A Guide to School Building Insurance in Kansas

Marven R. Boyd
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A GUIDE TO SCHOOL BUILDING INSURANCE IN KANSAS

being

A master's report presented to the Graduate Faculty of the Fort Hays Kansas State College in partial fulfillment of the requirements for the Degree of Master of Science

by

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R. M. E.
ABSTRACT

Boyd, R. Marvin (M. S., Department of Education)
Title: A GUIDE TO SCHOOL BUILDING INSURANCE IN KANSAS
Master's Report Directed by: Dr. LaVier L. Staven

The purpose of this report was to present information in regard to school building insurance in Kansas. This study was planned to acquaint administrators, school board members, teachers, and interested parties with possible school building insurance programs available.

In Kansas a board of education is legally charged with the supervision and care of school property. In many small school districts, a single fire might destroy the school plant and the community might thereby be without financial means for rebuilding. Thus, there are four reasons why boards of education should carry insurance on school property. These are: (1) to protect the community's investment, (2) to provide periodic inspections of the buildings and the contents, (3) to guarantee funds for the educational program, and (4) to relate school property protection to student and school employee protection by removing hazards which endanger their life and safety.

A school building insurance program consists of several types of coverage. Some of these are fire, windstorm, vandalism, explosion, boiler, glass, theft and larceny. To maintain a school building insurance program, adequate records must be kept up to date as well as a detailed and current inventory of buildings and equipment. An insurance program must be reviewed continually in a school system to keep the insurance plan current.
The Public Institutional Property Plan of school building insurance in many instances is the most economical and covers the most probable losses to school buildings. This type of insurance is recommended by the Insurance Commission of Kansas for schools who can qualify under the minimum premium clause and other limitations specified in the plan.
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CHAPTER I

INTRODUCTION

The purpose of this report was to present information in regard to school building insurance in Kansas. This study was planned to acquaint administrators, school board members, teachers, and interested parties with possible school building insurance programs available.

In Kansas the board of education is legally charged with the supervision and care of school property. School plants and equipment also constitute the largest financial investment in many communities. In many small school districts a single fire might destroy the school plant and the community might thereby be without financial means for rebuilding. Thus, there are four reasons why boards of education should carry insurance on school property, these are: (1) to protect the community's investment, (2) to provide periodic inspections of the buildings and the contents, (3) to guarantee funds for the educational program, and (4) to relate school property protection to student and school employee protection by removing hazards which endanger their life and safety.¹

The insurance program should be tailored to fit a district's financial position and to protect it against unforeseeable losses which might hinder the district from carrying on its functions.

Statement of the Problem

The purposes of the study are: (1) to examine more fully the literature on public school insurance in order to gain a broader understanding of the issues and problems involved, (2) to learn the systems which are necessary for developing an efficient and comprehensive program of insurance for schools, and (3) to develop guide lines that identify essential school building insurance programs for Kansas schools.

Limitations and Scope

Since school systems vary in risk, a program of school building insurance applicable to all institutions probably cannot be developed. Therefore, the study has been limited to insurance principles and suggestions pertaining to school buildings located in the state of Kansas. The study does not propose solutions to all the problems which might arise in developing a program for school buildings of Kansas; the discretion of those who are responsible for the school program must be exercised in determining the insurance needs of individual districts.

Procedure of the Study

The material presented in this study was completed by reviewing: the pertinent literature available in Forsyth Library, Fort Hays Kansas State College; pamphlets and booklets on insurance supplied by Mr. Henry Pierce, Hays, Kansas, and Mr. Ramie Beims and Mr. Ted Frye, Atwood, Kansas, all insurance consultants; research material from the National Education Association, Washington, D. C.; statistical information from the Kansas State Fire Marshal's Office; suggested readings
and factual materials provided by the Insurance Institute, New York 38, New York; and letters from the Kansas State Insurance Department and the Attorney General, Mr. William Ferguson.

