



State fire insurance for public school property in Montana
by Harold Hampton Holen

A dissertation submitted to the Graduate Faculty in partial fulfillment of the requirements for the degree of DOCTOR OF EDUCATION in Education
Montana State University
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Abstract:

This study was a review of the policies and practices employed by the local school districts in Montana in obtaining commercial fire insurance protection for buildings and their contents. After the data had been received, an outline of a public insurance program was presented. Questionnaires were mailed to two hundred seventeen schools throughout Montana early in 1970. One hundred fifty-six responses were received, or about 71 per cent. These responses represent 80 per cent of the value of public school property in Montana. A report was also received from the Montana Fire Rating Bureau. This report showed earned insurance premiums from Montana schools for the period 1959 through 1968 to be \$3,094,616.00, and incurred losses to be \$2,672,775.00, or 86.4 per cent for this period. For the same period the schools reported losses of \$2,548,910.39 and recoveries of \$2,128,022.46, or a ratio of loss recoveries of approximately 83.5 per cent.

One hundred thirteen schools reported using blanket policies, and 23 insured their property as individual risks. The policy periods ran from one to five years. Fifty-nine schools reported using the three-year term. Of the schools reporting, 123 spread the premium payments out into equal annual payments.

There is a definite lack of uniformity in appraisal procedures. Appraisals were made by school personnel, insurance agents, independent firms, or the County Assessor. Forty-three schools had appraisals on an annual basis, while 42 had one every three years.

Eighty-four schools bought insurance exclusively with stock companies, while 23 dealt solely with mutual companies. Eighty-three schools reported the agent was allowed to distribute the insurance at his discretion. Fifty-eight schools reported they retained the same agent for an extended period of time, since they were satisfied with his service. Ninety-six schools utilized co-insurance; all but four of these used the 90 per cent coverage.

There is very little uniformity in the insurance programs of schools in this state. A statewide public insurance program would be possible in Montana, since losses have averaged about \$260,000 per year over the past ten years and premiums are now about \$1,000,000.

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ABSTRACT

This study was a review of the policies and practices employed by the local school districts in Montana in obtaining commercial fire insurance protection for buildings and their contents. After the data had been received, an outline of a public insurance program was presented. Questionnaires were mailed to two hundred seventeen schools throughout Montana early in 1970. One hundred fifty-six responses were received, or about 71 per cent. These responses represent 80 per cent of the value of public school property in Montana. A report was also received from the Montana Fire Rating Bureau. This report showed earned insurance premiums from Montana schools for the period 1959 through 1968 to be \$3,094,616.00, and incurred losses to be \$2,672,775.00, or 86.4 per cent for this period. For the same period the schools reported losses of \$2,548,910.39 and recoveries of \$2,128,022.46, or a ratio of loss recoveries of approximately 83.5 per cent.

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CHAPTER I

INTRODUCTION

Providing a good education for the youth of Montana is an expensive undertaking. However, it is a function that pays handsome returns both in economic and social development to the state and the nation. Since the funds available for education, or any other activity for that matter, are limited, it is imperative that the taxpayers of this state receive the maximum educational value for each dollar expended on public education.

This can only be accomplished if the people make a concerted effort to correct present inadequacies in the state's educational system and pursue farsighted, wise planning for future development on a statewide basis. This type of activity must be thorough and continuous if the kind of education young people need and demand is to be forthcoming from the state's educational system.

Education in the United States has been and continues to be a growing, forceful, changing, dynamic activity. A few examples will help to illustrate what has been taking place.

In absolute numbers, enrollment has been growing steadily, and this growth is expected to continue into the

foreseeable future.¹ The number of junior colleges in this country has increased rapidly in recent years.² There is a new emphasis on vocational and technical education throughout the land, much of it given impetus by federal legislation. The national government has shown its concern by providing more money than ever before, especially since the National Defense Education Act of 1958. Racial integration has come to the schools to some degree since the Supreme Court decision of 1954. New methods have been introduced into the schools, such as the "new math." Most educators expect these kinds of innovations to continue and to increase in frequency in the future.

The people of Montana had invested \$256,150,521.00 in public school property at the end of 1966. During recent years this investment has been increasing by almost ten million dollars per year.³ This amount represents a substantial commitment to the educational endeavors to provide quality education for the state's young people. The loss

¹George L. Collins, "So Get At That Backlog Now," School Management, XI (November, 1967), P. 59.

²Ibid., p. 58.

³Harriet Miller, Biennial Report, State of Montana, (Helena: Superintendent of Public Instruction, 1968), p. 39.

of any part of this investment would create financial difficulty for the school system involved. Therefore, it is necessary to protect this property against loss by carrying insurance. At the present time, school trustees may insure school property by purchasing coverage from commercial underwriters.⁴

During the 1964-66 biennium, the public school systems of Montana spent \$200,799,648.00 of school district funds for education. The total expenditure for fire insurance protection varies from district to district, but averages between three-fourths of one per cent to one and one-half per cent of the operating budget.

From the available literature, it appears that the cost of fire insurance of school buildings and their contents in the United States is high, considering the fact that the type of property covered should be a preferred risk.⁵ Also, there appears to be a disproportionate ratio

⁴Choate and Wertz, Revised Codes of Montana 1947 Annotated, (Indianapolis: The Allen Smith Publishing Co., 1962), p. 75.

⁵Paul B. Salmon, Fire Insurance Principles and Practices in School Districts Employing Nationally Affiliated Business Officials, Bulletin No. 18, (Evanston: Association of School Business Officials of the United States and Canada, 1958), p. 36.

between the amount of premiums paid and the money returned as payment for fire losses. At the national level the money returned as payment for fire losses was 31.81 cents per premium dollar paid out for fire insurance.⁶ When we consider that the average loss for all fire insurance companies on all types of property was 57.2 cents per premium dollar collected, the writer wonders why the cost of school fire insurance is so high. In spite of the cost, most school systems must carry insurance, since they could not afford to replace their property if it were destroyed by fire.

There are several possible ways to attempt to reduce the cost of fire insurance for public school systems in Montana. One method would be to attempt to re-value all school property. This might result in a reduction in the amount of insurance coverage needed. This would require considerable time and expense on the part of an already busy staff, and might not be warranted by the savings realized.

Another procedure would be to approach the insurance companies and the rating bureaus in an attempt to have the insurance rates lowered. If all the concerned individuals

⁶ Ibid., p. 39.

and organizations cooperated, this might be possible.

A third approach would be one in which the schools adopted a policy of noninsurance. In fact, this practice does not constitute insurance at all, and most school systems in Montana would have difficulty in setting aside a sufficient reserve fund. Also, it is probable that legal considerations would make this approach rather difficult.

The fourth possibility would be for the school districts to initiate a practice of self-insurance. Self-insurance is usually considered impractical for small districts, such as those in Montana, since the number of objects insured is too few--usually one or two schools per town, so they are not widely scattered. Also, the time lag from the time of loss, through passage of a bond issue by the voters, to reconstruction could cause havoc with the school's educational program.

Perhaps the most promising approach would be for the state to adopt a self-insurance program. Self-insurance with the entire state as a base would be theoretically sound, since the insured property would be scattered over a wide geographical area, and the number of objects would be large enough to allow accurate statistical determination

of the probable loss from fire.⁷ The major advantage claimed for this plan is that it should result in a savings to the school systems by a substantial reduction in the cost of fire insurance coverage.⁸

STATEMENT OF THE PROBLEM

At the present time there are five states with a state fire insurance program in effect. These states are Alabama, North Dakota, North Carolina, South Carolina, and Wisconsin. Some of these plans have been in effect since the year 1900. All five states report savings on fire insurance costs of from 20 to 50 per cent of commercial rates.⁹

The state of Michigan also has a state fire insurance plan in force. However, the total reserve is only \$250,000 and payment on any one loss is limited to a maximum of \$50,000. With such a small reserve and limited payments, the Michigan plan is ineffective, and cannot be considered

⁷K. O. Nygaard, State Fire and Tornado Fund, (Bismark: North Dakota Products, 1967), P. 7.

⁸State Insurance Fund, Forty-Second Annual Report, (Montgomery, Alabama: Department of Finance, 1966), p. 12.

⁹George R. Robinson, "State Insurance of Public School Property in Michigan" (unpublished Doctor's dissertation, Wayne University, Detroit, 1956), p. 25.

a true state insurance plan.¹⁰

Several large cities in the United States have reduced their insurance costs by employing self-insurance concepts. This method will function profitably for a large system if sound principles are followed. The following cities have used this system with varying degrees of success: Chicago, Cleveland, Baltimore, Seattle, Rochester, and Philadelphia. Obviously, there are no cities or school districts in Montana large enough to utilize self-insurance.¹¹

A review of the related literature revealed that there have been three other studies similar to this one conducted in the states of Tennessee, Michigan, and West Virginia. All three studies have recommended that the respective states adopt a state fire insurance plan.¹²

The hypothesis of this study is that: The school systems of Montana could save a substantial amount of money, in the form of lower insurance premiums, by having a state fire insurance plan as opposed to commercial coverage.

¹⁰ Ibid., p. 61.

¹¹ Ibid., p. 25.

¹² Ibid.; see also Ralph B. Finchum, "A Study of the Insurance Practices and Procedures of Tennessee Public School Boards" (unpublished Doctor's dissertation, University of Tennessee, 1953); and Harry J. Hadley, "A Study to Develop, Analyze, and Evaluate a State Fire Insurance Plan for Public School Systems in West Virginia" (unpublished Doctor's dissertation, West Virginia University, 1968).

Procedures

The following procedures were used in conducting this study:

- A. A review of available literature.
- B. Survey of all school systems in Montana regarding: Cost of fire insurance, loss recovery experience, types of carriers used, appraisal procedures, amount of insurance carried, and other significant information relative to their fire insurance programs.
- C. Travel to selected school systems in Montana to verify responses, examine accounting systems and records, and to confer with school officials.
- D. Obtain from the State Superintendent of Public Instruction data such as current valuation of property, number of schools, and present enrollments.
- E. Confer with the State Insurance Commissioner's office for assistance and suggestions.
- F. Review the plans in operation in other states now using a state fire insurance plan.
- G. Propose a plan for Montana if such a plan appears to be economically feasible.

Design of the Study

The first phase of the study was a review of available and pertinent literature related to school fire insurance. It consisted of reviewing periodicals, school finance textbooks, formal studies, unpublished studies, insurance reports, state reports, insurance texts, association reports, and other related material. The Codes of Montana relating to insurance and duties of school trustees were also examined.

The six state fire insurance plans now in operation were studied in detail, and a summary of each appears in Chapter III. The three studies conducted in Michigan, Tennessee, and West Virginia were reviewed for the purpose of giving direction to this study.

A survey using a questionnaire was used to obtain data from the school districts in Montana. The questionnaire was a modification of ones used by Dr. Ralph B. Finchum and Dr. Harry J. Hadley during studies conducted in Tennessee and West Virginia, respectively.¹³ It was designed to collect data in the following twenty areas:

1. Total value of school buildings and contents
2. Current budget

¹³ibid.

3. Portion of budget allocated to fire insurance
4. Number of buildings in use
5. Current rate paid for fire insurance
6. How the rate was determined
7. Number of buildings insured separately and number covered by blanket policy
8. Total amount of coverage
9. Type of extended coverage
10. Policy periods
11. Losses by types and years
12. Premium recoveries
13. Methods of placing insurance
14. Inventory procedures
15. Type of company
16. Method of paying premiums
17. Distribution of insurance business
18. Periodic checks of existing policies
19. Extent of coinsurance
20. Loss experience with insurance recoveries

The questionnaire was sent to school systems in all fifty-six counties in Montana. Replies were received from 53 counties or 94.6 per cent of the total. Due to the educational programs in the reporting counties, the responses represented approximately 80 per cent of the value of all educational facilities in the state. A copy of the questionnaire is included in Appendix A at page 122. of this study. From the comments made by Salmon and Hadley it appears a state fire insurance plan might be economically feasible for Montana. A state fire insurance plan for Montana is discussed in detail in Chapter Five.

Limitations of the Study

Many types of insurance to cover almost any type of

risk are available to schools that are willing to pay for such coverage. A complete study of all types of insurance available would require a great deal of time and financial support. This study will be confined to fire insurance of public school systems in Montana provided by broad form, standard, and/or extended coverage insurance policies. Also, one and two room structures and their contents were excluded since the total value involved, premiums paid, and recoveries were assumed to be insignificant in relation to state totals. Studies in other states indicated that this type of property was usually not insured.¹⁴

Definition of Terms

The field of insurance is one which requires accurate definition of frequently used technical terms. For purposes of this study, the following terms are defined according to generally accepted usage.

Insurance. Insurance is an economic institution that reduces risk by combining under one management a group of objects so situated that the aggregate accidental losses to which the group is subject becomes predictable within

¹⁴Hadley, op. cit., p. 16.

narrow limits. Insurance is usually effected by, and can be said to include, certain legal contracts under which the insurer, for consideration, promises to reimburse the insured or to render services in case of certain described accidental losses suffered during the term of the agreement.¹⁵

Fire losses. Fire losses are those losses which are insurable through coverages provided by commercial underwriters of fire insurance.

Peril. The term peril refers to a contingency which may cause a loss.

Hazard. Hazard is defined as that condition which introduces or increases the probability of loss from a peril.

Risk. Risk is defined as the uncertainty that exists as to the occurrence of some event.

Pure risk. Pure risk occurs when there is an uncertainty as to whether the destruction of an object will occur; a pure risk can only produce loss, should the peril

¹⁵Clifford H. Allen, "How to Manage a School Insurance Program," American School and University, X (June, 1965), p. 56.

occur. An example of pure risk would be the uncertainty of loss of one's property by fire as opposed to a speculative risk, which can result in either profit or loss.

Preferred risks. The term preferred risks is defined as those risks which, due to their unique circumstances, are considered to be less liable to loss than other comparable insurable situations and are therefore ordinarily reflected in reduced insurance rates.

Transferring the risk. Transferring the risk occurs when one individual pays another to assume a risk that the transferor desires to escape. The risk of loss is often the same to the transferee as it was to the transferor. However, the risk bearer may be in a better financial position to assume the risk.

Excluded perils, property, and losses. These terms refer to those items that are not covered by a standard fire insurance policy.

Insurance agent. An agent acts for the insurance company in arranging a contract for insurance.

Insurance broker. A broker acts for the insured in negotiating an insurance contract with the underwriter.

Fire loss ratio. The term fire loss ratio refers to the per cent of the premium dollar that is returned to the school system for damages by fire according to the endorsements of the insurance policy.

Replacement value. This term is defined as the current cost of replacing or restoring the damaged property.

Sound value. The sound value is the worth of insured property computed from replacement cost minus normal depreciation.

Contingency reserve. A contingency reserve is a fund usually appropriated by the state legislature to start a state fire insurance plan. It is usually paid back to the state from earnings of the state fire insurance program.

Appraisal. Appraisal is defined as an estimate of the value of the property or the amount of damage to the property made by impartial and independent experts.

