insurance business.

Several suggestions have been made to assist boards of education in distributing their insurance business among local agencies. It is probable that all of these suggestions could not be used by any one board, and yet it is possible that some of them may be of value to all boards that are confronted with the problem. Among these suggestions are the following:

1. It may be preferable for the board of education to pick the company with whom the insurance is written rather than the agent who writes it.
2. Any agent writing school coverage should write it only with companies approved by the school board.
3. Some boards allocate the business on the basis of taxes paid by the agencies, but other boards object to this on the grounds that this method gives

added weight to the agency that may be primarily a real estate and management office which writes insurance on the side.

4. Some boards simply allocate equal amounts of insurance coverage to each local agent regardless of the agency size, taxes paid, services rendered, or other applicable factors.
5. Some boards appoint one agency as a sort of clearinghouse for handling the school district's insurance business, collecting indemnities, and the like, and in return for these services a greater portion of the school insurance business is allocated to the chosen agency.
6. A few districts use a broker plan, allowing a broker-agent to distribute the business. This takes control and responsibility out of the hands of the board.
7. A local insurance agent's association may be designated by the board of education to determine the amount of coverage that is to be allocated to each agency, but under this method agencies that are not members of the association may not be given consideration.

Regardless of the method used in allocating the local school insurance business, it seems highly important that the individual who has been designated by the board as its insurance supervisor, preferably a school official, should maintain insurance records, should develop essential data on costs and losses, should provide accurate tabulations showing the ratings of various companies, and he should prepare recommendations for the board's consideration with respect to the distribution of the business among the various agencies of the school district.

KEEPING ADEQUATE RECORDS

Insurance records are vital, usually not hard to keep, but are often neglected. Schools having coverages on a variety of risks such as property, liability, accident, fidelity, workmen's compensation, and the like should maintain simple but adequate up-to-date insurance records. Sometimes school officials use what is known as an insurance register. This register may provide all the data needed. If not, other records should be maintained in a simple, complete, and feasible fashion, and they should be kept by the individual who is responsible for the insurance program. Although it is probable that certain insurance cost data may need to be maintained in the fiscal office, such would not interfere with the maintaining of complete insurance data, including loss experiences, by the local insurance supervisor.

It may often be found desirable for the person responsible for the insurance program to make general, and sometimes specific, reports to the board of education and sometimes to the public on the handling of the school district's insurance business. School insurance records should be so maintained that such reports and releases will be understandable and easy for the board and the public to analyze. These records should include a complete schedule of all insurance policies in force. This schedule should give each policy number, the name of the insurance company, the name of the agency, the name and location of the property covered, the term of the policy (showing both the effective date and the expiration date of each policy), the premium rate, the total premium for each policy, and the face amount or total company liability for each policy.

From these records, for example, it should not be difficult for the director of the school insurance program to determine quickly the total cost to the school district of all its boiler insurance, how many boiler inspections have been made each year as a result of boiler insurance, and whether or not any indemnities have been paid on such coverage. Further, insurance records should show for each particular building the age of the building and the date of erection of its various parts, the insurable value of the building, and an inventory of the contents of each building. The contents inventory should show the purchase date, the cost, and the type of each item of equipment in each building. Values, not only of buildings but also of contents, should be adjusted periodically. The use of the index number in building costs and the application of depreciation factors in adjusting values have been touched upon in a previous section of this study. These are important if losses are incurred.

REVIEWING THE PROGRAM

Program review, periodic or continuing, will probably be essential in the various school districts. Values change; risks change; and sometimes rates change. Also, additional coverages may be required from time to time. The program should be reviewed frequently in order to make any adjustments that may be required. These may include adjustments in coverage, adjustments in rates, adjustments in distribution among agencies, and adjustments in the type of coverage on certain risks. Cost-loss records and other factors may make it desirable to make many adjustments. If the program is reviewed frequently, data will be available to support recommendations concerning these changes in the program.

This may become quite important when it becomes necessary to settle losses. In most States, insurance policies indemnify for losses only to the extent of the cash value of the property at the time of loss, or if the property is insured for less than its value, only to the extent of coverage. This may make it necessary to have accurate data on the location of contents of buildings. For instance, a bunch of 100 folding auditorium chairs assigned to, and insured as a part of the contents of, a high school building may not be covered when moved to an elementary building for a special program. Histories of loss claim settlements indicate that such settlements are more easily made when the school has comprehensive data on the value and location of such properties. In other words, when local officials have essential records and data on costs and values, they have an advantage in claim settlements. When they do not have such data, company agents and adjusters may indicate that the burden of proof with respect to the amount of loss rests on local officials, and that until they can prove the value of such losses, the insurance company will be handicapped in attempting to complete the settlement. A program review of the school district's insurance program, therefore, may be quite as important as any other phase of administering the program.

MAKING CLAIM SETTLEMENTS

In case school property is damaged or destroyed by any of the perils against which it has been insured, there are certain obligations imposed upon the owner by the terms of the insurance contract. These obligations need to be discharged by the policyholder before the insurance company will make a settlement. In order that school officials know their duties and obligations when there is an insured loss, it is important that they be familiar with the requirements of each of their insurance contracts.

Under the conditions of most property insurance contracts, obligations of the insured with respect to loss settlements may include—

1. Giving the insurance company an immediate notice of loss in writing. In some instances insurance companies agree that this notice may be given to one of their agents or to the adjustment bureau.
2. Allowing the insurance company a reasonable amount of time to inspect any and all remains of property after its destruction or damage.
3. Furnishing formal proof of loss.
4. Protecting salvage property against further damage or separating damaged from undamaged property.

These are only illustrative examples. There are others. Each type of insurance coverage has its particular conditions governing procedures in adjusting loss settlements. School officials are reminded that they should be familiar with the loss settlement clauses of all their insurance contracts.

In practically all types of liability insurance, a formal written report to the insurance company may be required as soon as practical after an accident. School boards will want to establish definite procedures which are to be followed by teachers, principals, and other school personnel in making a report covering any type of accident. Among other things, it is suggested that these reports include such information as: the time and place of the accident, the names of injured parties, the nature of the accident, the names of any witnesses, and the names of any persons who, though not injured, may have been involved in the accident in any way, and the steps that were taken by school authorities following the accident.