Explanation of Terms

Insurance program. A term which refers to insurance coverage necessary for the adequate protection of the school building.

Risk. A term used to indicate the degree of probability of loss to the insurance company.

Administrator. A term defining the individual who is delegated responsibilities for the school building insurance program.

School plant. "The physical property belonging to a school—consists of grounds, buildings, and equipment."2

Board of education, district. For the purpose of this study, a board of education shall be defined as:

A corporate body legally constituted and authorized, usually chosen by popular election from the district at large, to direct the program of education within the specified territorial limits of the school district.3

Significance of the Study

Management of the school building insurance program is a com-


3Good, loc. cit.
pelling responsibility. It is hoped that the guidebook will give direction to the efforts of the people delegated with the responsibility of providing and maintaining school facilities in Kansas.

Although school buildings as a class of public property have not suffered the losses that other public buildings have, it is known that losses do occur and that some districts could have losses. In some instances the district would be financially unable to rebuild without the insurance money received.
CHAPTER II

REVIEW OF LITERATURE

The preceding chapter set forth the problem of the study, its limitations and procedure. Chapter II is a review of the literature pertaining to the different types of school building insurance in Kansas.

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. In 1956 fire and casualty insurance in the United States cost more than fifteen billion dollars, paid losses of nearly nine billion dollars, and established a loss ratio of about 56 per cent. Although school insurance is only a small segment of the total national insurance business, the costs are sizable.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 building insurance program. Those responsible for managing this program must conserve the facilities entrusted to their care, and each district must receive the maximum protection possible from all building insurance purchased. These same officials may not have time to either seek out or study the technical literature available in the vast field of insurance.²


²Finchum, op. cit., p. 2.
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 officials face many hazards. When these officials 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.3

Some Basic Principles of School Insurance

The problem of protecting school districts against possible loss 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, (2) conserve the financial resources of property protection, and (3) provide the type and form of protection most needed by the district.

The following list of insurance principles may be of value to school authorities who plan and administer Kansas 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 repay the insured losers.

3Finchum, op. cit., p. 4.
Boards of education often give recognition to this principle of spreading risks when they distribute their insurance business among several reputable companies or associations.

2. The school districts' 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 any 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.

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 by these loss ratios in part.

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 recompense. This is self-evident, since premium payments must cover indemnities, cost 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.4

4Finchum, op. cit., pp. 5-7.
Importance of School Insurance

One of the most important pieces of school business yet, one of the most often overlooked is the school insurance program. The Kansas State Legislature places the responsibility for the protection of school buildings squarely upon the board of education. Nothing short of a sound, sensible, and economical school insurance program should be developed.5

The method of insuring school district property to obtain the broadest form of coverage is of primary importance. The various fire insurance clauses coverages available should be studied, clause by clause, to select the coverage desired and to fully understand the terms of the insurance contract.6

Interest in school-insurance practices, particularly fire or property insurance, was evident from state-wide studies of school property insurance practices in Arkansas, Iowa, Missouri, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, and Texas. The conclusions from these studies had a familiar ring: school systems were "paying too much" for fire insurance; most of them could have saved money by adopting "desirable practices;" larger systems employed better insurance practices than did smaller ones; and competitive bidding was a "desirable" way to award school insurance contracts.7


Insurance Companies

Scope of Business. The company's business should be nation-wide in scope, that is writing insurance in the majority of states. This spreads the risks being assumed by the company and decreases seriousness of a loss.

Liquidity. The company's assets must be in a highly liquid position. This and its diversification of assets are probably the two most important conditions to be considered in judging a fire insurance company. Should unusually heavy claims be made as the result of a catastrophe, the company should be able to convert a large amount of its assets into cash in short notice, without undue sacrifice of value.