All-risk policies. All-risk policies are designed to cover all loss resulting from virtually all perils.

Blanket or broad form policies. Blanket or broad form policies are a single contract that covers all types of property at one location or the same type of property

at more than one location.

Concurrent insurance. The term concurrent insurance refers to insurance which covers the same property under the same conditions as another identical policy. Nonconcurrency must be avoided in order to prevent gaps in the coverage where the same property is insured under more than one policy.

Extended coverage endorsement. The term extended coverage endorsement is defined as a provision added to the fire insurance policy which extends the coverage to include loss caused by windstorm, hail, explosion, riot, strike riot, civil commotion, aircraft, vehicles, and smoke.

Comprehensive insurance policy. A comprehensive insurance policy includes all the provisions of the blanket policy plus liability and property damage coverage.

Rate. Rate is defined as the cost of insurance per unit, usually \$100, per year used to determine the premium.

Assessable policies. This term refers to those policies on which the insured can be assessed on additional premiums if the company's loss experience is excessive. A public school should never purchase an assessable policy.

Insurable interest. The term insurable interest refers to the amount that the insured would lose if a loss occurred, and there were no insurance coverage. As a matter of principle and law, a school district may not insure for more than this value, since it cannot lose more than its interest.¹⁶

Consequential loss. Consequential loss is defined as a loss not directly covered by the peril insured against, but resulting therefrom. Such a loss, for example, would entail damage to provisions in cold storage caused indirectly by fire that did not damage the provisions themselves, but caused spoilage by interrupting the power supply to the refrigerator unit.¹⁷

Coinsurance. The term coinsurance is a device to make the insured bear a portion of every loss only when he is underinsured. Thus it becomes a device to prevent underinsurance. Underinsurance has two principal disadvantages to the underwriter. First, insurance companies are expected

¹⁶Frank Albers, Biennial Report of the Fire and Tornado Fund of the State of North Dakota, (Bismark: North Dakota Products, 1964), p. 127.

¹⁷ibid., p. 126.

to restore the policyholder to the same position he was in before the loss. Obviously, this objective cannot be accomplished if the policyholder is unwilling to protect the total value of his property. Second, it costs relatively more to insure the property of individuals who are underinsured, since most losses are partial, and the probability of partial losses is higher than the probability of total loss. Rates depend on the probability of loss and are therefore higher for partial loss. The typical coinsurance clause prorates any partial losses between the insurer and the insured in the proportion that the actual insurance carried bears to the amount required under the provisions of the contract. Usually 80 or 90 per cent of the sound value is the amount of coverage required.¹⁸

$$\frac{\text{Amount of insurance carried}}{\text{Amount of insurance required}} \times \text{Loss} = \text{Recovery}$$

Thus, if there is a building with a \$10,000 sound value written with a 90 per cent coinsurance clause, \$9,000 of insurance is required. If the insured carries at least this amount, he collects in full for any partial loss up

¹⁸ Mark R. Greene, Risk and Insurance, (2d ed.; New York: Southwestern Publishing Co., 1968), p. 139.

to the face of the policy, or \$9,000. But if he carries less he must absorb part of the loss.

Agreed-amount clause. This clause refers to a waiver of the coinsurance requirement through a stipulated value or an agreed amount. By this method the policy is written for a stated percentage of the value of the property. All losses are paid up to the full amount of the policy without penalty since it is agreed the amount of coverage carried meets all requirements. It is highly recommended that schools purchase fire insurance written under an agreed-amount clause.¹⁹

Loading. Loading is defined as an amount added to the rate to cover an extraordinary hazard or expense.

Self-insurance. Self-insurance refers to a plan whereby the organization assumes its own risk of loss. Self-insurance will work only if the following conditions are met: (1) The organization has a sufficient number of objects so situated that they are not subject to simultaneous destruction. The objects are also reasonably homogeneous in nature and value so that calculations as to

¹⁹Albers, op. cit., p. 35.

probable losses will be accurate within a narrow range. If this condition is present, the organization will be able to predict accurately the size of the fund required to meet the expected losses. (2) The organization must be willing to set aside an actual cash fund to meet any large and unusual losses. Until the fund is of sufficient size, commercial insurance should be carried. (3) The organization must have accurate records, or have access to satisfactory statistics, to enable it to make good estimates of the expected loss. Otherwise, it is guessing at the size of the fund and has not successfully handled the risk of loss.

Noninsurance. The term noninsurance is defined as the practice of laying aside cash to meet some emergency with no assurance that the fund will be adequate to meet the emergency if a loss should occur.

State fire insurance plan. A state fire insurance plan is an insurance program administered by the state and covers specific state property. All premiums are paid into a state fund instead of to commercial insurance companies. When the fund reaches what is considered a safe level, usually five per cent of the coverage written, the premiums

are reduced or eliminated altogether until the fund needs to be replenished. Income from investment of the fund is used to increase the size of the fund and to pay administrative costs. The state plans now in operation will be examined in detail in Chapter III.

Mutual insurance companies. Mutual insurance companies are owned and operated by its policyholders. They do not issue capital stock. The policyholders elect the company management. The company sells insurance, pays losses, and generally operates like any other insurance company. At the end of the year, if there is any excess of funds after all legal requirements are met, they are returned to the policyholders. If there is a deficit, each policyholder may be assessed an additional premium to cover the loss.

Stock insurance companies. Stock insurance companies are defined as corporations which sell capital stock to firms or people who wish to invest. They are operated to earn a profit for the stockholders who own the company. After losses are paid and expenses settled, any profits may be distributed to the stockholders as a dividend.

Reciprocal underwriters. Reciprocal underwriters

are those underwriters who, like the mutual company, have no paid-in capital from which losses are to be paid. Under the reciprocal type of contract, each policyholder is insured by all of the others in the group and any other policyholder in the organization who may suffer a loss.²⁰

Lloyd's Associations. Lloyd's Associations in the United States are very similar to the reciprocal type of insurance organization. They are patterned after Lloyd's of London. In this country they appoint attorneys-in-fact, who have the power to administer an insurance business for the group. Each member of the group is liable for the amount of insurance he has agreed to accept on a particular policy.

²⁰ John Bainbridge, Biography of an Idea, The Story of Mutual Fire and Casualty Insurance, (New York: Doubleday and Company, 1952), p. 15.

CHAPTER II

BACKGROUND OF INSURANCE

It is generally agreed that fire insurance is a complicated and difficult area of school business to administer. This is especially true for school people, since they are not specialists in the field of insurance.

A brief summary of the background is presented here to familiarize the reader with the terminology, types of coverage, and other factors that make insurance such an involved field. Some writers contend that the basic idea of insurance originated in ancient Assyria or Babylon some 2500 years before the Christian era.¹

The idea of a state insurance system can be found in primitive form as early as 2250 B.C.² The Babylonian Code of Hammurabi contained provisions for a type of state insurance. The Code provided that a city in which a man was robbed should make good his loss; or if a man were killed by reason of a preventable disorder, the city must indemnify his family from the public treasury.³

¹Harry J. Hadley, "A Study to Develop, Analyze, and Evaluate a State Fire Insurance Plan for Public School Systems in West Virginia" (unpublished Doctor's dissertation, West Virginia University, 1968), p. 31.

²Ibid. p. 32.

³Ibid., p. 33.

Insurance is one of America's most valued institutions, and one of the least understood. All highly developed societies have a very complex system of insurance.

Though the roots of the insurance idea are buried deep in the past, it has reached its fullest flowering in modern times. In its technical development and world-wide expansion, insurance has made more progress in the last hundred years than in the previous thousand. Its rise as a social force has paralleled the rise of capitalism and the extension of the democratic system. In important measure it has made both possible. Insurance is indispensable to a free economy and a free society because it not only protects the values produced by men and women who work for themselves but fosters in them the confidence to produce more. What oxygen is to the air, insurance is to the economic and social life of our time.⁴

Estimates say that more than 90 per cent of the people who own insurance policies neither read nor fully understand them; 55 per cent do not know one kind of company from another; and 35 per cent even forget the name of the company that insures them.⁵

Fire insurance as we know it today was born shortly after the Great Fire of London in 1666. This great fire raged through the heart of London--destroying 13,200 houses, 89 churches, and many other public buildings.⁶ (Although

⁴John Bainbridge, Biography of an Idea, The Story of Mutual Fire and Casualty Insurance, (New York: Doubleday and Co., 1952), p. 16.

⁵ibid., p. 17.

⁶ibid., p. 23.

only six people died in the fire, hundreds succumbed later from shock and exposure.) The total loss was estimated at 10,689,000 pounds sterling, a staggering amount for that time. None of the property which was consumed by the fire was insured.⁷

Shortly after the fire, one Dr. Nicholas Barbon established the first fire insurance company in England. In 1680 Barbon expanded his firm in a new project called simply the Fire Office. The Fire Office was the first stock company organized to write fire insurance. It was capitalized at about \$200,000.⁸ This company insured houses to a fixed amount for a fixed premium. These premiums were based on the rental value of the insured property, which was assumed to be 10 per cent of its actual value. The premium was two and one-half per cent for the annual rental on brick houses and five per cent on frame houses.⁹

The first challenge to the Fire Office monopoly came in 1681 when the City of London established its own government fire insurance plan. (This plan did not prove successful, and it was abandoned by court order in 1683, as its legality was being questioned.)¹⁰ Within a year

⁷ Ibid. ⁸ Ibid., p. 25. ⁹ Ibid. ¹⁰ Ibid., p. 26.

after the failure of the government enterprise, a new private company called the Friendly Society was formed. This firm sold fire insurance on a large scale and operated successfully for many years.¹¹

The first mutual fire insurance company was organized in London in 1696. It was named the Contributors for Insuring Houses, Chambers, or Rooms from Loss by Fire by Amicable Contributionship, but it became popularly known as the Hand-in-Hand, from its fire emblem. The idea of mutual insurance companies gained wide acceptance after the success of this company. The Hand-in-Hand actively engaged in the insurance business for over two hundred years. It was absorbed by the Commercial Union Assurance Company, Ltd., of London in 1905.¹²

Mutual insurance is the oldest form of insurance company known to America. The first attempt at fire insurance in America was made in 1735. The Friendly Society, under a royal charter, was organized in Charleston, South Carolina. In 1741 a disastrous fire destroyed most of Charleston and the Friendly Society went out of business.¹³

The first successful fire insurance company was formed on February 26, 1750, in Philadelphia. Benjamin

¹¹ *ibid.*, p. 27. ¹² *ibid.*, p. 31. ¹³ *ibid.*, p. 41.

Franklin was the chief organizer, and his company was called the Union Fire Company. On March 25, 1752, this company was expanded to sell insurance to anyone who could qualify. The name was changed to the Philadelphia Contributorship for the Insurance of Houses from Loss by Fire. Thus, the city of Philadelphia had fire insurance available to the general public twenty-four years before the American Revolution.¹⁴

For the next thirty-two years the Philadelphia Contributorship was the only fire insurance company in America. The firm did not grow rapidly since the political and economic climate was not very conducive to insurance.¹⁵ Politically, independence was achieved, the Articles of Confederation were written, and a republican form of government was struggling to survive. Economically, the country had a small population and was almost completely agricultural.¹⁶ There was very little demand for fire insurance from people who owned a one-room log cabin in the wilderness.

However, Franklin's company developed several sound insurance practices that are still in use today. The Contributorship required an inspection of every building before it would issue insurance on it, and if necessary,

¹⁴ *ibid.*, p. 49. ¹⁵ *ibid.*, p. 48. ¹⁶ *ibid.*, p. 49.

required changes to bring the property up to a high standard of risk management. This system of inspection was the rude beginning of the science of rating risks. The inspection procedure established the principle of selectivity, which became an integral part of the insurance business.¹⁷

The usual practice was of setting the rate, or cost, of insurance in accordance with the quality of the risk. The English companies had one rate for brick buildings and another for frame constructions, and applied the rates without considering the particular circumstances of each property. The Contributionship determined the rate on each building it insured by taking into consideration the construction, occupancy, and general character of the risk.¹⁸ In accordance with the English practice, Franklin's company wrote all policies for a term of seven years during its early life.

The growth of the company was slow at first; in fact, after ten years of operation its condition was worse than at the end of the first year of operation. The major defect was the lack of reserves which seemed to hold back public confidence. In 1763 the Contributionship made provisions to establish a reserve fund and henceforth

¹⁷ *ibid.*, p. 50.

¹⁸ *ibid.*, p. 51.

business expanded rapidly.¹⁹

In 1810 the Contributionship ceased writing seven year policies and began writing what is known as perpetual insurance. This practice is not widely known except in the few communities where it is available, but it has been a highly successful practice for some companies.²⁰ The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire is still doing business today at 212 South Fourth, Philadelphia, Pennsylvania.²¹ To obtain perpetual insurance, the owner makes a cash deposit to the company of from two to three per cent of the amount of insurance taken. This is the first and last payment if the condition of the insured property remains unchanged.²²

Once the insurance idea caught on and was generally accepted in America, the business grew rapidly. At the present time there are almost 5,000 insurance companies selling insurance of various types in the United States. These firms employ well over half a million people.²³

With this historical background about insurance, a brief examination of what is happening currently in the insurance field, especially with regard to schools, will

¹⁹ *ibid.*, p. 54. ²⁰ *ibid.*, p. 57. ²¹ *ibid.*, p. 60.

²² *ibid.*, p. 57. ²³ *ibid.*, p. 16.

be helpful.

The dollars spent for fire insurance coverage in the United States have increased substantially during the past twenty-four years. The major reason for the increase is the expansion of coverage under blanket or comprehensive type policies and the increased value of the property insured.²⁴ Table 1 shows that the total premiums for fire insurance in 1943 were about 854 million. This included Fire, Extended Coverage, and related types of fire insurance. In 1967 total premiums for the same type of coverage had increased to about two and one-third billion.

Table 1
Fire Insurance Premiums Written 1943-1967

Year	Fire	Extended Coverage	Allied Fire Lines
1943	\$ 713,062,000	\$ 75,458,000	\$ 65,326,000
1944	749,540,000	91,523,000	78,874,000
1945	803,951,000	111,861,000	77,209,000
1946	1,047,167,000	171,673,000	91,946,000
1947	1,197,577,000	199,009,000	103,799,000
1948	1,292,788,000	227,991,000	93,223,000
1949	1,328,391,000	255,956,000	89,401,000

²⁴ Insurance Facts 1968, (New York: Insurance Information Institute), p. 22.

Table 1 (continued)*

Year	Fire	Extended Coverage	Allied Fire Lines
1950	\$1,407,857,000	\$296,797,000	\$ 81,486,000
1951	1,503,579,000	359,814,000	93,948,000
1952	1,506,946,000	399,824,000	108,669,000
1953	1,434,379,000	434,865,000	112,842,000
1954	1,545,894,000	481,804,000	114,804,000
1955	1,560,549,000	557,523,000	119,858,000
1956	1,582,563,000	597,282,000	117,324,000
1957	1,593,996,000	608,725,000	103,735,000
1958	1,626,167,000	625,977,000	140,619,000
1959	1,709,257,000	632,407,000	147,176,000
1960	1,667,385,000	573,946,000	164,964,000
1961	1,619,076,000	539,414,000	170,116,000
1962	1,623,146,000	522,085,000	193,433,000
1963	1,571,957,000	501,945,000	196,752,000
1964	1,533,481,000	489,920,000	188,197,000
1965	1,548,139,000	481,213,000	186,041,000
1966	1,605,668,000	478,571,000	197,032,000
1967	1,650,000,000	475,000,000	210,000,000

*Insurance Facts 1968, (New York: Insurance Information Institute), p. 22.