Another basic principle in connection with the settlement of insurance claims is the principle of subrogation. It may apply to almost all forms of insurance except life insurance, and it is particularly applicable to all forms of property insurance involving damage claims. The purpose of subrogation is to protect the principle of indemnity, making it impossible for the owner of insured property to collect twice for damages to, or the destruction of, such property—once from the insurance company and again through a suit for damages against a third party. In other words, the insurance company, having taken over the insured's losses, also takes over his remedies, transferring all his rights of recovery from a third person to the company, but this is limited only to the amount he has recovered from the insurance company, thus preventing both the insured and the insurance company from making a profit out of the loss.

REORGANIZING THE LOCAL INSURANCE PROGRAM

Some school insurance programs are adjusted frequently, but most of them are allowed to drift for some time, and generally this creates a need for reorganizing the program. Sometimes this organization may be developed after a survey either by local officials or by outsiders. The survey may be one of management or it may be applied to specific areas of coverage. There are several reasons why school officials reorganize their school insurance programs. Property values change, and sometimes needs develop for different types and amounts of coverage. This applies not only to property but also to nonproperty risks. Also new risks may create a demand for certain new coverages. In reorganizing the program, it seems desirable to plan it in some detail. The plan should outline the amounts of coverage in the various areas. It should set up the expiration dates and make provisions for adjustments with new additions or new coverages, as desired. There are several possible procedures in developing such plans.

First, it is possible to let the old policies mature and expire, and then to rewrite the new policies as per the plan of the reorganized program. In order to do this, however, it is necessary for the supervisor of insurance to have a tabulation of all current policies, giving their amounts, the expiration dates, and the properties they cover. If the reorganization plan calls for all policies to be on the 5-year term plan, then the supervisor will have to rewrite some policies for 5 years and some for only 1 year; keeping in mind that eventually all policies are to be on the 5-year term plan, he will rewrite the 1-year term policies as they expire each year in such a way that, after a few years, about one-fifth of the total insurance will mature each year. This procedure is very slow, and it often causes some confusion and extra bookkeeping. One illustration of the possible confusion that could arise is where the board is rewriting all coverage on a coinsurance basis, whereas the old coverage, some of which has not yet expired, is the straight or flat rate coverage. Some of the old policies may have 1 or 2 years to run, in which case some coverage on a particular property would be flat rate and some would be coinsurance during the interim. If losses should occur to these properties, settlements with insurance companies might be difficult to make, and recordkeeping would be made more difficult.

Second, it is possible to reorganize the insurance program by canceling all existing policies in a particular coverage area, and then rewriting these policies on the 3-year or the 5-year term, whichever is desired. Companies that get their fair share of the new coverage will usually be willing to cancel the old policies on a pro rata basis, that is, without applying the short-term cancellation rates. When this is done, local officials can rewrite the policies with little or no loss of premiums. If the reorganized program is to be on the 3-year term basis, one-third of the total coverage can be written for 3 years and two-thirds will be written for 1 year. Then, at the end of the first year one-third of the amount that was written for 1 year will be rewritten for 3 years and the remaining one-third will be rewritten again for 1 year. At the end of the second year, the final one-third of the coverage will be rewritten for 3 years, and at that time the entire coverage will be on a 3-year basis, with exactly one-third of it maturing each year. On the other hand, if it is desired to place the reorganized program on the 5-year term basis, the procedure would be exactly the same except that one-fifth of the total coverage would be converted to the 5-year plan each year for 4 successive years, after which all of the coverage would be on a 5-year term basis, with one-fifth of it maturing each year.

This last plan is probably a little cheaper but somewhat more complicated than the first plan. However, either plan will stagger the maturities and either should work out very satisfactorily for the school district. The chief purpose of staggering maturities is to simplify the budgeting process so that approximately the same amount of money can be placed in the budget each year for the payment of insurance premiums.

Chapter VI.—State Leadership in School Insurance

FEW STATES have yet realized the possibilities in State guidance and leadership in the field of school insurance. The Chief State School Officers, in their 1958 publication on the joint topics of pupil transportation and school plant service,[1] indicated that the State departments of education have an obligation to provide leadership and consultative services in such areas as property protection and the insurance of school property. This, then, is an area in which State departments of education can render a valuable service to local school systems, but the course which should be followed in rendering this service will have to be charted.

State departments of education can render valuable assistance to their local school systems by providing through their school plant sections adequate supervisory services on school insurance problems. Some States are already providing such service, and it is proving to be valuable to the local school systems. To date the number of men for this type of service is limited. However, others are in training and the school plant specialists already are familiar with property values and fire hazards. The supervisor for this type of service needs to be a tactful leader, one who realizes that local boards often have many local obligations, some of which are unwritten or perhaps even unspoken, but which have an effect on local business interrelations and practices.

RESPONSIBILITIES AND DUTIES OF THE STATE SUPERVISOR

As State guidance and leadership in the field of school insurance becomes accepted by local school authorities, demands for these serv-

[1] The Council of Chief State School Officers. *The Responsibilities of State Departments of Education for Pupil Transportation Services and School Plant Services.* Washington, D.C.: The Council, 1958.

ices may be increased to such a point that the scope of operations will have to be broadened. However, as a starting point, it is suggested that at least four major responsibilities might be assigned to the State supervisor of insurance, as follows: (1) Conduct research studies, (2) serve in a liasion capacity, (3) serve in an advisory and consultative capacity, and (4) provide information services to local school authorities.

Research Studies

In the area of research, the State insurance supervisor has an opportunity to initiate and direct a variety of studies dealing with school insurance. These studies could include: (*a*) State insurance costs, (*b*) property loss and loss ratios for insured property, (*c*) loss studies by types of risks, (*d*) comparison of school insurance costs with other school costs, and (*e*) loss comparisons by districts.

STATE INSURANCE COSTS

A study of State insurance costs might include such things as the total cost of all school insurance and the total cost of each type of insurance carried by school districts. It might include amounts of coverage by types, insurance premium rates by types of coverage, differences in costs for the same coverage in different districts, with a determination as to the reason for these differences. This study might also show how districts with high insurance rates could reduce their rates through a reduction of hazards.