Personnel and management. The ability and character of management is also of primary importance and cannot be measured by mathematical formulas. Every school district is interested in knowing if the company is prompt in paying claims and what relationship exists between the company and its agents. These are factors that can only be determined by inquiry of local agents, brokers, company officials, and other insureds. In the final appraisal of a company, size alone should not be given too much emphasis. Distribution of risks, adequacy of rates and reserves, type and diversification of assets, and the character of the directorate and management all should be given careful investigation.

Agents. It is generally recognized that an uncontrolled distribution of school insurance by members of boards of education and school
officials is a survival of the "spoils system" and often creates mis-
understandings and ill feelings among the agents. Charges of patronage
and statements that school insurance is "political" business frequently
results when a board of education does not have a plan of distributing
the insurance.

Some equitable distribution plan should be established by the
school district. There are many objective plans for distributing school
insurance to local agents and brokers. Situations vary in each school
district and a successful plan in one district may not work at all for
another. Before adopting any plan, the district should first consult
with the local agent's association for suggestions.

Determining the amount of insurance underwritten by each agent.
Sometimes the allotment of insurance to agencies is on the basis of the
amount of insurance to be purchased. Unless there is a blanket rate for
the entire district, this plan is not equitable and the rates and
commissions on different risks may vary a great deal according to type
of construction and the amount of protection. The insurance each agency
is to receive might be placed on a premium or commission basis. When
there is to be an equal distribution of insurance among local agents, the
total school insurance premium need only be divided by the number of
eligible local agents to determine the amount each is to receive.

If there are objections to the distribution plan, they may be
called to the attention of the school district. Unless a plan is
perfect in all of its requirements, then there should be no hesitancy
about changing a procedure, particularly when the proposed modification
will improve the acceptability of the plan.8

Time and Effort in an Insurance Program

The time and effort spent in developing an insurance program may
result in the following benefits:

1. More adequate protection against loss, as a result of an
   independent appraisal of school properties.
2. A more economical coverage, resulting from a study of rates
   makeups.
3. Simplification of insurance administration as a result of the
   reduction of the number of policies in effect and the estab-
   lishment of one expiration date.
4. A less expensive program, the result of savings from competi-
   tive bid placement.
5. Provision for future development of the fire insurance program,
   based upon a continuing development of sound principles and
   policies.9

School Districts Liability

Generally, school districts are liable for fire losses, but
courts can require them to abate the fire hazard. Because schools are
not generally subject to control by municipal authorities, it should not
be thought that they are free to create, tolerate and maintain conditions
of a hazardous nature. In general, the courts are in agreement that a
school district, as an arm of the state, is protected by the common law
rule of immunity from liability that the state enjoys.10

8S. C. Joyner, "Distribution of School Fire Insurance," The
American School Board Journal, MVI (February, 1943), pp. 7-9.

9B. Brad Arney, "Independent Appraisal, Competitive Bid Placement
Provide Broader and Cheaper Fire Insurance," The Nation's Schools, LXVII
(May, 1961), 130.

10Lee O. Garber, "Abate That Fire Hazard," The Nation's Schools,
LXIII (February, 1959), 57.
The Attorney General, State of Kansas, stated that research done by his office has not disclosed any case law in Kansas concerning the authority of school districts to purchase insurance on school buildings and equipment. He pointed out, too, that funds can be expended only for express purposes authorized by statute, or necessarily inferred in carrying out the express purposes. (Joint Consolidated School District No. 27. Johnson, 163 Kan. 202). (See Appendix A.)
CHAPTER III

A GUIDE TO SCHOOL BUILDING INSURANCE IN KANSAS

In Chapter II literature pertaining to school building insurance was reviewed. In Chapter III some of the different types of insurance for school buildings will be discussed.

Statistics supplied by the Kansas State Fire Marshal indicated that fire loss to school districts in Kansas, during the period from 1958 to 1962, amounted to $629,723. (See Appendix B.)