This represents a per capita expenditure for one type of insurance of about \$11.70 for every individual in the United States, or about \$45.00 per family. Any expense of this magnitude deserves careful analysis to determine if the cost can be justified.

Fire loss has been frequent and at times catastrophic in this country. Table 2 on page 31 contains some

celebrated fires, and the amount of property loss they caused. It is obvious from the table that fire losses cause a great deal of economic loss to the owners involved and the community where they occurred.

Table 2*
Major Fires Property Loss

Year	Location	Property Loss	Estimated Loss
1835	New York City	13 Acres of Buildings	\$15,000,000
1866	Portland, Me.	1500 Buildings	10,000,000
1871	Chicago, Ill.	17,430 Buildings	175,000,000
1901	Jacksonville, Fla.	1700 Buildings	11,000,000
1906	San Francisco, Cal.	28,000 Buildings	350,000,000
1916	Paris, Texas	1440 Buildings	11,000,000
1922	Astoria, Ore.	30 Business Blocks	5,000,000
1934	Lexington, Ky.	Warehouse	3,000,000
1941	Falls River, Mass.	Rubber plant	11,000,000
1945	Dunedin, Fla.	Juice packing plant	2,500,000
1950	Kansas City, Mo.	Rubber warehouse	2,500,000
1953	Livonia, Mich.	Auto plant	50,000,000
1955	Whiting, Ind.	Refinery	20,000,000
1957	Butler, N. J.	Rubber plant	14,000,000
1958	Signal Hill, Cal.	Refinery	9,000,000
1959	Fremont, Cal.	Cannery	2,600,000
1961	Los Angeles	Houses	25,000,000
1963	Pine Bluff, Ark.	Warehouse	3,525,000
1963	Bayonne, N. J.	Factory area	10,500,000
1964	Jersey City, N. J.	Piers & wharves	10,000,000

*Insurance Facts, 1968, (New York: Insurance Information Institute), p. 44.

In a vivid description the Insurance Information Institute shows that since 1875 fire losses have increased over ten times in spite of better protection, fireproof materials, and warning systems.

The dollar value of property damaged or destroyed by fire in the United States exceeded \$1 billion each year since 1957; as contrasted with an aggregate loss of \$78 million in 1875, the year the former National Board of Fire Underwriters started to tabulate such data on an annual basis. The steady rise in estimated fire losses over the years is reflected in the table below.²⁵

Table 3*

U.S. Fire Losses 1875-1967

Year	Aggregate Property Loss	Year	Aggregate Property Loss
1875	\$ 78,102,285	1950	\$ 648,909,000
1880	74,643,400	1955	885,909,000
1885	102,818,796	1956	989,290,000
1890	108,993,792	1957	1,023,190,000
1895	142,110,233	1958	1,056,266,000
1900	160,929,805	1959	1,047,073,000
1905	165,221,650	1960	1,107,824,000
1910	214,003,300	1961	1,209,042,000
1915	172,033,200	1962	1,265,002,000
1920	447,886,677	1963	1,403,558,000
1925	559,418,184	1964	1,367,128,000
1930	501,980,624	1965	1,455,631,000
1935	235,263,401	1966	1,496,755,000
1940	285,878,697	1967	1,706,717,000
1945	484,274,000		

*Insurance Facts, 1968, (New York: Insurance Information Institute), p. 37.

²⁵ *ibid.*, p. 37.

Tables 2 and 3 on pages 31 and 32 illustrate the staggering amount of property loss from fire in the United States. A comparison of these two tables reveals that fire insurance premiums collected far exceed total loss in every year reported. The comparison is even more meaningful when one considers that part of the losses were not insured, thus no payment was made on the uninsured losses. Either the insurance companies are making a large profit or the cost of operating commercial insurance companies is very high.

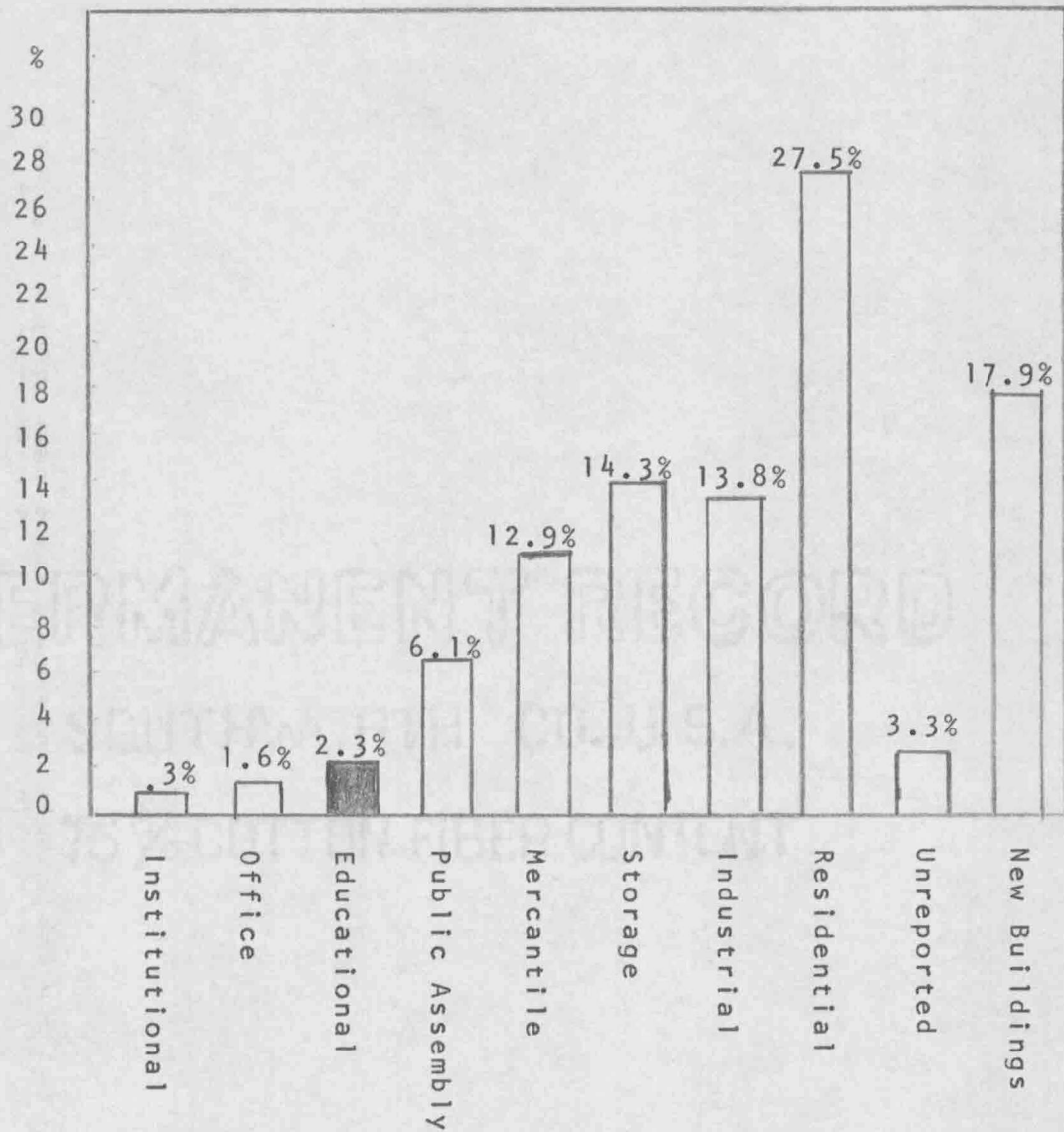
Any combustible type of structure is subject to destruction by fire. It is interesting to note which types of structures typically suffer the highest frequency of fires. Table 4 on page 34 presents this information for 1966. Of all fire losses suffered in 1966 only 2.3 per cent were sustained by educational institutions.²⁶ This appears to be a low percentage compared to residential losses which accounted for 27.5 per cent of the total. From this information it appears the school property should be a preferred fire insurance risk and should enjoy a favored insurance rate.²⁷

²⁶ Ibid., p. 40.

²⁷ Paul B. Salmon, Fire Insurance Principles and Practices in School Districts Employing Nationally Affiliated Business Officials, Bulletin No. 18, (Evanston: Association of School Business Officials of the United States and Canada, 1958), p. 39.

Table 4*

Fires by Occupancy in 1966



*Insurance Facts 1968, (New York: Insurance Information Institute), p. 40.

Fires in public property have caused a substantial number of deaths throughout the history of the United States. Some of the major catastrophes are presented in Table 5.

Table 5*
Deaths in Major Fires

Year	Location	Property	Number of Deaths
1930	Columbus, Ohio	State Penitentiary	320
1937	New London, Texas	Consolidated School	294
1908	Collinwood, Ohio	Lakeview School	175
1929	Cleveland, Ohio	Cleveland Hospital	125
1958	Chicago, Illinois	Our Lady of the Angels School	93
1923	Beulah, South Carolina	Cleveland School	77
1949	Effingham, Illinois	Hospital	74
1957	Warrenton, Missouri	Nursing home	72
1963	Fitchville, Ohio	Nursing home	63
1931	Pittsburg, Pa.	Home for Aged	48
1950	Davenport, Iowa	Mercy Hospital	41
1918	Norman, Oklahoma	Hospital for Insane	38
1967	Berrydale, Florida	Prison Barracks	38
1924	Hobart, Oklahoma	Babb's Switch School	36
1953	Largo, Florida	Nursing home	35

*Insurance Facts, 1968, (New York: Insurance Information Institute), p. 47.

All of the fire casualties listed above occurred in state-owned property. Hopefully, under a state fire insurance plan the inspection requirements would be more demanding and the incidence of major fires would be reduced.

Total fire deaths in the United States were approximately 12,200 during 1967, an increase of 100 over 1966. About half of these fire deaths occurred in the home, and about one-third were children.²⁸ Concerning school fires specifically, there were 6,900 school and college fires in 1966. These fires resulted in a dollar loss of \$34,500,000. In absolute figures these appear to be a very large loss, but when compared to the total fire loss for 1966, shown in Table 3, page 32, it represents less than 3% of the total.²⁹

Table 6, page 37, summarizes the cause for and place of origin of 650 school fires for the six year period 1960 through 1965. From the table it appears that many school fires were caused by electrical faults in the classroom. Also, most fires started during the night when the buildings were unoccupied. This is probably the reason there were fewer school fire deaths.

Three safety precautions would probably reduce school fire losses substantially.³⁰ First, adequate exits

²⁸Harry J. Hadley, "A Study to Develop, Analyze, and Evaluate a State Fire Insurance Plan for Public School Systems in West Virginia" (unpublished Doctor's dissertation, West Virginia University, 1968), p. 43.

²⁹ibid., p. 48.

³⁰Lewy Olfson, "How Many of Your Schools Are Ripe for a Fire," School Management, XII, (April, 1968), p. 58.

Table 6*

Analysis of School Fires 1960-1966

<u>Cause of Fire</u>	No.	Per Cent	<u>When Fires Start</u>	No.	Per Cent
Electrical faults	180	32.5	Midnight-6 a.m.	212	32.6
Suspicious incendiary	123	22.2	6 a.m.-noon	123	18.9
Heating and cooking	76	13.7	Noon-6 p.m.	149	22.9
Smoking or matches	47	8.5	6 p.m.-midnight	166	25.6
Lightening	37	6.7		650	100
Spontaneous	36	7.7			
Gas leaks	11	2.0			
Outside fire	7	1.2			
Miscellaneous	47	8.5			
Undetermined	96				
	650	100			
<u>Place of Origin</u>			<u>How Discovered</u>		
Classroom	120	19.4	Outsiders	435	66.9
Furnace room	82	13.3	Occupants	188	28.9
Storage room	57	9.2	Explosion	15	2.3
Unused room	52	8.4	Automatic system	12	1.9
Stage	42	6.8		650	100
Auditorium	35	5.7			
Floor or ceiling	32	5.2			
Gymnasium	25	4.1			
Hallway	25	4.1			
Manual training room	20	3.2			
Office	19	3.1			
Laboratory	16	2.6			
Janitor's closet	14	2.3			
Wall	13	2.1			
Locker room	10	1.6			
Kitchen	9	1.4			
Under building	8	1.3			
Miscellaneous areas	38	6.2			
Undetermined	33				
	650	100			

*Lewy Olsson, "How Many of Your Schools Are Ripe for a Fire," School Management, XII (April, 1968), p. 58.

as defined in the Life Safety Code should be provided in every school. Next, all stairwells should be closable, with fireproof doors. Third, the entire school should be protected by a sprinkler system.³¹

In summary, it is interesting to note some frightening facts about fires in the United States. There are more than 6,560 fires every day in this country. That means at least one fire starts every 47 seconds in someone's house. A death is caused by fire every 43 minutes, resulting in untold economic and social loss to the community and nation.

In 1967, fire losses amounted to \$1,706,717,000. This is an increase of about 14 per cent over 1966. There were 970,000 building fires reported in the United States during 1966, about 50,000 more than the previous year. According to the American Insurance Association, the loss of property by fire each year in relation to the total quantity of goods subject to fire is declining.³² This means that the percentage of fires in relation to the total expenses is declining. Lastly, over half the school fires during 1966 were started by arsonists.³³

³¹ *ibid.* ³² Insurance Facts 1968, op. cit., p. 35.

³³ Olson, loc. cit.

SOCIAL AND ECONOMIC IMPLICATIONS

Legal authorities tend to classify insurance policies as aleatory contracts--a case in which the outcome is subject to an uncertain event. This causes many people to confuse insurance with gambling. Gambling creates a new risk where none existed before, whereas insurance is a method of eliminating or greatly reducing an already existing risk.³⁴ In actual practice, insurance exchanges a large uncertain loss for a small, but certain loss--the premium.

Insurance, then, serves as a useful device in that it helps to eliminate risks and brings economic advantage to the insured. Greene presents several economic and social values of insurance.³⁵

1. The amount of accumulated funds needed to meet possible losses is reduced.
2. Cash reserves that insurers accumulate are freed for investment purposes, thus bringing about a better allocation of economic resources and increasing production.
3. Since the supply of investable funds is greater than would be true without insurance, capital is available at a lower cost than would otherwise be true.

³⁴Mark R. Greene, Risk and Insurance, 2d ed., (New York: Southwestern Publishing Co., 1968), p. 63.

³⁵*ibid.*, p. 66.

4. The organization with adequate insurance is a better credit risk.
5. Insurers actively engage in loss-prevention activities.
6. Insurance contributes to business and social stabilities and peace of mind by protecting property and life.