LOSS RATIO FOR INSURED PROPERTY

Insurance officials have frequently asserted that school insurance business is not profitable for insuring companies, while, at the same time, school officials have claimed that insurance rates for school properties are too high. This difference of opinion could be resolved by making accurate statewide loss studies. If such studies show that insurance companies are returning relatively small amounts to school districts as loss payments in comparison with relatively large amounts collected for premiums, it might be concluded that their rates are excessive. On the other hand, if such studies show the opposite to be true, then it might be concluded that insurance rates are too low. In most States, the remedy lies in the hands of the commissioner of insurance, or in the hands of a commission which he heads. If rates need to be decreased, it would be expected that the State insurance supervisor, as an official of the State department of education, would take the initiative in getting the commissioner to hold hearings in order to establish reliable data as the basis on which he could require all insurance companies which operate in his State to reduce their rates. On the other hand, if the rates are not high enough, representatives of the insurance companies will initiate proceedings to get rate increases.

LOSS BY TYPE OF RISK

Another study that might be of value to local school districts would be one involving loss by types of risks. A study of this nature might reveal that school districts in the State have suffered no losses from a particular type of hazard in many years. If risks of this nature have been steadily insured, school officials might want to assume them and thereby save the money they have been spending on insurance premiums for these risks. On the other hand, such a study might reveal that certain types of risks which many school boards do not insure have a loss record that would warrant and justify the expenditure of school funds for insurance protection covering such risks.

COMPARATIVE COSTS

Still another type of study that could be made is one in which a comparison could be made of school insurance costs in relation to other school costs. This could be made both on the State level and on the local level. It could include a comparison on a per pupil basis, a comparison on a category basis, and a comparison with respect to total expenditures for insurance and the total expenditures for all other purposes. A study of this nature might reveal that too much money is being spent on insurance as compared with the amount that is being spent on other necessary services. Or just the contrary could be revealed. Such studies could be of value not only to local school systems but also to State educational authorities, State legislatures when they consider school appropriations, State school boards associations, and other State educational organizations and agencies.

LOSS COMPARISONS

Yet another type of study that could be of value to local and State school authorities is one in which loss comparisons could be made. These comparisons could be made for like risks for the various school districts in the State, and then the losses of each school district could be compared with the losses for the entire State, using comparable risks in each case. A study of this type might point up the need for further study of certain aspects of the insurance program in specific localities of the State. Since high insurance rates may be related to low construction standards, inadequate maintenance, poor housekeeping practices, and improper attention to management, these aspects may need study as they pertain to insurance costs.

Liaison Relationships and Technical Services

State insurance supervisors can provide a valuable liaison service between local school officials and various organizations. Most local officials do not have an opportunity to develop contacts and relationships with insurance people other than local agents. Nor do they have time to study and understand the functions of the State rating bureau, the State insurance department, State and local insurance agents' associations, loss adjusters, State and local fire marshals, and perhaps other officials and organizations having some connection with, and interest in, school insurance programs. The State insurance supervisor can be of valuable service to both the school officials and each of these other organizations and interested groups if he is aware of the possibilities for service as a liaison person.

RATING BUREAU

The State supervisor of insurance should develop intimate relationships with the central rating bureau and with its divisional offices if they exist. He should develop a working relationship with the raters so that he may know something of the principles of rating and be able to use the advice of the raters on various risks. This advice may be used in informing local school authorities on how to eliminate hazards in order to reduce the rates on properties and other risks. The State insurance supervisor can also advise local school officials on how to report the elimination of these hazards and on how to rewrite their coverage so as to permit their districts to profit by the reduction in rates. These are but a few of the liaison services he can perform as a result of his relationship with rating bureaus. There may be many others.

STATE INSURANCE DEPARTMENT

In addition to his knowledge of the procedures used by rating bureaus, the State insurance supervisor should become familiar with the operation of the State insurance department. He should realize that this department usually has authority to set up overall cost levels, but that the department does not normally set rates on individual risks. The State department of insurance can be used as the source of much valuable data in making some of the studies previously mentioned. Information which he can obtain through the State insurance department may help the State supervisor advise local officials on rate trends in various areas of the State.

INSURANCE COMPANY REPRESENTATIVES

In some cases local agents and field representatives advise school boards to seek the help of the State supervisor before revising their old, or setting up new, insurance programs. A supervisor should know something of the financial rating of the various insurance companies, and he should be able to advise local officials on where to find information on the financial rating of the insurance companies which carry their coverage. It should be noted, however, that the supervisor does not work for the insurance companies but serves as an intermediary between the companies and the local school officials. In this capacity it may be desirable that he know many insurance people on all levels of authority so that he can assist school officials in handling problems with them if the need arises.

INSURANCE AGENTS' ASSOCIATIONS

In many cases local agents may not at first welcome the State supervisor, resenting his entering a field where they have been the sole advisers. Some State supervisors feel that they may approach this problem by serving as an intermediary between the local associations and the school officials. Others feel that it is best to set up the local programs and to ignore the agents. There probably is no one pattern that will fit all cases.

The insurance supervisor should realize that many local agents have much influence with local school boards on school insurance problems. They should remember, too, that these agents are going to continue to reside in their communities after the supervisor has returned to the central office. This is not to imply that the supervisor should plan a program designed primarily to suit the agents. Some supervisors have been able to develop enough information on their program so that the local agents fall in line and support the program. They may realize that the supervisor is not trying to take business away from them—in fact, he may recommend more coverage—but is trying to help set up the program on a logical basis. Farsighted agents will often recognize this fact and will support the overall program, or the program revisions, recommended for the schools.

Some supervisors have been disappointed that program revisions did not come as rapidly as desired. They should realize that the public often moves slowly on such problems. They probably also need to realize that State recommendations on local programs may need to be followed up in order to get them put into effect.

LOSS ADJUSTERS

The importance of liaison between school officials and loss adjusters from the acturarial bureau should not be overlooked. The State supervisor of school insurance should make it a point to know some of the loss adjusters in each region of the State. In many cases he may be called upon to provide needed information for evaluating a local loss. In some cases the data which he provides may serve as a basis for loss settlements. This service alone could conceivably eliminate the necessity of expensive arbitration in cases where the insurance companies and the school officials fail to agree upon the extent of a loss.