A large percentage of school districts make some provision for insurance against fire or other property damage on part or all of their property. The variety of practices followed includes insuring in stock and mutual companies and in the establishment of funds for self-insurance. Policy forms vary with a myriad of clauses, endorsements, exclusions, and permits to choose from in determining the degree, type, and amount of protection desired.

To receive the broadest coverage, those responsible for the school fire insurance program must know the hazards to which the school properties are exposed. Purchasing insurance also requires a thorough knowledge of the rate-making procedure for each type of coverage. The methods of computing a policy premium, whether it is done by stock or mutual company, are essentially the same.

One of the major concerns of school officials today is property responsibility. In setting up a school building insurance program, the first step is to designate how the responsibility can be discharged. It
is well to study over the methods most commonly used by other school
districts and select the methods which meet your needs.

Myers stated that most districts follow one of the following
practices:

1. The board as a whole or a committee of the board handles all
   insurance matters.

2. Full responsibility for insurance, under board policies
   established by the board, is delegated to the administrator,
   business manager, or other responsible officer.

3. An insurance advisor, usually an insurance agent or broker,
   is selected, and in return for his services, is given the whole
   or a portion of the districts insurance business.

4. Arrangements are made with a local agent's association,
   acting as a unit, with the commissions on the business distributed
   by the association to its members.

5. All insurance is awarded to a large insurance brokerage
   organization, with the understanding that it will use the major
   portion of the commissions to provide expert appraisal, engineer-
   ing, and other services to improve coverage and rates to render
   loss prevention service.¹

Regardless of the method selected much depends upon the school
officials and the conditions of the local community. Those responsible
for the insurance program should be able to obtain an intelligently
planned program of protection and get the maximum benefit from the money
that has been budgeted for insurance.

**Methods of Insuring**

There are two methods of insuring school buildings in the state
of Kansas. These are (1) commercial insurance, and (2) self-insurance.

¹A. Lloyd Myers, "Changing Problems In School Insurance," The
   Nation's Schools, LXII (October, 1958), p. 76.
By far the majority of the school districts carry insurance with commercial companies. Commercial companies fall into two groups--stock or mutual.

Stock companies are corporations or companies that are organized on a capital stock basis. When the corporation or company was organized, the persons in control made capital stock available to pay losses in the event that the premiums collected were insufficient to pay the losses. The stockholders are the owners of the company and elect officers from the group. The capital stock may be increased from time to time. The insurance laws of each of the states set up the ratio of capital and other assets to liabilities necessary for the company to do business within the state. These stock companies are often referred to as "Old Line Companies."

Mutuals include insurance companies or associations which do not have stock for capital assets. The policyholders are the stockholders. Each policyholder is liable to assessment if the losses are greater than premiums. The profits of the company are returned to the policyholders in the form of reduced rates. The mutual company, however, usually sets aside some of its profit as a reserve or surplus to protect the policyholders from assessments.

Because of this practice of assessing policyholders, some states have ruled that school districts cannot be insured by mutual companies. This is based on the precedent that a board of education cannot legally incur an indeterminate liability. There are, however, some mutual companies that sell nonassessable policies to boards of education. In
most of the states, school boards may insure with a mutual company if the amount of liability or assessment is stipulated. The school official needs to know the laws of the state in which he works so that he may be able to advise the board of education concerning insurance problems.2

The law in Kansas regarding mutual insurance companies and schools is as follows:

681. (G. S. §0-1205) Corporate membership; personal liability. Any public or private corporation, board or association in this State or elsewhere may make applications, enter into agreements for and hold policies in any such mutual insurance company. Any officer, stockholder, trustee or legal representative of any such corporation, board, association or estate may be recognized as acting for or on its behalf for the purpose of such membership, but shall not be personally liable upon such contract of insurance by reason of acting in such representative capacity. The right of any corporation organized under the laws of this State to participate as a member of any such mutual insurance company is hereby declared to be incidental to the purpose for which such corporation is organized and as fully granted as the rights and powers expressly conferred. (L. 1927, Ch. 231, §0-1205; June 1.)3

Under the self-insurance plan the administrative unit or district assumes all risk of loss. On first thought this plan seems very attractive because of the apparent economy, and large cities such as Philadelphia show tremendous savings. Over a seventeen year period Philadelphia's schools fire losses amounted to $406,000. During the same period the premiums would have amounted to $1,250,000. A large


system may well afford to assume the risk while thousands of the smaller units cannot.