Since many schools in Montana already carry insurance, they enjoy these benefits. However, if the cost of insurance could be reduced, funds would be available to the schools for other needs.

GOVERNMENT REGULATION OF INSURANCE

It has been said that the general purpose of government is to protect the public and champion the cause of the weak. Therefore, government has laid down rules governing the conduct of business activities, and insurance is subject to such control.³⁶

Because of the special social characteristics of insurance that differentiates it from a trading type of industry, insurance is subject to extensive government regulation. The benefits from insurance are paid for in advance and often are not realized until a distant future

³⁶ *ibid.*, p. 713.

date. Thus, the person making the purchase may not be present to defend his rights. Insurance is a complex agreement which few laymen understand, so the insurer could take advantage of the purchaser. Also, insurance costs are not known at the time of sale, so there might be a temptation to charge too much or not enough in order to obtain sales.

Traditionally, insurance practices have been regulated by the states.³⁷ All states have a state insurance officer of some type. Because of early abuses in the insurance field, it became apparent that careful regulation of the industry was needed. In 1868 a United States Supreme Court decision, *Paul vs. Virginia*, established the right of states to increase regulatory powers.³⁸

This decision was reversed in 1944 by the *Southeastern Underwriters Association* case. Consequently, a federal statute, Public Law 15, commonly called the *McCarver-Ferguson Act*, was passed by Congress in 1945.³⁹ This law returned regulation of the insurance industry to the several states. It also provided that the *Sherman Act*, *Clayton Act*, *Robinson-Patman Act*, and the *Federal Trade Commission Act* would apply to insurance after a three year time lapse if the states did not regulate insurance

³⁷*ibid.*, p. 715 ³⁸*ibid.*, p. 718. ³⁹*ibid.* p. 722.

activities in the areas covered by these acts. Finally, those portions of the Sherman Act relating to boycotts, coercion, and intimidation were to apply to insurance activities.

From the above comments, it is apparent that state government has been closely associated with insurance activities for at least the last one hundred years.

ADMINISTERING AN INSURANCE PROGRAM

Establishment of a sound fire insurance program is a complicated task. The following procedure has been recommended in establishing and maintaining a good fire insurance program.⁴⁰

1. Place responsibility for the school insurance program. In smaller school districts this will usually be the superintendent or his assistant.
2. Obtain a reliable appraisal of the school property, preferably from an outside, independent expert. This practice may be somewhat expensive, but an accurate evaluation of the district property is essential.
3. Determine the method to use. The buildings and contents may be insured for replacement value, sound value, cost or coinsurance may be utilized.
4. Provide school forms. This will insure that the proper information is kept and is available

⁴⁰Henry H. Linn, and Schuyler C. Joyner, Insurance Practices in School Administration, (New York: Ronald Press, 1952), p. 76.

for use by school officials.

5. Secure all possible rate reductions. At this time it can be said there are many ways to reduce rates. Expert advice can be of great help in this area; such people as safety engineers, fire adjustors, and the Fire Marshall can provide suggestions on removing hazards.
6. Maintain adequate records. Records of appraisals, construction costs, inventories and the like must be kept up to date if the insurance program is to be current.
7. Establish a plan for distributing the insurance to companies or agents. This requires the school board to set policies for the administration of the school insurance programs. Insurance business should be placed on an objective basis either by competitive bid or having some criteria that companies must meet to qualify for participation.
8. Obtain maximum adjustments for losses (if or when they occur.) Loss settlement can develop into complicated arrangements, arguments, and even legal actions unless the administrator is well-versed in the right of the school under the insurance carried.⁴¹

These eight requirements illustrate the need for the person responsible for the insurance program to have some degree of expertise in the insurance field if he is going to do an adequate job for the school district. Since the school board usually looks to the superintendent for advice and direction in technical matters such as insurance, he needs a working knowledge of such items as types of policies,

⁴¹ibid.

endorsements, coinsurance, concurrency, rate making, claims, as well as local and state building and safety codes.

TYPES OF COVERAGE

There are several types of insurance policies and/or endorsements available from both stock and mutual insurance companies. Every school administrator needs to know what coverage is available and what it will do in his particular school district. Even trying to decide how much insurance to purchase can be a major problem without considering the type of insurance to be purchased. The amount of insurance can be based on cost, sound values, replacement values, coinsurance, or perhaps an agreed amount clause should be included in the policy. The school official must consider all the various types of policies from straight fire insurance through all-risk, blanket, broad form, standard, assessable, public institutional and property, to the extended coverage endorsement. If more than one company participates in the program, he must deal with the concurrency problem. Perhaps coinsurance would be adequate and reduce the cost. Overall, these decisions are difficult and time consuming at best. A wrong decision results in one of two outcomes. If too much insurance is carried, the taxpayers' money is being expended needlessly. If too little

is carried and there is a loss, it will place an economic hardship on the community involved, to say nothing of what will happen to the school's public relations with that community.

RATING INSURANCE COMPANIES

In selecting the insurance company the school expects to do business with, a prime consideration should be the company's rating.⁴² Probably the best known and most widely used rating service is Best's. This service attempts to evaluate insurance companies on their underwriting results, economy of management, adequacy of reserves, adequacy of surplus, and soundness of investment.⁴³ The ratings are of two types. The first type evaluates the general reliability of the company from the policyholder's viewpoint. These ratings are "A+" (excellent), "B+" (very good), "B" (good), "C+" (fairly good), and "C" (fair). The second type of rating reflects the net worth of the company. There are 15 ratings from AAAAA for large firms (25 million or more) to CC for small companies (250,000 or less).⁴⁴

⁴²Clifford H. Allen, School Insurance Administration, (New York: The MacMillan Co., 1965), p. 10.

⁴³Mark R. Greene, Risk and Insurance, 2d ed., (New York: Southwestern Publishing Co., 1968), p. 149.

⁴⁴ibid.

Allen recommends that school districts require Best's rating of at least A:AA for most types of insurance coverage.⁴⁵ This implies a company with an excellent record and a strong financial position.

RATING OF PROPERTY

There is an additional area of insurance the school administrator should be acquainted with in order that he may understand various situations concerning the establishment of rates, regulations, and the adjustment of losses. This involves the various types of bureaus organized for the purposes of rate-making, standardization of forms, loss prevention, and adjustment of claims. It is the purpose of rate-making organizations to develop rates that are adequate but not excessive, and that discriminate fairly among risks.⁴⁶

Fire insurance rating bureaus are organized on a regional or state basis. The Pacific Fire Rating Bureau has jurisdiction over Alaska, Arizona, California, Nevada, Utah, Montana, and Oregon--with memberships consisting of stock fire insurance companies doing business in these states.⁴⁷ Other carriers may subscribe to the bureau's service.

⁴⁵Allen, loc. cit. ⁴⁶Ibid., p. 14. ⁴⁷Ibid., p. 15.

The National Bureau of Casualty Underwriters is a voluntary organization of stock companies which write various kinds of casualty insurance. The functions of these organizations is to compile statistical experience and establish rates, and to standardize forms.⁴⁸

For many years the National Association of School Business Officials has felt there is a need to develop a comprehensive school program for rating jurisdictions to gather experience on public schools only. At the present time, all educational institutions are lumped together, and premium loss experience ratios are developed for the entire group.⁴⁹ At one time the National Board of Fire Underwriters agreed to collect the expense data on public school losses separately from other public institutions. Unfortunately the rating jurisdictions refused to separate the information requested, so the Board was unable to follow through with this plan.

Texas is the only state where public school rates

⁴⁸ *ibid.*

⁴⁹ Paul B. Salmon, Fire Insurance Principles and Practices in School Districts Employing Nationally Affiliated Business Officials, Bulletin No. 18, (Evanston: Association of School Business Officials of the United States and Canada, 1958), p. 39.

are arrived at on the basis of public school loss experience exclusively.⁵⁰ The Insurance Commissioner of Texas is required by statute to establish rates, and he has seen fit to collect loss experience on public schools separately. Many school officials feel the less desirable risk of private schools is causing the public schools to pay a higher insurance rate.⁵¹

Fire insurance rating systems employ two basic methods: (1) schedule rating for commercial buildings, and (2) manual ratings for dwellings.⁵² Manual rating sets up classes or groups to which a uniform rate is applied, since the variation in risk is not considered measurable. It is commonly used for life and automobile insurance and will not be covered by this study, since they do not involve school property.

The principal objective of schedule rating is to provide an incentive for loss prevention on the part of the insured and to recognize basic differences in fire hazards from one property to another.

The Dean Analytic Systems was devised and copyrighted by A.F. Dean in 1902. The system is now owned by

⁵⁰ Ibid. ⁵¹ Ibid. ⁵² Greene, op. cit., p. 752.

the Western Actuarial Bureau.⁵³ The Dean system starts with basic rates, which are compiled in a series of tables, for each of the ten classes of cities.⁵⁴ Cities are classified, for this purpose, according to fire fighting facilities, police protection, accessibility to property, street construction, climate, and other general factors that affect detection and containment of fires.⁵⁵

Trained engineers inspect and evaluate each property for risks. They use a standard rate survey which collects data relating to the specific features of a building that affect it as a fire risk. In general, the hazards that increase the probability of fire are separated into two classes: causative hazards--those that originate combustion, and contributive hazards--those which contribute to the spread of fire once it has started. These buildings are classed either as fire-resistive or non-fire-resistive.⁵⁶ Fire-resistive buildings are given credits for various

⁵³Ralph B. Finchum, Fire Insurance Economics Through Plant Management, (Washington, D.C.: United States Department of Health, Education, and Welfare, Office of Education, 1964), p. 13.

⁵⁴Greene, op. cit., p. 767.

⁵⁵ibid., p. 769.

⁵⁶Finchum, op. cit., p. 15.

construction features and so pay a lower rate. Another feature that affects the insurance rate is the height and total floor space of a building. According to Finchum, the construction features of a building which can contribute to its fire hazard are discussed below:

1. The type of construction refers to the framing and wall system (steel, reinforced concrete, wood).

2. Height includes the number of stories, basement, roof house, or roof deck.

3. Area is the total square feet of floor space.

4. Exterior walls include numerous details such as kind of material, solid, proximity to other buildings, heavy, and their thickness.

5. Parapets are analyzed as to exposed roof houses, height, nearness to adjacent walls, and other exposures.

6. Wall materials include total area, easily damaged materials, and area of walls by specific types of material.

7. Additions must be described as to type of construction, height, floor area, separate or connected, and whether they are owned by someone else.

8. Foundations are described as to material and if they are exposed or not.

9. Roof, as to whether it is fireproof, insulated, surfacing material, and closure of roof joist.

10. Skylights as to number, type of glass and frame, and protection by screen or mesh.

11. Floors are recorded by construction type.

12. Floor openings are identified as to number and location and kind of enclosure.

13. Interior walls or partitions are classed by type of material, plastered or not, type of doors, and if fire-resistive.

14. Fireproofing of interior supports and if they are plastered; if so, how thick.

15. Horizontal supports-including beams, girders, and trusses, by type of material and if they are fireproof.

16. Interior finish must be checked, especially in heavily used areas.

17. Chimneys, if any, are classed by material and thickness.

18. Stovepipes, if any, are checked where they pass through ceilings, partitions or floors.

19. Heat refers to type (gas, oil, electrical) and how it is supplied to various parts of the building.

20. Light as to type (electric, kerosene)⁵⁷

The type of occupancy also affects the insurance rate. The rates vary for commercial, industrial and manufacturing buildings.⁵⁸

Another system of rating property for fire insurance is the Universal Mercantile System developed by F. C. Moore, chairman of a committee of the Board of Underwriters, in 1902.⁵⁹ This system was designed to rate mercantile risks, but in jurisdictions where it is employed it is also used to rate school property. Since this system is not copyrighted,

⁵⁷ Ibid., p. 16. ⁵⁸ Ibid., p. 19. ⁵⁹ Ibid., p. 25.

it can be changed at the discretion of any rating organization, with the approval of the proper state official.

The system starts with a "standard" building in a "standard" city. A standard building for this purpose is an ordinary brick building. A standard city is one with wide, level streets, gravity waterworks, adequate fire and police protection, and rigid building codes.⁶⁰ This system utilizes inspection and considers essentially the same building features as the Dean System. The system utilizes two types of rates: a basic rate which is the rate of a standard building in a standard city, and a key rate which is the average rate of a standard building in a given city. The rate for a given city is determined by making charges or giving credits for inferior or superior features of that city.⁶¹

PROPERTY VALUATION

Determining accurately the proper valuation of buildings and contents is the responsibility of the school officials. A detailed list of property including buildings and their location, contents, correct valuation, type of construction, and amount of insurance carried must be

⁶⁰ Ibid.

⁶¹ Ibid.

supplied to the insurance underwriter.⁶²

Since the fire insurance rate is usually substantially lower on the building, as opposed to the contents, it is important that all property be correctly classified.⁶³ Also, certain items should be excluded for insurance valuation purposes. It is common practice to exclude items such as foundations and utility connections below ground level from coverage since they are not destroyed by fire.⁶⁴

The school official may choose from at least three valuations in determining the amount of insurance to purchase. He can use actual cost, replacement cost, or sound value. In selecting a value, assuming no agreed amount clause, he must be aware of the coinsurance requirements.⁶⁵

From the previous discussion it appears that fire insurance presents some rather difficult problems for school administrators. If the school official is going to manage the insurance program properly, he needs to know a good deal about insurance or have access to competent advice from an insurance expert.⁶⁶

⁶²Clifford H. Allen, School Insurance Administration, (New York: The MacMillan Co., 1965), p. 17.

⁶³ibid., p. 18. ⁶⁴ibid., p. 19. ⁶⁵ibid., p. 22.

⁶⁶ibid., p. 24.

Several large cities and counties in the United States have attempted to cut fire insurance costs by employing self-insurance practices.⁶⁷ Some of the major ones are discussed in the following section.

SELF-INSURANCE IN SCHOOL SYSTEMS

Montgomery County, Maryland, has one type of self-insurance program. This county has a population of over 400,000 with 100,000 students in kindergarten through grade fourteen. It has 151 schools with an operating budget of \$60 million and a capital budget of \$13 million per year. The school system owns property valued at \$146,000,000 and has 7,500 employees.⁶⁸

Their plan was designed to protect the local government and the school system against fire loss of buildings and their contents. This was accomplished by purchasing commercial insurance with a \$100,000 deductible and establishing a cash reserve fund. Payments are made for losses as follows: loss of \$500 or less--no payment; \$500 to \$100,000--full payment less \$500; over \$100,000--fund pays

⁶⁷Henry H. Linn and Schuyler C. Joyner, Insurance Practices in School Administration, (New York: Ronald Press, 1952), p. 69.

⁶⁸National Association of School Business Officials, Insurance Management, 50th Annual Proceedings, 1964, p. 373.