FIRE MARSHAL

The State supervisor of school insurance may wish to establish a relationship between his office and the State fire marshal's office, and wherever practical, between his office and the offices of all local fire marshals of the State. Fire marshals are frequently called upon to make inspections of school buildings to determine their safety from the standpoint of fire hazards. If the State supervisor of insurance is privileged to work with the fire marshal during these inspection tours, it is possible that he may be able to assimilate much valuable information with respect to fire prevention, fire drills, and other safety precautions that he can pass on to school officials over the State and thus add one important function to his list of services to local school authorities.

TECHNICAL ASSISTANCE

The State supervisor of school insurance may be able to render local school officials a valuable service through his ability to give technical advice. As has been indicated previously, local school officials often do not have an opportunity to become proficient in insurance techniques. In many cases local agents do not know techniques of school insurance or the principles of school insurance administration. The supervisor should know his program so that he may advise on such things as insurance rates for various areas of school coverage. He should specifically be able to advise on the administration of the insurance program. This applies to such things as policy types, obligations of the board, values, inventories and otherwise, and the obligations of the insuring companies as set forth in their policies. He should be able to advise the local school board on the distribution of coverage to companies. He should be able to advise local officials in some detail on the principles and the working procedures followed in handling school coinsurance. He may need to be able to describe the principles of rating for coinsurance and the board's obligations as coinsurer when it does not write coverage equal to the amounts specified in the coinsurance contract.

Property values have been discussed in another section of this study. As a member of the school plant section of the State department of education, the State insurance supervisor, working with other specialists in his section, may develop data on school building replacement costs and school building values that are not available elsewhere. It is not always essential for the insurance supervisor to be an expert in building appraisal, but he should be able to evaluate property appraisals and estimates sufficiently to know whether they are within reasonable limits. It has been stated that school officials should know their property values. This is correct. However, school buildings are rarely destroyed for profit, and insurance loss adjusters are usually willing to allow some margin of leeway when it is obvious that the local school officials are endeavoring to provide reasonable property value estimates. This understanding is often valuable when trying to settle losses covered by coinsurance. In this connection, it may be desirable for the supervisor to maintain current data on trends in school building costs, as well as other school properties, so that he can advise local officials on value adjustments as prices or values increase or decrease. In a like manner the supervisor should be able to advise the local school officials on the coverage that might be desirable for various risks. It would follow that he needs to be able to advise on the costs of such coverage.

Some school districts may wish to consider self-insurance or partially assumed district risks. The supervisor should be able to advise local officials on the amounts of reserve that may be necessary to set up self-insurance. He might also be able to advise them on the use of deductibles for first losses, with insurance contracts covering all losses above a certain amount. Such district losses may be covered by reserves which is a form of insurance or, if on a deductible basis, they might be covered as a self-assumed district risk. The supervisor may also wish to advise local officials on uses they can make of the various insurance agents in their districts. Normally he does not advise on the distribution of coverage to agents, but he may advise on the relationships between the local board of education and the agents. In many cases the supervisor serves as consultant to, and for, the board in loss settlements.

Advisory and Consultative Services

Some types of advisory and consultative services which the State supervisor of insurance can render have already been mentioned in connection with other duties performed by him. For example, such services were mentioned in connection with loss settlements, explaining rating sheets, and the use of coinsurance. In addition to these, several other types of advisory and consultative services should be recognized and briefly described. Included are services such as checking school buildings for safety and maintenance, making insurance surveys, reviewing plans for new buildings and for remodeling existing buildings, procedures to be used in securing lower insurance rates, and giving assistance in local school insurance administration. These areas of service will be discussed in the following paragraphs.

RELATION OF INSURANCE TO SAFETY AND MAINTENANCE

It is often said that high insurance rates are warning signals—signals that the school district should make a study of the risks on which high premium rates are charged to determine what hazards can be removed so as to reduce the rates. There is a close relationship between certain types of insurance and safety. There is also a close relationship between school insurance and school plant maintenance, particularly as the insurance applies to property items. Inspections for safety may mean as much in pupil and property protection as they do in reduced insurance premiums. Activities which reduce fire hazards and activities that make buildings safer against wind damage also protect the occupants.

It is often said that single-story buildings with adequate exits may be constructed of almost any type material, but that multistory buildings, or others without adequate exits, need to have fire-resistive construction sufficient to protect the occupants. The first aim of local school officials is to provide ample protection for the pupils in the building. The second aim is to protect the property from loss or damage.

In many States, approval of plans for new buildings and for the remodeling of existing buildings by the State department of education is required before school buildings can be constructed. In reviewing these plans, attention is given to pupil safety. Attention should also be given to property protection. The State supervisor who reviews plans for fire hazards and possible insurance costs should also be able to advise on the nature of the exits and various other features that contribute to property and pupil protection. In his study of liability and accident insurance for pupils, the State supervisor will find that ultimately a considerable part of his study will deal not only with insurance but also with pupil safety. It should be possible to assist the local officials in setting up reporting forms for accidents or for liability-covered damage. It should also be possible to set up certain protective measures such as those now used when some pupils guard roadways while other pupils cross to and from buses. Similar precautions elsewhere should contribute to increased safety and ultimately to reduced insurance costs.

The State insurance supervisor can assist local schools in setting up patterns for fire drills and exit plans. General exit plans have been published, but in most cases local school principals may wish to set up a plan adapted to their building. The drill exits should be held regularly and should be a part of the safety program. It might be desirable for the local school district authorities to require periodic reports from each principal on the exit drills held during the period.

INSURANCE SURVEYS

State department of education supervisory personnel should be in a position to make insurance surveys. If the State department does not make them, some local agent or other individual probably will review the insurance program and make recommendations. It seems preferable that a disinterested party having some training in the field should make or at least help make such surveys. A State department may have some difficulty in starting its surveys, but after having made one or two, probably will find that the insuring companies and the local school officials welcome them.