Self-insurance is of two types. In one plan the district does not carry any insurance, and if a loss occurs sufficient taxes are levied to replace the loss. In the other plan the district sets aside a reserve fund each year until a sufficient amount of money has been accumulated to finance the replacement of any loss. The reserve fund is usually invested in high grade securities. However, most districts are not in a financial position to assume the risk without insurance. Reserve funds sufficient to pay for large losses take a long time to build up, and most districts cannot stand a major loss without a large reserve fund.4

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 risks are not too difficult to evaluate.

In making a decision as to the total amount of protection needed for physical properties, boards of education may be wise to take into consideration such factors as (1) insurable values, which may be ascertained by appraisals and inventories; (2) local policy; (3) local financial ability; and (4) legal requirements, such as State laws,

4Rosenstengel and Eastmond, _op. cit._, p. 353.
State Board of Education regulations, and insurance contract stipulations.  

**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. In no event will the insurance company pay more than the amount of coverage. 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.

**Appraisals**

School building appraisals may be made 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.

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6Ibid., p. 49.
If the building is of recent construction, 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, 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 ventilation, 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 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 indexes. 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 indexes 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
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 per cent more than it would have cost in 1948.

In most cases it may be 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. Contractors or others familiar with building values may also be asked 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, deduct excludable items to get insurable value and then determine the desired coverage.

Depreciation refers to the loss in physical property value 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 1/2 to 1 per cent each year for brick buildings, and from 2 to 3 per cent each year for brick veneer and frame buildings, with a maximum depreciation factor of 50 per cent 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 1 1/2 per cent for fire resistive and to 2 or 2 1/2 per cent 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 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 ten years would be 20 per cent, 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. 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 per cent each year for fourteen years, reaching a maximum depreciation of 70 per cent during that period. Under this plan the value is then held constant at 30 per cent of the original cost for as many years as the items remain in use.

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7Tbid., p. 49-51.
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.8

Types of Insurance

Of the many different kinds of insurance that may be carried on school buildings, perhaps the most common types are flat-rate insurance, co-insurance, extended coverage, and public and institutional property plan.

Flat-rate insurance. This type of insurance may be thought of as a certain amount of insurance taken on a particular building. If, for example, a school building is insured for one-half of its appraised value and the building is destroyed for a complete loss, the face value of the policy only would be recoverable. This type of insurance requires a payment of a fixed rate for a certain per cent of the value of the property. The school building may be insured for any per cent of the value and if there is a loss the company will pay up to the amount of the policy.

8Tbid., pp. 51-52.
Such insurance might be desirable in the case of some buildings, but much would depend upon the type of construction and whether it is fire resistant. Flat-rate insurance is usually purchased at a somewhat higher premium than other types, especially coinsurance.\(^9\)

Coinsurance. The plan of coinsurance has been adopted by many school districts. It is essentially a plan to prevent the under-insurance of school property or insuring for less than replacement cost. Underinsurance is more prevalent than over insurance with those who use coinsurance. No doubt this practice is followed because the school officials are attempting to save through small premium payments.\(^10\)

Coinsurance, though not a policy form, is a policy attachment which is purchased by many school districts, discussed frequently by some, and understood 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 a per cent of the value of the risk. This percentage is often set at 80, but may be as high as 90 or even 100 per cent, 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.