\$99,500--remainder by the insurance company. Large risks over \$100,000 are reinsured with commercial carriers.⁶⁹

The county has the authority to bond for \$500,000 to pay fire losses but, as yet, it has not had any need to do so.⁷⁰

The cash reserve fund has been built up by an annual appropriation from the school board and through accumulated earnings. When the fund reaches \$500,000 it pays an 8 1/2% dividend. An appropriate amount of cash is kept on hand in the bank; the remainder is invested in securities.⁷¹

The commercial insurance is purchased on five year terms by competitive bid from those companies which meet the board's requirements. The school officials of the county feel that they have saved money on fire insurance coverage and that many other school systems could reduce their fire insurance costs by using such a plan.⁷²

In 1914 the Seattle school system stopped purchasing commercial insurance and established a self-insurance program. No reserve fund was established at first, but fire loss could be paid out of the General Fund. A cash fund was started in 1931 and it is now approaching 1 million dollars.⁷³ The fire loss experience of the Seattle school dis-

⁶⁹ Ibid., p. 374. ⁷⁰ Ibid., p. 375. ⁷¹ Ibid.

⁷² Ibid., p. 378. ⁷³ Ibid., p. 379.

trict has been very low, only \$93,867 in fifty years. The school district estimates they would have paid \$1,480,000 for fire insurance during the same period on \$50,000 deductible. Seattle attributes the low loss ratio to good maintenance and housekeeping procedures. The custodial staff is trained and constantly reminded to prevent fire hazards.⁷⁴

These school officials feel that most large districts could save money by having a self-insurance plan for fire losses. A five year study of school fire losses for the state of Washington revealed that only 17.22 per cent of the premiums paid came back to the school in payment for claims.⁷⁵

The city of Chicago has followed a plan of No Insurance for property damage for many years.⁷⁶ The No Insurance or self-insurance is feasible when the school system has a loss ratio that is favorable in relation to average annual premiums. During a twenty-one year period the Chicago Public Schools suffered a total fire loss of \$1,630,542 for an average annual loss of \$77,645. The estimated total commercial fire insurance premium for this period would have been \$16,500,000 or \$750,000 per year.

⁷⁴ *ibid.*

⁷⁵ *ibid.*

⁷⁶ *ibid.*, p. 380.

The No Insurance plan resulted in a net savings of \$14,869,458 for this time period.⁷⁷

These three, widely reported examples are illustrative of how various types of self-insurance operate, and of their financial success. There are about fifty other self-insurance programs in the United States operated by large cities or counties, including such school systems as New York City, Philadelphia, and Cincinnati.⁷⁸

RELATED STUDIES

During the past forty years there have been several studies relating to school fire insurance. The National Association of Public School Business Officials conducted continuous studies relating to school fire insurance procedures from 1921 to 1945. In 1959 their state affiliate in Michigan sponsored Dr. Robinson's study of the potential of a state fire insurance plan for that state.⁷⁹

The Association of School Business Officials of the

⁷⁷ *ibid.*, p. 381.

⁷⁸ Stephen J. Knezevich, and John Guy Fowlkes, Business Management of Local School Systems, (New York: Harper and Brothers, 1960), p. 276.

⁷⁹ George R. Robinson, "State Insurance of Public school Property in Michigan" (unpublished Doctor's dissertation, Wayne University, 1956), p. 24.

United States and Canada sponsored a national study by Dr. Salmon dealing with fire insurance principles and practices.⁸⁰

In 1953 Dr. Finchum conducted a study in Tennessee to determine the insurance practices and procedures of school boards in that state.⁸¹

In 1956 Dr. Robinson completed the study mentioned above in Michigan. His study dealt with an already existing state fire insurance program in his state.⁸²

During 1968 Dr. Hadley carried on a study to develop, analyze, and evaluate a state fire insurance plan for West Virginia.⁸³

All three of these studies recommended a state insurance plan for their respective states. To the writer's

⁸⁰Paul B. Salmon, Fire Insurance Principles and Practices in School Districts Employing Nationally Affiliated Business Officials, Bulletin No. 18, (Evanston: Association of School Business Officials of the United States and Canada, 1958), p. 5.

⁸¹Ralph B. Finchum, "A Study of the Insurance Practices and Procedures of Tennessee Public School Boards" (unpublished Doctor's dissertation, University of Tennessee, 1953), p. 1.

⁸²Robinson, op. cit., p. 93.

⁸³Harry J. Hadley, "A Study to Develop, Analyze, and Evaluate State Fire Insurance Plan for Public School Systems in West Virginia" (unpublished Doctor's dissertation, West Virginia University, 1968), p. 4.

knowledge such a plan has not been adopted by any of the states concerned. Apparently Robinson's findings for Michigan were submitted to a legislative committee, but no action was taken.⁸⁴

However, there are several state fire insurance programs for coverage of school property now in operation in the United States. A summary of these programs appears in Chapter Three.

⁸⁴Association of School Business Officials of the United States and Canada, Report of Insurance Management Research Committee, 45th Annual Proceedings, 1959, p. 217.

CHAPTER III

CURRENT STATE FIRE INSURANCE PROGRAMS

Self insurance is not new to many school systems in the United States. Several states and a number of cities have employed this practice for many years. The major reason for self insurance is the claim that the schools can save from 20 to 50 per cent of the commercial insurance costs, plus earn interest on their reserve funds.¹

Table seven presents data on fire loss ratios for several states over a thirty-one year period.

Table 7*

Fire Loss Ratios in Selected Systems of Certain States, 1921-1952

State	Loss Ratio 1921--1930	Loss Ratio 1931--1937	Loss Ratio 1938--1945	Loss Ratio 1948--1952
Alabama	30.45	16.61	5.86	38.0
Florida	-----	-----	.72	19.7
Michigan	17.71	3.13	5.86	26.0
Montana	63.59	2.35	.00	----
N. Carolina	15.05	144.39	8.99	33.3
N. Dakota	-----	31.02	----	----
Vermont	-----	.00	----	12.5
Wisconsin	-----	.46	.89	26.3

*Stephen Knezevich, and John Guy Fowlkes, Business Management of Local School Systems, (New York: Harper and Brothers, 1960), p. 288.

¹National Association of School Business Officials, Insurance Management, 50th Annual Proceedings, 1964, p. 284.

In those states using self insurance the ratios appear to be relatively high for some years, but if one considers these insurance premiums as about one-half the commercial rates, they are in fact rather low in most cases.²

South Carolina

The first state self insurance program was established in South Carolina in 1900. This program is known as the State Insurance Sinking Fund and is administered by the Division of Sinking Funds and Property, State Budget and Control Board.³

At the outset there was no provision for establishment of any cash reserve fund. The program covered fire and windstorm damage only. Participation in the plan was required for all state, county, and public school districts. All other public buildings and their contents, including institutions supported by the state, were included, except the State House.⁴

²Stephen J. Knezevich and John Guy Fowlkes, Business Management of Local School Systems, (New York: Harper and Brothers, 1960), p. 286.

³National Association of School Business Officials, *op. cit.*, p. 385.

⁴George R. Robinson, "State Insurance of Public School Property in Michigan" (unpublished Doctor's dissertation, Wayne University, 1956), p. 26.

In 1950 the law was amended to include extended coverage insurance and adding the State House.⁵

The Division provides two special agents who inspect, at least once a year, and appraise all property handled by the fund. Property classifications are established by the Division. All property is rated at 75-95 per cent insurable. The insurable value of any property is actual cost less depreciation. In the event of disagreement between local and state officials three appraisers are appointed to settle disputes.⁶

The premium rate is set by the Division of Sinking Funds. The cost cannot exceed the commercial rate under any circumstances. When the reserve fund reaches five per cent of the insurance in force, no premium will be charged, provided the district has made at least five annual payments.⁷ The law provides that premiums must be paid to the State Budget and Control Board on demand. If no money is available at the time, the local board must make payment out of the first available funds. The penalty for late

⁵State Budget and Control Board, Excerpts from 1962 South Carolina Code of Laws Relating to Insurance of Public Buildings, Division of General Services, 1965, p. 1-431.

⁶ibid., p. 445.

⁷ibid., p. 443.

payment is five per cent per year.

There are no specific provisions regarding investment of the fund. All monies are deposited with the state treasurer to be held for the specific purposes for which the sinking fund was created. The funds are invested in U. S. Government Bonds and Notes, public real estate, and loans to the state and counties of South Carolina. Also, the fund keeps about .4 million in cash on hand.⁸

The fund now totals about 23 million dollars and has nearly 800 million dollars of insurance in force on school property. In 1966 administrative expenses amounted to \$77,027.37, compared to \$788,601.80 of interest income, which is less than ten per cent.⁹

The South Carolina program also provides for re-insurance. This feature is especially important during the early years until an adequate cash reserve is built up. At present some reinsurance is still carried.¹⁰ There is no limit on expenditures from the fund. The Division can restrict expenditures from the fund. In recent years the

⁸Furman E. McEachern, Jr., Report of the State Budget and Control Board, (South Carolina: Division of General Services, 1966), p. 10.

⁹ibid., p. 11.

¹⁰ibid., p. 25.

annual charge for premiums averaged 50 to 60 per cent of full business rates.¹¹

Wisconsin

Wisconsin was the second state to establish a state self insurance program. The State Fire Insurance Fund was created by state statute in 1903. At the outset only fire and windstorm protection of state property was provided. In 1911 the law was amended to allow schools, cities and towns, and libraries to insure in the state fund.¹²

The Wisconsin fund is administered by the Commissioner of Insurance, who also provides inspection and appraisal services. The local board may employ their own appraisers. The state authorities encourage the schools to increase the amount of their insurance as property values and replacement costs go up. The insurable value of property is considered to be 90 per cent of actual cash value.¹³

Receipts to the fund are deposited with the state treasurer and are invested according to law by the State

¹¹National Association of School Business Officials, Insurance Management, 50th Annual Proceedings, 1964, p. 385.

¹²Robert D. Haase, Wisconsin Insurance Report, 1967, p. 29.

¹³Robinson, op. cit., p. 35.

Investment Board. Losses and expenses of the fire fund are certified to the Bureau of Finance and payment is made in the same manner as used for all state business. All of the expenses of operating the fire fund are paid by it.¹⁴ Wisconsin Laws of 1961, Chapter 191, provide that when the surplus in the fund exceeds \$5,000,000 at the end of any calendar year, the Commissioner of Insurance will discontinue the collection of premiums on state property. Since July 1, 1961, premiums have not been collected on state property.¹⁵ The rates for coverage in the plan are fifty per cent of the rate published by the Fire Insurance Rating Bureau.¹⁶ During the early years of the program, several serious losses occurred and monies were borrowed from the state; all these have been repaid with interest. These losses caused the fund to charge 75 per cent of the commercial rate for several years.

The insurance fund writes coverage under the Public and Institutional Property Form on property of counties, cities, towns, school districts, and libraries. At the end of 1966 the fund carried insurance on property in forty counties, 204 cities and towns, 230 school districts, and

¹⁴Haase, op. cit., p. 29. ¹⁵ibid. ¹⁶ibid.

fourteen library boards.¹⁷

Premiums for 1966 totaled \$488,612.04 from all insurers. Losses of state property totaled \$71,316.81. The loss ratio for all periods was 47.9 per cent. Total expenses amounted to \$60,385.29 on about 13.5 per cent of income. Insurance coverage in force at the end of the year exceeded one and one-half billion. The balance in the fund was \$5,267,009.34.¹⁸

The ending balance for the fund is somewhat misleading. The State Legislature has made several withdrawals from the fund in recent years. In 1955, five million was transferred to the general fund; in 1959, \$1,700,000 was appropriated for land purchase; and in 1963, three and one-half million was transferred to the general fund.¹⁹ The insurance people contend that the fund should not be used for non-insurance purposes.

North Dakota

A State Fire and Tornado Fund was established by the State Legislature of North Dakota in 1919, thus becoming the third state to adopt a self insurance program. Apparently this act was prompted by the feeling that private

¹⁷ Ibid., p. 30.

¹⁸ Ibid.

¹⁹ Ibid.

companies should not profit at the expense of the taxpayers.²⁰

This fund started with no appropriated reserve fund. However, reinsured provisions were included in the law and the fund has used reinsurance in varying degrees up to the present time. The fund is administered by the Commissioner of Insurance. Coverage of state and public property is mandatory.²¹

The original law required the fund to charge the full commercial rates until the fund reached ten per cent of the insurance coverage carried. In 1927 this was changed to five per cent. In 1931 it was set at \$2,000,000. The requirement was changed several more times over the years; presently it is set at 12 million.²²

Inspection of all insured property is carried out through the Department of Insurance. Appraisals are conducted by a recognized appraisal company. If a dispute arises about valuation, arbitration is used to settle the dispute.²³ Coverage can not exceed 90 per cent of the full

²⁰Frank Albers, State Fire and Tornado Fund Law and History, North Dakota, 1963, p. 3.

²¹ibid., p. 4.

²²ibid.

²³K. O. Nygaard, State Fire and Tornado Fund, (Bismark: North Dakota Products, 1967), p. 7.

insurable value. Premiums are due on August 1 of odd-numbered years. A six per cent per year charge is assessed for late payment after 60 days.²⁴ In the past the fund has fluctuated widely in the rates it charged, from full commercial rates to no charge for insurance.²⁵ The 1966 rate was 49.6 per cent of the commercial rate.²⁶ In no case may the rate exceed 50 per cent of the commercial rate.²⁷

On June 30, 1966, the fund carried \$343,126,292 of insurance from 1,109 policies. Net premiums for the 1964-1966 biennium totaled \$1,154,609.78 and total losses paid were \$317,291.64 for a loss ratio of 27.48%. On the same day the fund balance was \$6,332,123.37.²⁸ North Dakota's plan seems to have worked well even after some large losses, including the state capitol building.

²⁴Ibid., p. 8.

²⁵George R. Robinson, "State Insurance of Public School Property in Michigan" (unpublished Doctor's dissertation, Wayne University, 1956), p. 41.

²⁶Harry J. Hadley, "A Study to Develop, Analyze, and Evaluate a State Fire Insurance Plan for Public School Systems in West Virginia" (unpublished Doctor's dissertation, West Virginia University, 1968), p. 62.

²⁷Albers, op. cit., p. 6.

²⁸K. O. Nygaard, Biennial Report of the Fire and Tornado Fund of the State of North Dakota, (Bismark: North Dakota Products, 1966), p. 8.

Alabama

Alabama established a State Insurance Fund in 1923. The law has been amended and expanded three times, in 1949, 1955, and 1957. This program covers all types of state property. Participation by public schools is voluntary.²⁹ The program authorizes insurance for loss by fire, lightning, windstorm, and hail for all buildings and their contents.

The fund is administered by the Department of Finance and operates somewhat like a commercial insurance company. The state does not accept any financial responsibility for loss except for a \$100,000 appropriation that is available if the fund is completely depleted.³⁰ Inspections are made of insured property every year, more frequently if necessary. The inspection service is aimed at improving the risk. Reports are filed with the owners, Department of Education, and the fund. The inspectors are deputy Fire Marshalls with commensurate authority.³¹

Appraisals are required of all buildings covered by State insurance. The fund officials are the Department of

²⁹State Insurance Fund, State Insurance Fund of Alabama Annotated, (Charlottesville: The Michie Co., 1958), p. 3.