There are several types of insurance surveys that can be made. One is a survey on a particular type of coverage, like fire insurance; another might be on schoolbus insurance; and another might be a comprehensive study of all coverages. However, a comprehensive study probably will be devoted primarily to the administration of the program and not to the techniques for the various segments of the program. A comprehensive survey might look at the costs for the total program, the allocation to companies, the distribution to agencies, the expiration dates, adequacy of coverage, and compliance with policy stipulations, and upon the basis of data with respect to each of these, make recommendations for the administration of the program. It might be feasible, but probably not usually practicable, to make a comprehensive survey that includes details on the techniques of each type of coverage. For instance, it would not be easy in a comprehensive survey to give attention to the elimination of a penalty on a fire protection rate because of defective wiring, a broken window pane, or broken plaster, and at the same time explain the details of a floater policy that covers a musical instrument which is seldom moved or a musical instrument policy that covers instruments owned by pupils. Each of these has its place in a suitable survey, but the analysis of these specifications probably could be covered in special surveys devoted to these factors. The State might make, or assist in making, a series of surveys pertaining to various types of coverage. On the other hand, there might be a general survey devoted to insurance administration, costs, records, and other elements of the total district insurance program.

The method of conducting an insurance survey is a problem that frequently arises. From the standpoint of the State insurance supervisor, the first step is concerned with the local desire and recognition of need for a survey. Some State departments of education have authority to make surveys without local invitation, but most departments prefer a written request from local officials. After having made one survey, there are usually invitations to follow up with others. Most State department men prefer to make the initial survey in some area where tangible data can be assembled. Fire, tornado, and transportation insurance are examples. After data covering the area or areas surveyed have been assembled, and explained to local officials by the survey team the report should be written so as to include recommendations which are clearly defined but flexible enough to allow for certain local conditions. The degree of flexibility for these recommendations may vary somewhat from district to district. For example, a school district may have expiration dates poorly spaced, with excessive amounts of coverage expiring at one time. Under certain circumstances it may be desirable to recommend that the entire program be reorganized immediately; in other cases, due to local conditions, it may be found desirable to recommend that as coverages expire they be reinstated on a new schedule. Likewise, it may be possible to recommend elimination of certain hazards so that rates may be reduced. An illustration of this might be that: if the pilot light hazard and the defective wiring at certain points are removed, these corrections would reduce the rate for this building by x cents and the average annual premium would be reduced by x dollars, but if these corrections are not made, the premiums will continue at the present high rate.

One common fault of insurance survey specialists is that they make a survey, turn it over to the local school officials, and then do nothing to help those officials implement the recommendations contained in the survey report. If local officials do not understand their insurance program before the survey, it may not be easy for them to take the survey report and put its recommendations immediately into effect. Consequently, the survey specialist usually has an obligation to follow up the survey and explain it to local officials, and he may have a further obligation to help the local officials put the survey recommendations into effect. Most State department men have found it preferable to follow a survey with regular consulting services so that they can advise local officials on this part of the program as well as on other problems that may arise.

Another problem that arises in connection with the local insurance survey involves the amount of coverage to carry on each type risk. This is a problem for the local district officials, and is one that cannot be determined by outsiders. However, the consultant can advise on the risks and the costs, and he can advise on the insurable values of the properties. When this has been done, local officials will have to decide how much of the risk they wish to carry and how much they wish to transfer to insuring companies. An exception to this assumpion will exist if coinsurance contracts are used. A previous discussion of coinsurance has explained this exception.

The insurance survey is a valuable tool both to the State and to local officials. For the State, the survey provides detailed data on the local school insurance program, and from these data the State is able to estimate the insurance costs for the local district and to compare this area with comparable areas in the State. For local officials, the survey provides a ready summary of certain parts of their program, together with recommendations for either continuing or for improving the program. When the insurance survey is completed, it should provide, in addition to historical data, a summary of recommendations and suggestions for use by local officials.

REVIEW OF PLANS

Another important advisory service that can be performed by the State supervisor of insurance is reviewing the plans and specifications for new construction and for remodeling and renovating existing buildings. His review should be made for the purpose of checking for safety and for determining whether or not insurance penalties will be assessed by the inspection or rating bureau because of the existence of possible fire hazards. In most cases this would amount to an added service provided by State department of education school plant sections to local school officials. Suggestions made by the insurance supervisor relative to safety and the elimination of insurance penalty factors in proposed new buildings and in the remodeling of existing structures can be incorporated in a letter to local authorities by the State department of education official responsible for approving local school building plans and specifications. If State policy permits, copies of this letter should be sent to the architects or engineers who prepared the plans and specifications.

Some areas to which the insurance supervisor might devote attention are: location of the heating plant, including safety precautions therefor; the installation of various types of electrical equipment; the number and location of exits; stair wells, if any; storage closets; firewalls; roof type; antipanic hardware; type and location of fire protective equipment, including fire alarm and sprinkler systems; self-closing fire doors, if needed; vaporproof electric light switches in areas where flammable gas might accumulate; lightning rods in regions subject to heavy and severe electric storms; pilot lights; and automatic fuel cutoff valves for gas-fired and oil-fired heating plants, stoves, and water heaters. This is not intended as an all-inclusive list of checkpoints, but it may serve to illustrate some of the more common danger points that create hazards which influence school building fire insurance rates. Furthermore, school buildings that are relatively free from such fire hazards not only permit lower insurance rates but also provide greater safety for the occupants.

The review of plans for remodeling and renovating existing buildings is equally as important as the review of plans for new construction. In many cases, the installation of new wiring, the construction of fireproof shields or baffles, or other similar improvements to an old building may make a substantial difference in the fire hazards involved in the particular building, and if the fire hazards are reduced, the insurance premium rates will probably be reduced. Then, in some instances, the installation of new stair wells may provide geater pupil safety, even though such installations may not affect the building fire insurance rates. Most State departments of education do advise on remodeling and rehabilitation programs, but few of them give major attention to the effects of such remodeling on the insurance program. The State supervisor of insurance can give attention to the effects of rehabilitation on insurance costs and on safety. This service can be highly significant to local school systems.

INSPECTORAL SERVICES AND RATE REVISION

In addition to other consultative and advisory services, the State supervisor of insurance can provide a needed and valuable service in inspecting and reviewing existing buildings. This service could be extended to other types of risks besides school buildings. It is not expected that the insurance supervisor will be a specialist in all types of risks, but he should be sufficiently familiar with all types of risks, and have a working relationship with specialists in this field, so that he can obtain the advice and the assistance needed for each and every type of risk for which the school may be responsible. The State supervisor probably cannot inspect all buildings or risks in the State, but he can assist in setting up a pattern study of risks, making them with local officials so that they might use the pattern in inspecting other risks. In this capacity the supervisor could advise on future inspections and might help set up criteria for local custodians and maintenance men and for teachers in the daily management of the properties and in the daily activities of the school that affect safety and might affect the total insurance program. Some schools now use self-inspection blanks, but oftentimes after such inspections are completed, little use is made of the information for the benefit of their schools. This program of inspection and followup might become extensive and surely would have far-reaching results.