\(^10\)Rosenstengel and Eastmond, op. cit., p. 354.
In return for the agreement by the policyholder to carry a certain relatively high percentage of insurance to value, insurance companies grant rate reductions on fire-resistant and on semi-fire-resistant buildings which are located in protected areas. These rate reductions are applicable to fire, lightning, tornado, and extended coverage protection, and they may run as high as 60 to 70 per cent of the total rate. If school districts use coinsurance to cover risks to which it is applicable, and if they agree to 80 per cent or more coverage to value, two advantages seem to accrue to them, namely: the school district is more adequately protected if it lives up to its obligations, and the school district, under certain conditions, is able to effect insurance savings that are sizable.

Under the provisions of the coinsurance clause, if the local school district carries sufficient coverage to equal or exceed the percentage of value designated in the contract, then the insurance company assumes all the risks up to the face of the policy. If the district fails to carry enough coverage to satisfy the percentage requirement of the contract—in other words, if local officials are supposed to carry $80,000 worth of coverage on a given piece of property and carry only $50,000, or five-eighths of the amount required—then the local district becomes co-insurer for the part of the contract not fulfilled, and in case of loss would share the loss ratio. In this illustration, the coverage is only five-eighths as much as was agreed upon in the contract, and in case of loss, the owner, as co-insurer, assumes the uncovered part or three-eighths of the loss. In this case, if the insured suffered an $80,000 loss (while carrying $50,000 coverage when it should have been $80,000), then the full amount of the policy, or $50,000, could be recovered, but there would be an uninsured loss of $30,000, or three-eighths of the total loss. On the other hand, if both the insurance carried and the loss are less than the percentage to value which has been agreed upon, then the insurance company will pay only that portion of the loss which the insurance coverage bears to the percentage to value agreed upon. Suppose that a loss of $20,000 occurs, then the company would pay no more than five-eighths of $20,000, or $12,500, even though the district was carrying $50,000 coverage.
In other words, the district would be penalized to the extent of three-eighths of the loss because it had not met its obligations under the terms of the 80 per cent coinsurance clause.\textsuperscript{11}

The coinsurance contract places the responsibility for determining the value of property covered by this agreement upon the owner of the property. In order to be fully insured, boards find it desirable to carry ample coverage to meet the percentage set up in the contract. Consequently, changes in value may require changes in the amount of coverage. Boards of education sometimes fail to increase their coverage as the value of their property increases, and if they suffer a loss while underinsured, they become coinsurers and could not recover as much in indemnity as they may feel they should. In order to overcome this danger, however, some school boards form the practice of writing coinsurance coverages slightly in excess of the minimum required so that they have a small margin to play on if property values increase. For example, if a property has an insurable value of $100,000 and is placed under 80 per cent coinsurance, they may cover this property for more than $80,000, giving a leeway of several thousand dollars for possible increased value, but at the same time not overinsuring.\textsuperscript{12}

\textbf{Extended coverage.} The ordinary insurance policy for fire and lightning does not necessarily cover damage from other causes such as explosion, windstorm, hail, smoke, vehicle, or aircraft. Damage from

\textsuperscript{11}Finchum, \textit{loc. cit.}

\textsuperscript{12}Finchum, \textit{op. cit.}, pp. 59-61.
such causes is usually secured through what is known as extended coverage insurance. It may be obtained in connection with a fire insurance policy.

Boards of education vary in the amount of extended coverage they desire to carry. Usually such coverage is for the same amount of protection as the fire and lightning policies on which the extended coverage is endorsed.¹³

Public and institutional property plan. The public and institutional property insurance plan has been developed as a method of insuring property of institutions serving the public interest. Coverage is provided at very sizable discounts on those properties which otherwise qualify and whose management if truly interested in fire prevention.

To initiate the program, the insured must submit a sworn statement of values. To keep the program from reverting to the regular insurance program this sworn statement of values must be resubmitted on each anniversary of the policy. Insurance must be carried to at least 90 percent of the values stated.