³⁰Ibid., p. 6.

³¹Ibid., p. 4.

Education and the Buildings Commissioner, who check data on building values if the owner and appraiser disagree.³² The rates used by the fund are established by the Alabama Inspection and Rating Bureau. They are then discounted 40 per cent, so the rate is 60 per cent of commercial rates.³³

Reinsurance is widely used in Alabama. The reinsurance is arranged on an item by item basis. In addition the fund is protected from large losses by purchasing catastrophe insurance in the amount of four million dollars to cover loss in excess of \$500,000 on any one occurrence.

At the end of 1966, the fund had total assets of \$7,526,669.80. During its lifetime the fund has made total collections of nearly 50 million and paid losses of nearly 39 million. Administrative expenses are limited to six per cent of annual income. During 1966 the fund had an income of \$1,344,328.19 and paid losses of \$1,225,060.³⁴ Total insurance in force was over 600 million.³⁴

North Carolina

The North Carolina State Insurance program was established by the General Assembly in 1949.³⁵ The program

³²ibid., p. 6. ³³ibid., p. 5. ³⁴ibid., p. 10.

³⁵North Carolina, Senate Bill No. 281 of the General Assembly of North Carolina, Ratified April 23, 1949, p. 1.

was adopted primarily because of a 25 per cent increase in commercial insurance rates in that state in 1949. The Board of Education objected to the increase; however, the Commissioner of Insurance would not rescind or adjust the rate for schools.³⁶

The program in North Carolina is administered by the Division of Insurance, which was created by the Board of Education through powers given to the Board by the General Assembly.³⁷ This fund is operated solely for schools, whereas other state plans include additional types of property. The state assumes no liability for losses, although two million dollars was loaned by the State Literary Fund to start the program. This loan has since been repaid in full.³⁸

The fund does not provide appraisals. Local authorities establish insurable value (replacement cost less depreciation) which are checked by the Division of Insurance. Each building is inspected and rated each year before renewal of the policy. For many schools this is the first such service they have ever had. Policies may be canceled for

³⁶ Ibid., p. 2.

³⁷ Ibid., p. 1.

³⁸ North Carolina, Report on Public School Insurance Fund, State Board of Education, Division of Insurance, (Raleigh: 1966), p. 1.

deterioration or delapidation of buildings, but thirty days' notice is required to give the district a chance to make repairs.³⁹ Reinsurance is authorized in the program, and it is purchased from Lloyd's of London. The reinsurance covers loss over \$200,000 per occasion up to a \$4,000,000 limit.⁴⁰

At the close of its 17th year, the fund had total assets of \$3,493,557.98 with which to pay fire losses. During that year it had an income of \$658,709.22 and paid claims totaling \$778,434.76. Administrative costs are limited to ten per cent of income and amounted to \$65,525.77. During its existence the fund has earned \$7,673,590.29 and paid loss of \$5,132,264.21 for a loss ratio of 66.88%.⁴¹

Participation in this program is optional by the local school district.

Michigan

A state fire insurance program was adopted by the legislature in Michigan in 1913. This plan included state property only and still functions on that basis today.⁴²

³⁹North Carolina Senate Bill No. 281, o. cit., p. 2.

⁴⁰Hadley, op. cit., p. 69.

⁴¹North Carolina State Board of Education, op. cit., p. 2.

⁴²Robinson, op. cit., p. 61.

The program is mandatory for all state property except the University system, and includes both buildings and contents.

In the early years of its operation the intent was to insure all buildings at replacement cost and to carry a large reserve in the fund. In fact, in 1945 the fund was allowed a cash reserve of \$5,000,000. Recently, the philosophy in Michigan has changed and the plan since 1955 has been to pay only small losses.⁴³ At present the fund balance is only \$250,000 and the maximum payment is \$50,000. Any larger loss can be paid by an act of the State Legislature.⁴⁴

The program is administered by the Director of the State Insurance Fund. He works under the Commissioner of Insurance. Although there is no provision in the law, the Director can and does make inspections and appraisals of property insured by the fund. The Director is permitted to purchase insurance, and he has done it extensively in recent years, especially on building contents.⁴⁵

Other States

At the time of this investigation, four other states were utilizing self insurance in some form.⁴⁶ These states

⁴³ Ibid., p. 64. ⁴⁴ Ibid., p. 65. ⁴⁵ Ibid., p. 64.

⁴⁶ Stephen J. Knezevich and John Guy Fowlkes, Business Management of Local School Systems, (New York: Harper and Brothers, 1960), p. 285.

were Florida, Kentucky, Oregon, and Vermont. These programs are similar to the one in Michigan--limited and for state property only.⁴⁷ All of the self insurance programs have one major objective and that is to reduce the cost of insurance and save the taxpayers' money. They have been resisted and condemned by the commercial insurance interests as being unsafe, monopolistic, and socialistic. However, they have all proved to be successful and have accomplished their objective.

Montana's Attempt

During the depression period of the 1930's, with the state government having financial difficulties, several new financing arrangements were attempted.⁴⁸ One innovation was a state insurance plan for state property including school buildings and their contents.⁴⁹ This program was to be administered by the State Auditor's office as Ex-officio Commissioner of Insurance. The Commissioner was to set policies and regulations and maintain such records as he

⁴⁷Hadley, op. cit., p. 69.

⁴⁸Professor Earl Fellbaum, personal interviews, Montana State University, Bozeman, 1968-1969.

⁴⁹Montana, Session Laws, Twenty-fourth Legislative Assembly, Helena, 1935, Ch. 179.

determined necessary to operate the insurance program.

The respective boards and offices in charge of property were required to pay into the state treasury monies to purchase insurance from the state on a three year term.⁵⁰ The rates were set by the Commissioner at the prevailing and commonly accepted rates. The Act also stated that the State Board of Examiners had to reinsure or purchase excess insurance with a reliable company for such portion of the insurance liability as was commensurate with the principles of safe underwriting.⁵¹ The cost of such reinsurance was to be paid out of the state insurance fund.

The State Fire Marshal was assigned to investigate the cause, origin, and circumstances of all fires involving public property insured under the Act. He was to determine if the loss to public property was due to carelessness or design and report his findings to the Commissioner.⁵² As passed by the Twenty-fourth Legislative Assembly this Act became effective on the first day of June, 1935.

The details of exactly what happened as the plan was put into operation are unclear. Apparently, there was some disagreement or misunderstanding in the Commissioner's

⁵⁰ Ibid., p. 380. ⁵¹ Ibid., p. 381. ⁵² Ibid., p. 383.

office about how the reinsurance was to be handled.

Eventually insurance was purchased from Pearl Assurance Company at a rate of \$1.40 per hundred.⁵³ However, after the insurance was purchased and most of the premiums collected, the entire program was repealed by Referendum Number 37 in November, 1936.⁵⁴ This action by the people of Montana caused some difficulty for the Insurance Commissioner, and there was disagreement about the effective date of repeal and the amount of refund owing from the insurance company. Eventually, the dispute was settled by the Montana Supreme Court in the case of Pearl Assurance Company vs. John J. Holmes. The state insurance plan was officially repealed by act of the Legislature in 1939.⁵⁵

⁵³Montana Senate, Report of Special Investigating Committee Appointed under Senate Joint Resolution No. 7 to Investigate State Auditor's Office as to the Administration of the State Insurance Act and the Administration of other Insurance Matters, Helena, 1937, p. 9.

⁵⁴Montana, Session Laws, Twenty-sixth Legislative Assembly, Helena, 1939, Ch. 165, p. 396.

⁵⁵ibid.

CHAPTER IV

CURRENT SCHOOL INSURANCE PRACTICES IN MONTANA

The study of current school insurance practices in Montana is imperative to proposing any type of plan for Montana. This chapter presents the results of such a study. The study was conducted with a view toward proposing changes in the schools' insurance practices that, hopefully, would reduce the overall cost of insurance service for public schools.

The data was collected by using a questionnaire which was mailed in January of 1970. The questionnaire was sent to two hundred seventeen schools throughout Montana. A copy of the instrument appears on page 122 of Appendix A.

Ninety-seven of the questionnaires were returned. All were completed or partially completed except for two which were left blank. A second mailing was sent out in February to those who had not responded to the first request. As a result, thirty-two additional replies were received. During March a third request was made to the remaining schools. After this mailing twenty-seven more returns were received for a grand total of one hundred fifty-six. This number represents 71 per cent of the population who ultimately responded to the questionnaire.

Telephone calls and personal messages were employed in an effort to increase the number of replies.

The writer received several telephone calls and letters from insurance people throughout Montana who seemed to be concerned about the study and its purpose. Since many schools requested the local insurance agents to fill out part of the questionnaire, the agents became aware of the study, and apparently some were opposed to a research project of this type. This may account, in part at least, for the fact that 29 per cent of the population did not respond.

The school districts which responded to the survey represented approximately 80 per cent of the value of the public school property currently in use in Montana. The total number of questionnaires not returned was sixty-one, or 29 per cent. Carter Good, in his book Essentials of Educational Research, found that doctoral students at Columbia University who used a questionnaire average a 71 per cent response, so apparently the returns for this study were about average.

Some of the data collected will be analyzed on a county basis, although the school district boundaries are not coterminous with county boundaries in Montana except

for a few county high schools.

Since the study touched upon several facets of school operations regarding insurance, they will be examined at some length in relation to the State Superintendent of Public Instruction 1968 Biennial Report.¹ However, first it is necessary to consider some information that was received from sources other than school connected authorities.

Montana Fire Rating Bureau

The Montana Fire Rating Bureau of Great Falls, Montana, establishes rates for fire insurance coverage in Montana. They also belong to the National Insurance Actuarial and Statistical Association, which compiles data on fire losses and loss ratios for the member companies. Table 8, page 80, is a summary of a report from the Montana Fire Rating Bureau.

This table is somewhat incomplete since not all of the companies reported to the National Insurance Actuarial and Statistical Association. The table shows an overall loss ratio of 86.4 per cent. When added to an insurance company's cost of doing business, this would produce a net

¹Harriet Miller, Biennial Report, State of Montana, (Helena: Superintendent of Public Instruction, 1968), p. 39.

loss. During the period covered there were several large school fires and a number of severe storms in eastern Montana that caused extensive losses from wind and hail.

Table 8
School Fire Loss Ratios in Montana 1959-1968

Year	Earned Premiums	Incurred Losses	Loss Ratio
1959	\$ 337,379	\$ 94,355	28.0
1960	261,176	16,577	6.5
1961	264,777	97,855	37.1
1962	363,408	401,942	110.0
1963	431,772	107,657	25.0
1964	408,981	100,761	24.7
1965	304,693	187,208	61.3
1966	214,452	661,438	309.4
1967	205,775	997,909	484.4
1968	302,203	7,093	2.3
Total	\$3,094,616	\$2,672,775	86.4

SOCIAL UPHEAVAL

During recent years there has been a noted increase in social unrest and upheaval throughout the United States. Young people and minority groups are showing increased dissatisfaction with the old order as witnessed by the news media. All of this militant activity is having its effect on the nation's educational program and, consequently, on

the cost of school insurance.²

Some of the schools in the eastern part of the United States and the Far West are having difficulty securing insurance of any kind at any price.³ Insurance companies are not willing to rewrite unless the premiums are doubled and the deductibles are increased to \$50,000.⁴ On a national basis the data available shows some rather substantial losses due to school and university fires.⁵

Table 9, page 82, shows a total of 6,900 school fires in 1966 which cost the taxpayer 34.5 million dollars. In 1966 there were 22 large school fires--\$250,000 or more--with a total loss of \$9,363,400.⁶ The most costly single fire in that year was the Warner Robins Senior High School in Georgia which burned at a loss of \$900,000.⁷ During the last four years reported the amount of fire losses has remained almost stable.

²The Wall Street Journal [New York], December 10, 1969, p. 40, col. 4.

³"The Weekly Newsletter on Educational Affairs," Education U.S.A., December 1, 1969, p. 79.

⁴Ibid.

⁵Lewy Olfson, "How Many of Your Schools Are Ripe for a Fire," School Management, XII (April, 1968), p. 79.

⁶Ibid.

⁷Ibid.

Table 9*

Cost of School Fires, 1962-1966

Year	Number	Total Loss
1962	3,200	\$ 15,900,000
1963	4,500	32,900,000
1964	5,200	36,200,000
1965	7,100	31,500,000
1966	6,900	34,500,000

*Lewy Olfson, "How Many of Your Schools Are Ripe for a Fire," School Management, XII (April, 1968), p. 92.

Over the past several years the experience in Montana has not been very favorable. Table 10 shows major school fire losses in Montana as reported by the State Insurance Commissioner.

Table 10

Major School Fires in Montana 1963-1968

Year	Location	Loss
1963	Boulder	\$ 211,833
1964	Box Elder	126,271
1965	Florence	264,800
1966	Glendive	600,000
1967	Wolf Point	809,250
1968	Harlem	190,296
Total		\$2,202,450

When these losses are compared to the premiums in Table 8 it is apparent that in two years, 1966 and 1967, the single fire in each year far exceeded the revenue collected by all of the insurance companies.

The Montana State Fire Marshall also collects data on fire losses in Montana. By state statute the local fire departments are required to make an annual report to the state office. However, only about two thirds of the local departments have filed such reports in recent years. Because of this lack, data from the state office is somewhat incomplete.⁸

BASIC DATA

The questionnaire contained twenty-eight questions; however, some questions contained numerous parts, so there were over one hundred responses required from the respondents. Table 11, page 84, is included at this time to present an overview of the basic data received from the questionnaire.

From the figures reported it can be seen that the cost of property insurance is slightly in excess of one

⁸William A. Penttila, Annual Report, (Helena: Montana State Fire Marshall, 1968), p. 5.

per cent of the operating budget. Apparently the cost of this type of insurance is rising faster than other school costs. Several of the questionnaires contained comments to the effect that as the old insurance contracts expired and new ones were purchased the rates were being increased substantially, in some cases 100 per cent. Since most of the policies are for a three year term it seems probable that when all of them are rewritten under the new rates the cost will be in the neighborhood of one million dollars for the schools reporting.

Table 11

Premiums, Buildings, and Budgets Reported

Total Value of Buildings and Contents	\$228,516,360.00
Total Number of Buildings	643
Total Property Insurance Premiums Paid 1969-70	\$701,384.85
Average Premiums Per District	\$4,500.00
Total Operating Budgets 1969-70	\$73,158,809.09

The premiums paid by the school district ranged from a low of \$156.00 to a high of \$56,000.00 for the 1969-70 school year. A summary of the premiums paid is presented in Table 12, page 85.

Since most of the school systems in Montana are

rather small, few of the premiums paid exceed five thousand dollars. Table 11, page 84, also shows the average premium to be \$4,500.00.