In addition to providing safer school buildings through this program of inspection and followup, a major result might be the securing of lower insurance rates on the inspected properties. He can use the rating sheets to show local authorities where insurance penalties are assessed because of faults in buildings and becaue of poor housekeeping practices. Then, if he can persuade local officials to correct the conditions which bring about the increased insurance costs, he can show them how to get a reinspection of the property by the rating bureau so that the penalty factors may be removed from the rates. This procedure is a relatively simple one, but it can result in substantial savings for many school districts throughout the country.

ASSISTANCE IN LOCAL INSURANCE ADMINISTRATION

The State supervisor of insurance should be able to give assistance in setting up new or in revising existing local school insurance programs. This will involve a number of things. One of these is that he should be in a position to give specific advice on administrative patterns. For instance, he might advise on the various types of coverage that should be provided, and he might assist local officials in determining desirable amounts of coverage in each of the areas to be protected. He should be able to advise on the need for budgeting insurance expenses, setting up schedules that will show in advance the insurance costs by types of coverage, objects covered, and total cost; he should be able to advise on the types of policies; he should be able to explain how co-insurance works; and he should have data on the use of deductibles if they are desired.

Another area in which the State supervisor can assist in local insurance administration is that of establishing property values for insurance purposes. It may be necessary for the supervisor to assist local officials in making appraisals. In addition, it may be necessary for him to advise them on keeping current inventories. Insurable values can be established for most physical properties, but the school district has risks which are not so easily measured, and the supervisor may need to advise on these risks. Property accounting data should be available to local officials in providing backgrounds for insurance coverage. The supervisor may play an important part in helping establish such local property records. It has been indicated that after property values have been established they may be maintained current for some time through applying current indices of construction costs and allowing for depreciation. The supervisor should maintain current files of such indices so that he may have them available on a moment's notice.

Informational Services

The State insurance supervisor is in a position to assemble and develop data that are not always available to local school systems. Some of these data are needed by local officials as background and some are needed as guidelines in their local insurance program. The State supervisor should have access to literature in the field such as the National Board of Fire Underwriters' *Facts and Trends* and other publications that give information on fire losses throughout the country. He should be aware of the national trends on losses of various types. It might be desirable for him to be in a position to exchange information with other States in order to know what developments are being made so that his State may profit by the exchange. One development that might be of interest and value would be information on court cases and decisions in his own State and elsewhere on school insurance, school liability, school accidents, and other types of school loss. In order to make such information available to local officials and to officials in other States, it may be desirable to develop an informational pattern. Several types or patterns of informational service may be used, but each supervisor will have to decide which type is best suited to his State and to his own inclinations. Among the various types suggested are the newsletter, journal articles, and special bulletins covering such items as inspectoral reports, fire drill instructions, and fire prevention manuals.

THE NEWSLETTER

The newsletter or newssheet could be published periodically, say once each quarter, and distributed to all interested parties. Some supervisors hesitate to start a regular newsletter because they feel that they might have difficulty in filling each issue with material that is appropriate for such a publication. This material might include reports of districts that have revised their program; it might contain stories of certain losses in the State; it might report data from national sources; or it might include information obtained from other States. A newsletter that is composed partly of filler and little news soon loses its effectiveness. One way to avoid this situation would be to have irregular releases, waiting until such times as there are sufficient items of interest to fill the issue before it is published. However, irregular publication may have the disadvantage of causing readers to lose interest in the publication. Whether the news letters are regular or irregular, it will be found desirable to set them up in numbered sequence so that easy reference to them will be possible.

JOURNAL ARTICLES

For supervisors who feel that their releases will have to be irregular, it is probable that State educational journals, regular newsletters of the State department of education or of the State school boards association might serve as media for the dissemination of information about the school insurance program. These would have the advantage of being less expensive than a regular publication since most items, if they are newsworthy, would be accepted for publication without charge. Another advantage of this plan is that these journals and newsletters generally reach the hands of most school administrators over the State, and their interest in insurance as well as in other school problems could be met in the one publication.

SPECIAL PUBLICATIONS

Special publications could be used at intervals to cover such things as inspectoral reports, fire drill instructions, and fire prevention manuals.

The inspectoral report should include a description of unsafe conditions found in some school buildings. For purposes of illustration, some unsafe conditions that may be noted are: (*a*) Vent ducts opening into combustible attics; (*b*) lack of suitable fire alarm systems; (*c*) narrow corridors and jogs or offsets in corridors; (*d*) overloaded, combustible, or otherwise unsafe stairways; (*e*) dead locks on classroom doors; (*f*) insufficient number and poor location of exits; (*g*) absence of antipanic hardware on exit doors; (*h*) absence of safety devices and the lack of safety precautions in shops and other areas where power machinery may be in operation; (*i*) furnace room hazards, such as an accumulation of rubbish, unprotected wood ceiling joists, poor location of the furnace room, and lack of automatic protective devices for furnace control and operation; and (*j*) overloaded and overfused electric circuits.

This list of hazards frequently found in school buildings is not complete. Others may be found in some buildings. The inspectoral report should point out the hazards and unsafe conditions of each building and should recommend what should be done to make the building safe for occupancy.

A bulletin on school fire drills may include such areas for discussion as: (*a*) State laws and regulations pertaining to fire drills; (*b*) developing the building plan; (*c*) education for exit drill; (*d*) improving exit facilities; (*e*) training monitors and searchers; (*f*) description of acceptable fire alarm systems; (*g*) evacuation from school grounds and street crossing; (*h*) duties of building custodians and other employees; (i) evacuation from special areas such as auditorium, gymnasium, and cafeteria; (*j*) evacuation from classrooms; (*k*) precautions after fire alarm is given; (*l*) location of fire protective devices and equipment; and (*m*) return of occupants to building.