The Kansas Inspection Bureau will make an initial inspection of the properties, and thereafter an annual reinspection to give the insured the benefit of its special engineering services. Acceptance by the Inspection Bureau has the effect of substituting an amount of insurance for the coinsurance clause.

A copy of an explanatory letter sent to Mr. Henry F. Pierce by Mr. Frank Sullivan, Insurance Commissioner, of the state of Kansas, which explains the public and institutional property plan, is included in this report in Appendix C.

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.

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.\(^\text{14}\)

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

\(^{14}\text{Pinchum, op. cit., p. 9.}\)
the coinsurance contract, provided, however, that the total loss, in such cases, is less than 2 per cent 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.

**Estoppel** is used interchangeably with the term waiver but there is an accepted distinction between the two. 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.\(^{15}\)

**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 (1) extended coverage, (2) windstorm and hail, (3) unexpired premium, (4) vandalism and malicious mischief, (5) fallen building, (6) rental value, (7) explosion, and (8) general exclusions.

**Extended coverage.** 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

\(^{15}\)Ibid.
that the specified amount shall include, in addition to damages done by fire and lightning, any damages caused by the perils listed above.16

Windstorm and hail endorsement. The 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.17

Unexpired premium endorsement. This endorsement is designed to protect the insured against loss of premium paid to the insuring company far in advance of an insured loss. For example, if the premium on a three- or a five-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 three or five 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.

16Finchum, op. cit., p. 10
17Ibid.
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, however, 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.18

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.19

Fallen building endorsement. An endorsement which provides protection for the insured in case a building falls before it is destroyed by fire. The basic fire policy excludes fallen buildings as

18 Ibid.
19 Ibid., p. 11.
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. 20

**Rental value.** 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. 21

**Explosion endorsement.** An endorsement which 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. 22

**General exclusions endorsement.** This endorsement becomes important only when the coinsurance clause is a part of the insurance contract. In determining the insurable value of a building, this endorsement permits the insured to exclude the costs of such unburnable items

20 Finchum, loc. cit.
21 Finchum, loc. cit.
22 Finchum, loc. cit.
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.\textsuperscript{23}

**Boiler Insurance**

Boiler insurance probably represents one of the least understood of the casualty insurance lines. Boiler insurance covers unpreventable loss due to explosion or rupture, but not those explosions due to defects which may be discovered and remedied. The inspection service furnished by most companies is probably one of the most valuable aspects of the insurance policy. The inspection intends to detect potentially hazardous conditions which might exist within the equipment in the school for the purpose of making recommendations that repairs be initiated in order to avoid accidents.\textsuperscript{24}

Extended coverage insurance does not include boiler insurance. If a school system has low pressure boilers, explosions are not so likely to occur. However, something may go wrong with a low pressure plant that might cause an explosion. In purchasing boiler insurance extreme caution should be taken to see that the district gets the services and protection for which it pays.\textsuperscript{25}

\textsuperscript{23}Finchum, loc. cit.

\textsuperscript{24}Leo V. Ryan, "The School Insurance Portfolio," Catholic School Journal, LVII (September, 1957), pp. 2h3-2h4.

\textsuperscript{25}Rosenstengel and Eastmond, op. cit., p. 358.
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. This type of service should be insisted upon by all local school authorities when power plant insurance is purchased and insurance companies furnishing the most complete and satisfactory inspection services should have first consideration in the purchase of power plant insurance.26

Glass Insurance

In recent years architects and school plant planners have been designing school buildings in which great quantities of glass are used ranging from regular window glass through double-strength glass, polished wired glass, plate glass, 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 damaged glass.27

It should be remembered that neither the fire policy with an extended coverage endorsement nor the fire policy with the vandalism

26Finchum, op. cit., p. 15.

27Ibid.
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.28

Burglary, Robbery, and Theft Insurance

NOTE: The following coverages are not a part of this study but are set forth in the paragraphs to follow so that boards of education might know of their existence.