Table 12
Range of Insurance Premiums 1969-70

Premiums Paid	Number of Schools	Per Cent
\$ 00 - 4,999	99	73.3
5,000 - 9,999	22	16.3
10,000 - 14,999	7	5.0
15,000 - 19,999	0	0.0
20,000 - 24,999	5	3.8
25,000 - 29,999	1	.8
30,000 - 39,999	0	0.0
40,000 - 59,999	2	.8

RATES

Examination of some typical counties provides a good overall view of property insurance activities for larger geographic areas. Table 13, page 86, is a comparison of three counties in Montana. These counties are arranged by population. County A has a very small population, County B is of intermediate size, and County C is one of the largest in the state in terms of both population and students. The rates paid for fire insurance on buildings is about constant except for the small county, where it is somewhat higher. Considering all the schools reporting, the rate ran from a

high of .678 per one hundred dollars of true and actual value to a low of .168 per one hundred. The rates for the extended coverage endorsement varied from a high of .675 to a low of .077 per one hundred. A few schools stated a rate for vandalism and malicious mischief separately and the rates ranged from a low of .011 to a high of .0299 per one hundred dollars. The rates for blanket coverage were spread from a low of .1096 to a high of .981 per one thousand dollars of coverage.

Table 13

Three Selected Counties 1969-70

	County A	County B	County C
Number of Students	287	5,050	21,400
Number of Teachers	11	244	965
Number of Buildings	2	39	55
Current Budget	\$199,285.00	\$2,134,065.08	\$13,737,843.81
Value of Buildings	682,276.00	8,542,701.00	27,356,716.00
Value of Contents	139,860.00	872,409.00	1,544,316.00
Fire Insurance Rate	.647	.497	.458
Extended Coverage Rate	.233	.077	.269
Premiums Paid	5,000	28,624	87,965

Most of the respondents stated that the rates were established by the Montana Fire Rating Bureau. The Bureau does establish rates for school property in Montana. Some contended that the rates were set by the insurance company itself, and some apparently did not know how their rates

were set. In general, the rates tend to be higher in all categories for the smaller school districts.

Table 14
Reported Fire Losses by Counties 1960-1969

County	Loss	County	Loss
Beaverhead	\$ 0	Gallatin	0
Big Horn	0	Garfield	0
Blaine	244,084.00	Glacier	0
Broadwater	0	Golden Valley	0
Carbon	0	Granite	0
Carter	750.00	Hill	157,275.92
Cascade	18,546.59	Jefferson	221,833.00
Choteau	0	Judith Basin	971.46
Custer	0	Lake	11,724.04
Daniels	0	Lewis and Clark	83.15
Dawson	600,867.31	Liberty	0
Deer Lodge	0	Lincoln	500.00
Fallon	101,251.40	Madison	0
Fergus	0	McCone	0
Flathead	1,200.00	Meagher	0
Mineral	200.00	Rosebud	1,429.71
Missoula	247.95	Sanders	373.29
Musselshell	0	Sheridan	0
Park	0	Silver Bow	0
Petroleum	182.50	Stillwater	1,335.00
Phillips	0	Sweet Grass	0
Pondera	200.00	Teton	6,365.13
Powder River	4,762.00	Toole	333.07
Powell	401.72	Treasure	350.00
Prairie	22,789.67	Valley	0
Ravalli	264,800.00	Wheatland	0
Richland	0	Wibaux	0
Roosevelt	913,662.48	Yellowstone	2,391.00
TOTAL		\$ 2,548,910.39	

The vast majority of losses were caused by fires to school buildings. However, there was a considerable amount of loss due to theft, vandalism and storms--mostly wind and hail.

There was an effort made to collect figures on the amount of losses suffered by the schools during the last ten years from 1960 through 1969. This data was compiled by counties and is presented in Table 14, page 87. Apparently the data is not complete since a few schools stated that they did not have records available that covered the full ten prior years.

INSURANCE RECOVERIES REPORTED

The writer also collected figures on insurance recoveries so they could be compared with reported losses. Again, most of the recoveries were from fire insurance coverage. A substantial portion of the recoveries came from the extended coverage endorsement, vandalism and malicious mischief coverage. During the ten year period covered, Roosevelt County had the largest recovery, slightly over one million dollars in total. Most of this resulted from a fire that destroyed a new high school. Several counties reported no loss or recoveries for the entire period.

Table 15
Reported Recoveries by Counties 1960-1969

County	Amount Recovered	County	Amount Recovered
Beaverhead	\$ 0	McCone	\$ 0
Big Horn	147.25	Meagher	0
Blaine	175,232.90	Mineral	200.00
Broadwater	810.00	Missoula	3,641.72
Carbon	0	Musselshell	0
Carter	700.00	Park	0
Cascade	11,274.00	Petroleum	542.50
Choteau	0	Phillips	0
Custer	0	Pondera	150.00
Dahiel	18,164.00	Powder River	4,762.00
Dawson	621,457.83	Powell	0
Deer Lodge	0	Prairie	22,794.67
Fallon	55,000.00	Ravalli	0
Fergus	3,000.00	Richland	0
Flathead	5,130.00	Roosevelt	1,001,612.48
Gallatin	18,803.55	Rosebud	7,409.42
Garfield	0	Sanders	373.29
Glacier	0	Sheridan	0
Golden Valley	0	Silver Bow	0
Granite	0	Stillwater	2,335.00
Hill	127,463.97	Sweet Grass	0
Jefferson	0	Teton	5,465.14
Judith Basin	1,494.32	Toole	233.07
Lake	11,723.04	Treasure	350.00
Lewis and Clark	3,083.15	Valley	0
Liberty	0	Wheatland	2,000.00
Lincoln	20,500.00	Wibaux	0
Madison	0	Yellowstone	2,169.16
TOTAL			\$2,128,022.46

KINDS OF POLICIES

School districts in Montana insure their property under several different types of fire insurance policies. The blanket policy appears to be the most popular with school districts. Under this type of policy all buildings and their contents are appraised and then insured under one policy carried with one company. This type of coverage was specifically mentioned by 114 of the one hundred fifty-six school districts reporting. Of the districts reporting several mentioned specific types of blanket policies that they used. Ten schools used Public Institution Policies and seven mentioned the Standard Multiple Peril Policies. Twenty-three of the schools insured their property under independent risk policies. This type of policy provides for a separate appraisal of each building, which is then carried as a separate risk. Two schools reported a combination of policies with some property covered under a blanket policy, and specific buildings carried as independent risks.

COVERAGE

All of the schools reported that they carried at least straight fire, extended coverage, and malicious mischief coverage on buildings and their contents. Those respondents who identified the extended coverage commonly

included wind, hail, aircraft, riot and civil commotion, explosion, smoke, steam boiler, burglary, holdup, and musical instruments.

The policy periods ran from one to five years in length. The three year policy was by far the most popular, with 59 districts reporting this term for their insurance policies. Thirty-six schools utilized a five year policy, and 23 had one year policies. One school reported having a combination of one, three, and five year policies. One large district reported a combination of two and four year policies, and one reported having a continuous policy permanently in effect unless canceled.

Of the schools reporting, 124 spread the premium payments out into equal amounts per year. Three schools with three year policies paid the total premium once each three years. One district reported having five policies with one coming due each year.

APPRAISALS

The companies used a wide variety of methods in attempting to arrive at a value to use in insuring the school buildings and their contents. Many of the schools relied on their own personnel to appraise the school property. Forty-nine of the districts reporting had the

appraisals made by the school superintendent or the members of the Board of Trustees. Another thirty-six schools had the buildings appraised by the insurance agents involved. Twenty-three used the services of an independent appraisal firm, and nine used architects to value the buildings. Finally, twenty-four districts used some combination of people--either the school administrator and an insurance agent or an outside appraiser. Three districts used the County Assessor.

Appraisals were made most frequently at one year intervals. Forty-three schools had an appraisal every year, while forty-one had one every three years. Nine districts had their buildings valued every two years, and eight had it done every five years. Two districts reported having appraisals every eighteen months, and two once every ten years.

The valuation of the contents of the buildings presents a somewhat different picture. One hundred twenty-one of the schools took inventory to determine the value of the property. Most of the schools--ninety-six--had the inventory taken by school personnel, usually the teachers and principal. Five schools reported having outside firms to value the property, and another five had the insurance

agent take the inventory. Apparently schools tend to value this type of property more frequently than the buildings. Seventy-six of the schools took inventory every year. Sixteen take inventory every three years, four take it every five years, three every two years, and two take inventory only once every ten years.

TYPE OF COMPANY

School districts in Montana utilize both of the basic types of insurance companies. Eighty-five districts reported placing their insurance coverage exclusively with stock insurance companies. Another twenty-three insured all of their property with mutual companies, while nineteen used a combination--utilizing both stock and mutual companies.

SELECTION OF AGENTS AND COMPANIES

From the responses received it is difficult to determine exactly what some school districts do in selecting an agent or a company with which to place their insurance coverage. Most of the districts select an "agent of record" to deal with in their negotiations to buy insurance. Eighty-three of the schools reported letting this agent distribute the insurance at his discretion, with the constraints, if any, established by the Board. Only fifteen of the districts

reported using any kind of a rating system such as Best's.

Over one third of the schools, fifty-eight, stated they kept the same agent for an extended period of time-- if they felt the coverage and service had been satisfactory. Nineteen schools reported that the Board established eligibility requirements that the agents would have to meet before they would be considered qualified to sell insurance to the school. Seventeen schools required the agent of record to distribute the insurance equitably among all the agents in the local community, while twelve indicated they exercised no control over the distribution of their business.

The Board, the superintendent, or the business manager selected the insurance companies in fifteen of the reporting districts. The Board requires bids to be submitted in thirty-five of the systems reporting. However, one small school stated they called for bids, but since it was a small isolated town only one bid was received. Two schools expressed the opinion that they would probably start using bids next year, 1970. Only seven of the districts reported that the Board had established any kind of criterion to be used in selecting the insurance company that would service the school.

RECORDS AND CO-INSURANCE

The questionnaire contained several questions directed at determining what type of record system the local schools maintained, and to what extent they used co-insurance. Of the 100 districts completing this section, ninety-five said the only record they maintained was to keep all of the policies on file in one location. Only three schools kept a formal register of insurance carried. Two districts stated they maintained no record system at all, and they left the record-keeping to their agent. One hundred twelve of the schools reported they or the agent checked all policies for concurrency. Only two said they did not examine the policies for concurrency.

Of the one hundred fifty-six schools that responded ninety-seven utilize co-insurance. Of these, eighty-five use the 90 per cent coverage clause, and four purchase 100 per cent co-insurance. Thirty-three districts stated they did not have co-insurance. Of the schools not using co-insurance twenty-four carried insurance equal to 90 per cent of the value of the insured property. Twelve carried 100 per cent coverage, one carried 98 per cent, one carried 75 per cent, one had 65 per cent, and one had only 50 per cent coverage. Only two districts reported buildings with no insurance coverage. In both cases they were steel buildings.

SCHOOL BOARD POLICIES

The respondents were asked to indicate if their local boards had any policies that would be of assistance to the school's personnel in carrying out their responsibilities for acquiring adequate insurance coverage. Of the one hundred twenty-two who answered this question only sixteen, or 15 per cent, indicated any type of board policy. The other one hundred and six said the school trustees had no policy governing the insurance program.

An attempt was made to assess the feelings and attitudes of the school districts regarding their experience with insurance problems. Forty-seven of the districts which answered this question said their experience had been excellent. Eighteen indicated their experience had been good, another nine said it was fair, and only two indicated it was poor. Fourteen schools reported no loss experience at all for the ten years from 1960 to 1969.

The overall loss recoveries in Montana are summarized in Table 16, page 97. This summary shows a total loss recovery for the ten years of 83.5 per cent. At the completion of this study no replies had been received from three counties. These counties were Custer, Deer Lodge, and McCone. In total seven schools from these counties would have been included in the population.

Table 16

Summary of Loss Recoveries in Montana, 1960-69

Total Losses Reported	\$2,548,910.39
Total Recoveries Reported	\$2,128,022.46
Loss Recovery for the 10 Years	83.5%

The districts were asked if they felt they were receiving the maximum protection from their insurance coverage, considering the cost of the insurance. Of the schools who answered this question seventy-seven said yes, fourteen stated they did not, and thirty-nine were uncertain. Several replied they didn't think any of their school people were really qualified to make such a judgment.

Space was provided at the end of the questionnaire for additional comments. Only 44 schools included such comments. However, of the ones who did, several comments were repeated by several schools. The more common remarks were: (1) the school people feel a need for instruction regarding insurance, since many do not know much about the subject, (2) some type of uniform recording system should be used, since in some cases the requested data was not available, (3) the cost of insurance had increased from 35

to as much as 200 per cent, (4) the need for better risk management in the way of inspections, current valuation of buildings, and current inventories, (5) rural districts have little or no fire protection so the rates are high, (6) the state should have its own insurance for schools, (7) the insurance is spread over too many companies, which causes confusion and duplication, (8) some types of insurance, such as riot and theft, are being dropped since the cost is too high.

The conclusions and recommendations will, of course, be included in Chapter Six; but as one alternative to commercial insurance coverage, the outline of a public insurance program is presented in Chapter Five.

CHAPTER V

A PLAN FOR MONTANA

Background

When anyone suggests administrative and legislative changes at the state level of government, some controversy may arise because of different beliefs and attitudes. This proposal is not intended as an attack on any private sector of the economy nor is the evidence conclusive that it is the only approach or solution to the problems faced by public education in the state of Montana. However, in light of rapidly accelerating educational costs it is one proposal that might warrant consideration by those responsible for conducting the educational affairs of this state.

Since Montana is a large state geographically, with a widely dispersed population and, therefore, long distances between most schools, the basic requirements for self-insurance are present. Also, there is an adequate number of risks (schools) involved to allow the law of large numbers to operate effectively so the probability of losses can be determined with some degree of certainty.

Therefore, the following proposal is presented for consideration. This plan includes what the writer considers the major points from those state plans which are now in operation in the states of Alabama, North and South Carolina,

North Dakota, and Wisconsin. Also, consideration has been given to the recommendation made by Finchum, Robinson, and Hadley in their studies conducted in Tennessee, Michigan, and West Virginia. Obviously, if such a program were to be adopted by Montana, the proposal would of necessity have to be rewritten in legal terms and approved by the state Legislative Assembly.

Basic Requirements

The Montana Legislature shall pass enabling legislation setting out the authority and scope of the program to include the basic outline of essentials necessary for such a program as suggested by the following description. The program shall be administered by the Insurance Division of the State Department of Public Instruction. The Division of Insurance shall consist of a Director with appropriate qualifications, preferably in depth background in insurance administration, and such other personnel as he considers necessary to carry out the responsibilities and functions of his office. The program must be mandatory for all public school districts in Montana that desire fire and extended coverage insurance for their property. Small one and two room schools that do not presently carry such insurance need not participate unless they wish to do so. The program

shall not be responsible for losses to property except those specifically included in the program within the limits established by the Legislative Assembly.

The program shall be a separate and distinct entity for the sole purpose of insuring public elementary and secondary school buildings, and their contents. The coverage shall include the standard coverage for fire, lightning, windstorm, and hail. This program shall not be involved with, or subject to, any other legislative provision for separate state insurance programs, such as those for crop hail insurance.