If there have been no recent fires where schoolchildren were burned to death, suffocated, or injured, it is probable that parents, teachers, and pupils, in the absence of regularly conducted fire drills, may become inured to the hazards of their school buildings. Well-planned, skillfully conducted fire drills may help prevent the feeling that "it can't happen to us," and thereby save many lives and prevent serious injuries among the schoolchildren. Therefore, a fire drill bulletin, prepared by the State school insurance supervisor, published by the State department of education, and made available to all principals and teachers of the State might be of considerable value to the school systems of the State.

Perhaps more important than a bulletin on fire drills would be one on fire prevention in schools. The State school insurance supervisor, in collaboration with the State fire marshal, could prepare a manual on fire prevention in schools, and the State department of education could publish this manual and distribute it to all teachers, principals, custodians, and other building supervisors of the State.

A bulletin of this type might include such topics as: (*a*) Administrative responsibilities for fire prevention in schools; (*b*) opportunities for teaching fire prevention in the schools; (*c*) fire prevention instruction as a part of the school curriculum; (*d*) legal regulations pertaining to fire and panic protection; (*e*) the use of fire protective equipment; and (*f*) instructions pertaining to fire prevention in case of enemy attack.

SOME DESIRABLE SKILLS AND AREAS OF KNOWLEDGE

In order to do his job well, the State supervisor of insurance will need to possess certain information, abilities, and skills. It is not anticipated that he will be able to advise the school districts on all their management and business activities. However, their total insurance program may be so closely related to these activities that he may need to know the relationship between insurance and these other areas of business management.

In giving advice to local school officials the supervisor will need to know something of: (*a*) State laws and court decisions, (*b*) finance and budgeting procedures, (*c*) State and local district relationships, (*d*) insurance rating procedures, and (*e*) sound procedures for establishing good public relations.

State Laws and Court Decisions

The State insurance supervisor will need to know the laws of his own State on insurance. He will need to know something of the general laws and also those that relate to public bodies, particularly those concerning the obligations of school boards to protect property or district assets. In addition he will need to understand the laws concerning the limits of liability of school boards.

In general, laws are affected by numerous court cases. These are also important and the insurance supervisor should be able to refer to these as they are needed. In addition to having a knowledge of the court decisions of his own State, the insurance supervisor may need to know something about pertinent court decisions that have been reported in other States.

There is still another source of legal information that is important, and that is the opinions rendered by the State attorney general.

In many cases these are looked upon as having legal weight until such time as court decisions or new laws may supersede. The insurance supervisor probably will have access, through his superior officer, to the State attorney general's office, so he will need to know how to use that office, how to ask for information he needs, and how to use it after he gets it. It is not necessary for the State supervisor of insurance to be a lawyer, but some knowledge of the laws pertaining to insurance and to board of education responsibilities will be of great help in discharging the duties of his office.

Finance and Budgeting Procedures

State department of education officials often advise local school officials on various budgetary procedures. This also applies to budgeting the insurance of the local school district. Even though insurance premiums may be paid primarily or wholly from district funds, the total district protection program almost invariably involves some State financial interest either in the school plant or in school program efficiency.

The State department of education is in a good position to advise on insurance cost levels for various types of coverage among the different districts of the State. Also, the State is in a good position to collect data on loss ratios which may serve as one basis of budgeting funds for insurance purposes. A recent publication[1] gave data showing a 5-year experience for fire insurance on school buildings. These data covered school buildings of all types and showed for both stock and mutual companies a loss ratio of 35.3 percent for the 5-year period studied. These data are now 6 or 7 years old and refer to only one part of the total insurance program, that of fire loss. Several other studies in recent years have pointed to logical cost-loss ratios.

The State department of education insurance supervisor should realize that, under an agreement of some years standing, the National Board of Fire Underwriters and the Mutual Insurance Advisory Association report annually to State insurance departments, under a standard classification plan, fire insurance cost and loss data. These data are obtainable by the State supervisor and by school authorities. Such data do not show the loss ratios for individual districts, but do show data for different kinds of construction.

[1] N. E. Viles. *School Property Insurance Experiences At State Level.* Bulletin 1956, No. 7, U.S. Department of Health, Education, and Welfare, Office of Education. Washington: U.S. Government Printing Office, 1956.

Cost studies could be extended to other types of coverage. If overall data for the State are not available in the State insurance department, it may be desirable to develop some studies showing cost and loss indemnities paid on such things as tornado or extended coverage, on accident liability, floater, and other types of coverage. In making such studies, the State supervisor should realize that some types of coverage where calamity losses are possible may show many years of favorable balance and that this balance may be eliminated through one or two major catastrophic losses.

It is probable that the State data on workmen's compensation may be reliable. Oftentimes such data are set up on the basis of credits and debits for a particular district or school system. Some of the other data can be obtained from school records. A few schools which have made such studies have found that the use of deductibles on certain policies may help reduce the rates.

Studying overall losses provides valuable information, but this study should be extended to making some analysis of the causes of the losses. An analysis of the elements that make up the rates on a particular type of risk may show that changed practices or the removal of certain hazards may contribute to savings in premium costs throughout the State.

Another phase of insurance cost analysis on the State level consists of developing data on the overall insurance costs. As has been indicated, not many school districts and few States, have data showing their total school insurance costs. Even if they knew the costs, it might be difficult to determine whether the costs are excessive, moderate, or under the average. One common measure of establishing such costs is to compare them as percentages of the total current school expenditures. This may or may not be a valid comparison because the risks might be greater in one district than in another. One measure that has been used is to compare building insurance costs by types of buildings. This method has some value since fire- and wind-resistive buildings are often insured at lower rates. Such data still do not show whether it pays to provide minimum or maximum coverages for such buildings. Another measure often used in evaluating insurance is to compare costs among districts. If used, this should be applied by types of coverage and might apply to the overall insurance program if such data are developed. For instance, it might be determined that insurance costs are so much per pupil. It might be possible to compare losses among various districts or between States. Such cost and loss studies, if put to use, could be of value in planning the finance and budgetary procedures of the school district.

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State and Local District Relationships

In the area of school insurance the State department of education ordinarily exercises little control, even though the State may advise on the program and even though the State may recommend certain coverages. Two exceptions to this general principle should be noted, and these are that much more control is exercised over the school district's insurance program in States that operate a State insurance program. This may also apply where State funds are used to pay the premiums on local insurance policies.