Burglary. Burglary, for insurance purposes, is usually defined as loss caused by any person or persons entering the premises by force. 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.29

Under these conditions, open stock burglary insurance policies do not cover the loss of money or securities even though felonious entry

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28 Finchum, loc. cit.
29 Finchum, op. cit., p. 16.
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 school day while the building is open for business.

Robbery. Robbery, for insurance purposes, is defined as taking property from the insured by force, or other unlawful means. 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 person enters a school building and forces the principal, or any employee of the school, through violent means or through a threat of violence, 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. 30

Theft and larceny. Both are defined as stealing or taking the property of another without permission. 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 stated earlier, school districts can be protected against the loss of merchandise, furniture, fixtures, and equipment by purchasing

30 Finchum, op. cit., p. 17.
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 Theft policy. However, with the special conditions and limitations imposed by the Open Stock, the Safe Burglary, and the Theft 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 Theft 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.31

The Broad Form Money and Securities policy is broader in its coverage than a combination of Safe Burglary, 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 theft 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

31 Ibid.
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.32

Other losses covered by the Broad Form Money and Securities policy are: (1) destruction of money and securities by fire; (2) theft of money and other property from an unlocked safe, vault, or chest; (3) money stolen from a cash register; (4) damage to a safe or other property if explosives are used to gain entry; (5) damage to a locked cash register from which money is stolen; (6) disappearance of money being conveyed by a school employee to a bank for deposit; and (7) 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 be familiar with the insurance companies which offer protection against the loss of money and securities, as well as the loss of other valuables, and requires the insured to keep books and accounts in such a way that the actual amount of loss sustained can be accurately determined.33

Securing Lowest Premium Rates

Once 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

32 Ibid.
33 Pinchum, op. cit., pp. 16-18.
cost so long as this cost is consistent with an adequate, safe, and
defensible insurance program. In some cases, the boards 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 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 per cent
(or more) coverage to value can reduce premium rates by as
much as 70 per cent under certain conditions.
2. Using the three-year or the five-year term may effect worth
while savings as compared with the one-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 there-
fore 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 co-insurance 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 co-insurance 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.34

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.

Keeping Adequate Records

Insurance records are vital, usually not hard to keep, but they are still often neglected. Simple but adequate up-to-date insurance records should be maintained at all times. Sometimes school officials use what is known as an insurance register. This register may provide all the data needed.

It may often be found desirable for the person responsible for the building 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 districts insurance business. School building

34Tbid., pp. 54-55.
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. The schedule should contain 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 administrator of the insurance program to quickly determine the total cost to the school district of 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. 35

Reviewing the Program

Program review, periodic or continuing, will probably be essential in the various school districts. Values change, risks change, and some-

35Tbid., p. 66.
times 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. When local school officials have essential records and data on costs and values, they have an advantage in claim settlements. A program review of the school district's insurance program, therefore, may be equally as important as any other phase of administering the program.36

36 Ibid., p. 66.
CHAPTER IV

SUMMARY AND CONCLUSIONS

School insurance is an important factor in school administration and the school officials in charge need to understand the essential elements of an adequate, safe, economical school building insurance program. The reorganization of insurance programs in schools have resulted in improving coverage balances, and in effecting immediate or ultimate economies. Many school systems find it desirable to recheck their total building insurance programs frequently.

When planning a school building insurance program many factors should be taken into consideration such as types of insurance, types of companies, amounts of coverage, premium rates, and local ability to stand losses.

An adequate and complete record system of the existing building insurance should be maintained at all times. A complete property inventory should be kept up-to-date for evaluation purposes and for the efficient management of the school building insurance program.

The members of the school board must handle the insurance affairs of the school system much as if it were their own business, but with some exceptions. You might leave some exposures uninsured in your own business and if loss occurred only you would be the loser. A different approach must necessarily be made when planning an insurance program for school buildings. A decision to leave an exposure uninsured would place the financial interests of the taxpayers in jeopardy and failure to