It is usually the obligation of local school officials to make some determination on the amount of coverage to carry and on the types of policies to be written. Some States have laws requiring certain coverages, but most of these laws permit local discretion in the types of coverage purchased. Most State departments of education do not wish to have control authority over local insurance. However, State department officials do see evidences of protection neglect and of a failure to make prudential use of the funds spent on insurance. The State department has an obligation to provide advisory and consultative services to the local systems in their business management in general and particularly in the insurance field. It seems desirable that State departments set up some criteria that local school officials may observe in organizing and carrying out a comprehensive school insurance program. These criteria may be without fixed regulations or they might have the fixed regulations limited to the basic essentials. After such criteria and suggestions are prepared, the State department should be in a position to advise local officials as the need arises throughout the years on the various elements and steps in their program.

Rating Procedures

Rating procedures are of such significance that the State supervisor of insurance should be able to explain to local officials the reason for every charge made in determining the composite insurance premium rate for any given risk. In order for him to do this, he will need to understand the Dean Analytic System, the Mercantile System, the Abstract Method, and variations of these that may be employed in his State. In addition to having an understanding of these, the State insurance supervisor should be in a position to work with the State inspection bureau or other agencies that are responsible for establishing insurance premium rates. It would be highly desirable if he could establish such rapport with these bureaus that they would provide copies of rating sheets on specific buildings that he may use in his surveys, and that he might confer with them often on insurance problems related to school coverage.

Public Relations

One of the fundamental requirements in developing a good public relations program is the performance of recognizable services. If the people who are to be served by the supervisor accept the fact that he can be of service to them, his chances of being approved, accepted, and respected by them are very good.

Another characteristic required of the State insurance supervisor in developing good public relations is patience. He must realize that public changes often come slowly. He may need to learn to move slowly and develop a one-track program first in order to show what results are possible before branching out into related phases.

Also the State insurance supervisor must be absolutely fair and honest in his dealings with all school and with all insurance officials. As has been indicated, it is important that he have working relationships both with the insurance people and the school people. To this end it is essential that he become acquainted with many people in both areas. If he is fair, sensible, and knows his insurance program, he will soon have the respect of the insurance people. If he is fair, knows his business, and can give assistance, he will soon have the respect of school officials.

PROBABLE FUTURE OF STATE INSURANCE LEADERSHIP

There are many possible directions in which State insurance leadership may develop. Some of these directions are: (1) Assisting local authorities in making studies on self-insurance plans; (2) advising local districts on limited coverage plans; (3) keeping informed on the operation of the various State insurance programs; and (4) giving full attention to a revision of the administrative patterns of existing local school insurance programs.

Self-Insurance

In some States, State leadership has helped local groups study the pros and cons of self-insurance programs. In other States, this leadership has assisted school authorities in making studies on various statewide cooperative insurance plans.

LOCAL SELF-INSURANCE PLANS

Self-insurance is a plan by which the individual property owner establishes a special fund, which accumulates through regular deposits or credits, from which payments may be made for losses as they occur. At the discretion of the owner, this fund may be invested in interest-bearing securities so that the income from these investments may be used to increase the amount of the fund. Under this plan, there are no fees, no commissions, no taxes, and relatively few operating costs. All savings resulting from the plan accrue to the property owner (in this case the school district). There is no shifting of risks to another party, since the district assumes the risks through the operation of the special insurance fund. Under this plan, there is a danger that a serious loss may occur in the district before the special fund has been built up to a point where it can meet such a loss.

It is generally recognized that the average school district, and particularly the small one, should not consider this form of insurance protection. On the other hand, school districts having a large number of similar risks, with a wide distribution of these risks, may be able to develop a plan of self-insurance that will meet the requirements of the district. This does not imply that local school districts should develop self-insurance plans, but if any district wishes to consider self-insurance, the State insurance supervisor should be in a position to point out the advantages and disadvantages of the plan.

COOPERATIVE SELF-INSURANCE PLANS

Under the cooperative self-insurance plan, local school (and/or other State building) groups set up an administrative organization whereby a combination of self-insurance and of purchased insurance provide protection against losses. Under this plan, self-insurance is provided against certain losses, or for losses up to a certain limit, while purchased protection is provided for losses in excess of this limit. Generally, premiums are collected for the purchase of blocks of excess coverage. Essentially, blanket protection for all buildings and properties, set up on scheduled specifics as necessary, is purchased, and losses are paid in accordance with the coverage and the loss incurred. The State supervisor may be in a position to advise local school authorities on the problems involved in this plan.

Limited Coverage Plan

Another way that State insurance leadership could be of value might be in assisting local districts determine what part of their local risks should be covered by insurance and what part should be assumed by the school district. This suggestion rests on the assumption that practically all school districts do assume some of their risks and that they purchase insurance coverage for others. For instance, few districts insure for 100 percent of a risk. In such cases, it is anticipated that the district will assume some of the obligations in case there is a total loss. State leadership could be of assistance to local school systems by advising on such procedures and by giving information on what is being done elsewhere in this field.

State Insurance Programs

The State insurance supervisor should be familiar with the various State-operated insurance funds. There are several types of State insurance funds, but the one that applies to local school districts accepts district school property risks, and may accept other types of State and local government property. As a general rule, the State insurance fund is created by a legislative act which authorizes the assembling of funds for the protection of the participating districts. Policyholder's payments may be determined by fund needs.

As has been previously pointed out, it is not the purpose of this discussion to promote or to criticize State insurance. Rather, the purpose is to show that State insurance is not without precedent, because State or State-managed insurance has been established in some States. The various States have some degree of self-coverage. Some of them have self-assumed risks on various State properties; others have cooperative insurance coverage; and some have purchased commercial coverage. The State insurance supervisor should be familiar with all of these possibilities so that if he becomes the designated State official to organize and direct such a plan for his State, he will be able to give necessary leadership to the program.

Revision of Existing Insurance Programs

Finally, State leadership in insurance might be directed toward the revision of existing local school district insurance programs where such revision may be needed. This leadership may make it possible for local districts to avoid some of the common pitfalls that usually plague local officials when they set out to reorganize their school insurance programs. Regardless of whether State leadership gives assistance in the newer areas of insurance, such as those mentioned in the foregoing pages, or whether this leadership is given to the reorganization of existing programs, a great deal needs to be done in the field of school insurance administration.

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