Management of the Program

The management of this program shall be vested in a director in the Division of Insurance as a part of the office of the State Superintendent of Public Instruction. He shall have whatever authority is considered necessary to implement and carry out the requirements of the program. The Director shall have a high degree of competency in the insurance field. His salary shall be commensurate with his qualifications and experience, perhaps in excess of \$20,000 per year. He should be recruited from the best-qualified people available, and Montana residency should not be a consideration.

Starting the Program

This program must be well-planned and coordinated; therefore, it is suggested that the Director be employed and given a year to prepare for implementation of the program. He should develop, as soon as practicable, those administrative details pertaining to employee qualifications, staffing and supporting services as are necessary to begin employment of his staff. Organization of the program should allow for a functional division at the end of the planning period. The Legislature shall appropriate adequate funds to provide for the Division's operation during the planning period.

The Division shall be located in Helena, Montana, to enable the Division to take advantage of the experience and knowledge of all officials in the State Government who can be of assistance in operating the school insurance program. Upon appointment the Director shall establish and implement such policies, procedures, and organization structures as are necessary to assure effective operation of the program. The ultimate plans of operations shall be submitted to the State Superintendent of Public Instruction for confirmation and approval. The functional plan should also be reviewed for legal compliance and sound insurance practices by the State Fire Marshall, the State Commissioner

of Insurance and the Legislative Auditor. The final program should be reviewed and ready for implementation at least 30 days before the end of the one year planning period.

Funding of the Program

The program shall become operational at the beginning of the second year. The original capitalization will come from the first year's premiums collected from the schools at the then current commercial rate. This premium collection should generate nearly \$750,000. Also, the Legislature shall provide for \$3,000,000 in funds to be provided by the state. These funds should be arranged by an appropriation from the general fund, inter-governmental loans from other state agencies with excess funds, or by empowering the program with the authority to borrow from the public by issuing bonds. Such bonds must be guaranteed by the state, and the Insurance Division must have the authority to issue additional bonds if losses deplete the fund temporarily below a safe level. The bonds may be issued for the then current interest rate for AAA corporate bonds to insure sale in a reasonable time period.

As the fund is accumulated the Director shall have the authority to invest the fund to generate additional revenue. Income so generated shall be used to pay the

operating expense of the Division; if any surplus remains it shall be added to the accumulated funds. The Director shall follow the statutory requirements for investing trust funds except that he may invest up to 50 per cent of the accumulated funds in corporate stocks listed on the New York Stock Exchange. This practice is essential if the fund is to maintain its monetary value during periods of rising prices.

All funds originally appropriated by the state, all losses, and all bonds shall be repaid from the insurance funds as excess monies become available. Regular premiums will be collected until the fund reaches \$10,000,000. At that time any excess funds will be used to repay the original or subsequent indebtedness. If the Director considers it necessary for sound insurance practice he may let the fund accumulate to equal five per cent of the insurance in force, which would be approximately \$15,000,000 at the present time.

Accounting for the Funds

The Director shall follow generally accepted fiduciary accounting procedures in maintaining his records of the funds. He shall submit a monthly statement to the State Superintendent of Public Instruction showing receipts

and disbursements for the month and for the year to date, and including insurance claims pending. Yearly, the Director shall submit a detailed report of the fund's financial position to the Superintendent of Public Instruction. This report should include all assets and liabilities. Also, he should include a detailed schedule of the fund's investments and such other reports as may be required by the state's responsible monetary officials.

Annually, the Director shall submit an operation budget, showing all anticipated income and expected expenditures for the coming year, to the State Superintendent of Public Instruction for approval. Travel and per diem costs will be those currently in effect for state employees. The records of the Division shall be audited annually by an independent Certified Public Accountant. The funds shall be paid to, and in the custody of, the State Treasurer. He shall maintain adequate records and make disbursements only at the direction of the Director of the Division of Insurance. The Director shall be responsible for, and supervise all other financial activities of his division, in accordance with the statutes of the State of Montana.

Insurance Coverage

Insurance coverage in this program shall be

mandatory for all public school property covered by insurance. The small one and two room school buildings need not participate if the local board so elects. Also, the Director may reject specific properties if, in his opinion, they constitute uninsurable risks due to the physical condition of the buildings. In such cases he must state the reasons for rejection and recommend corrective action that may be taken to qualify the property for insurance coverage. He may also refuse or reduce coverage on old abandoned buildings and their contents, if or when they become an undue risk.

The Director shall report annually to the State Department of Education the description, location, and value of all buildings and contents insured under the program. This official listing shall be the basis for determining risks and for establishing the premium rates to be charged. All contracts issued to the local districts shall contain the same legal description for property insured by the fund.

The amount of coverage available to each local school shall be 90 per cent of the full replacement cost of the property insured. Essentially, the districts will then be carrying a co-insurance provision of 10 per cent.

The Director shall have the authority to purchase reinsurance from commercial insurance companies licensed to

conduct business in Montana. Any reinsurance purchased shall be in compliance with sound insurance practices, but in no case shall the commercial protection cover properties whose value is less than \$1,000,000. The reinsurance may be used to cover all the property in a particular district or only for specific items of property. All of the requests for this type of coverage shall be listed in detail in one report and the Director shall call for bids in awarding the contracts to commercial companies. In selecting the bidder the Director should consider the rating of the company, their past performance in Montana regarding loss adjustments, and the services the company can provide as well as the amount of the bid itself.

Valuation of Property

The value of all public school property protected by the program shall be its actual replacement cost. All buildings shall be appraised annually, and allowance made for the increases in the price level. When the appropriate officials cannot agree on the value of a building, the dispute shall be settled by an independent appraiser retained by the disputing party. Each district shall furnish to the Director a detailed list of all school buildings in the district. The report shall include the value, location, and description

of the building and its contents.

The value of the insurable contents of the buildings shall be determined by a detailed inventory taken annually. The value shall be replacement cost usually determined from current purchase prices. Any disputes shall be settled in the same manner as prescribed for settling disagreements over the valuation of buildings.

Losses to property underwritten by the program shall be determined by appraisals conducted by both the local district and the Division. Claims for losses can only be paid upon certification of loss by the Director. All losses covered by reinsurance are to be paid to the Division and not to the local school system. Disputes covering the amount of loss sustained are to be settled by an independent appraiser employed by the disputing party. His determination shall be binding on both parties.

Premium Payments

The Director of the Division of Insurance shall determine the premium rates to be charged for insurance coverage. He shall review the rates each year, and shall make such adjustments as are necessary according to circumstances prevailing at that time. The regular commercial rates shall be charged until the fund reaches the prescribed

balance established by the legislature. After the fund has attained the required balance the rates charged for coverage shall be reduced by the Director to the level required to maintain the fund balance. However, a sufficient premium shall be charged to enable the program to pay back the original expense and loans, if any, within a reasonable time period.

The original and subsequent change in the rates shall be determined by inspection of the properties involved by the Division of Insurance. The initial inspection shall consist of a comprehensive listing of all risks with a pertinent recommendation on risk arrangement to allow the district to take corrective action to reduce their rate. Copies of all inspection reports shall be furnished to the local system.

In order to facilitate rate determination all school buildings shall be classified according to type of construction, location, availability of protection, and age. The Division may use standard rating methods and classification, or develop their own system. The rates established by the Division are not to exceed those charged by commercial underwriters for the same coverage.

The Division shall notify the local districts of

the appropriate rates and premiums due as soon as possible each year. The premiums shall be paid directly to the State Treasurer, who is to act as custodian for the program. Any excess funds or reserves accumulated by the Division of Insurance are not to be used by any other agency of the state, nor is the State Legislature to make any raids on the funds for other purposes. Those excess funds or revenues are to be considered in establishing the premium rate and should provide eventually for a reduction of the cost of insurance to the schools.

Functions Provided

The prime function of the Division of Insurance shall be service and assistance for the local school systems. The Division shall provide annual inspection of insured school property by its engineers and appraisers. This inspection shall consider the building structure, occupancy, maintenance routine, and any hazards that might affect the safety of the building and its occupants. The engineers shall file a comprehensive report on each property inspected with the Director and the local district.

The inspectors shall act as consultants to the school on both old structures and new construction. They shall advise and recommend on safety devices and provide

leadership in the technical aspects, fire safety, and risk management. The Division shall act as coordinator between local, state, and federal programs dealing with insurance. Once the program is in operation the Division's major emphasis should be concerned with loss prevention and reduction of hazards to insure a minimum of loss to life and property from school fires in Montana.

Initiating the Program

The initiation of a new program of this type and magnitude will require the concerted effort of all interested and affected parties. The support of all interested parties will be required if or when this program is to be adopted by Montana.

The first phase should be an educational program to acquaint the State Department of Public Instruction, the school administrators, the school board associations, and the appropriate state officials with the proposed program. A group of seminars or informal discussions could be held at various locations throughout the state and at the state meetings of the concerned organizations. The primary objective at this point would be to familiarize the participants with the features of the program and its economic implication for the school systems in Montana. Special

emphasis should be given to the service that the Division of Insurance can provide for the schools, and the probability of stemming the rapid increases in insurance costs.

Next, the state agencies which are to assist in the program should be exposed to the prepared program. Particular care should be taken to clarify the exact role and responsibility of each group. These agencies would include at least the State Insurance Commissioner, the State Treasurer, and the State Fire Marshall. If these officers are to participate actively and to support the program they must be aware of the benefits to be derived, and must be convinced it is a useful and worthwhile project.

All suggestions and recommendations presented by these groups should be given serious consideration in light of improving the proposed program. This procedure should result in widespread support and backing for the program. This type of support is essential before presenting the proposal to the State Legislature if there is going to be any possibility of successful enactment of enabling legislation.

Before presentation to the legislature the proposal should be reviewed by attorneys for statutory and/or constitutional conflicts. If such conflicts do exist provisions

should be incorporated into the proposal to remove such difficulties. The proposal should then be presented to the legislature through the usual channels for the assemblies' consideration.

Assuming favorable action by the legislature, the next phase will be to establish the administrative functions necessary to implement the operation of the proposal. The State Superintendent of Public Instruction shall establish a Division of Insurance and provide appropriate physical facilities. The next step will be to appoint a Director, preferably someone who is well-qualified in both educational problems and insurance practices. During the initial year for planning, the Director will formulate his policies and procedures with other departments and agencies involved. All administrative details should be developed during the planning period, such as documentation, fiscal controls, and accountability. The Director should be involved in a continuous process of planning, coordination, and evaluation of the program, working closely with and under the direction of the State Superintendent of Public Instruction.

CHAPTER VI

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The people of Montana have invested approximately 288 million dollars in property used for public elementary and secondary educational purposes. This investment is increasing at the rate of about \$10 million per year. This amount represents a substantial investment accumulated over an extended period of time. The loss of any substantial part of this investment would represent a severe economic and educational problem for the school system involved. The property is presently protected by purchasing commercial insurance coverage. The total cost of this protection is currently nearly \$1,000,000 per year, which represents a sizable cost to the educational system of Montana. At the present time all schools included in this study do carry insurance protection although it is not mandatory. Title seventy-five of the revised Codes of Montana, 1947, permits the schools to purchase such insurance at the discretion of the local Board of Trustees.

Therefore, there are as many insurance programs as there are school districts. Apparently, there is very little uniformity in the program. The appraisal practices vary widely as to the procedure for purchasing coverage,

or selecting the company and agents. Each local system must review its practice and policies constantly if it is to maintain a balanced and realistic program of insurance coverage. At the present time this requirement seems to be lacking. Some schools appraise their buildings and update the inventory of contents on an annual basis, while others do so only at three or five year intervals, and a few only once every ten years. Very few local boards have any formal policies to guide the school personnel in their duties connected with insurance. This creates an urgent problem, since the insurance field is becoming more complicated, due to the complexity of the types of coverage available, the extensive educational facilities now in use, and the rating and appraisal processes needed. Also, the schools need to receive adequate insurance at a reasonable cost. Most school administrators are too involved with the operational procedures of the school to develop a high level of competence in the insurance field and therefore need and desire assistance in this area.

Because of social and political unrest throughout the nation, resulting in riots, disturbances, and flagrant disregard for property, the cost of this type of insurance has been increasing rapidly in recent years.

In some metropolitan areas, both on the East and West Coasts, insurance companies are becoming reluctant to write institutional insurance coverage. If this trend continues, either the cost will increase to a point where schools cannot afford protection, or commercial companies may refuse to insure institutional property altogether.

One alternative to the problem would be for Montana to develop some form of public insurance to protect school property. Such a program would operate for the sole benefit of the schools and the profit factor would be removed. There are five states now operating statewide comprehensive programs of this nature. They are North and South Carolina, North Dakota, Alabama, and Wisconsin. These states estimate they realize a savings of from 20 to 60 per cent of what it would cost to have commercial underwriters provide the same protection. Several large cities also operate such programs with varying degrees of success.

Montana attempted a state insurance program in 1935. From a review of the literature available relating to this program--it proved unsuccessful for the following reasons:

1. No reserve was established when the program was initiated.
2. The program had no way of securing extra funds if needed in its early years.

3. Inadequate planning and staffing to enable the program to function effectively.
4. Lack of understanding and support from the state officials involved.
5. Too much reinsurance, since nearly all risks were provided for under this approach.
6. A strong insurance lobby against the program. The legislation was presented to the people with a referendum vote shortly after the program began operation, and was repealed in this manner before adequate time was allowed to test the program.

Based on the assumption that the school system may need or be forced to re-evaluate a change in the insurance program because of rising costs, the writer reviewed the current literature relating to school fire insurance, and examined the practices presently used by schools in Montana in dealing with this type of insurance. As an alternative to commercial protection, a public state program was outlined briefly. This outline incorporates what the writer considers to be the better features of the program presently in operation.

Conclusions

During the study the policies and practices of the fire insurance protection of the school systems in Montana were examined, with the objective of preparing a public fire insurance program for the schools in this state. The fol-

Following conclusions seem to be appropriate:

1. Public school personnel are not well-versed in the field of insurance protection.
2. School people desire guidance and training in the use of insurance.
3. Securing adequate and proper insurance coverage is a major administrative problem.
4. There appears to be very little uniformity in the schools' practices of handling fire insurance.
5. School property usually qualifies as a preferred risk.
6. Those states currently operating public school insurance programs have been successful with such programs.
7. Currently-operating state plans are less expensive than comparable commercial protection.
8. A statewide public insurance program for the public schools would be economically possible in Montana.
9. Such a program in Montana would require legislative approval.
10. Some school districts presently favor a public school insurance program.

Since reported fire losses to schools, as shown, have averaged only about two hundred fifty thousand per year over the past ten years, it seems probable that the schools would generate a substantial savings by adopting a state insurance program. A plan such as the one outlined in this study should be adequate to pay all losses and

operating expenses with a reasonable margin of safety financially.

Recommendations

It is the recommendation of this writer that Montana adopt a state public fire insurance program for the schools of Montana. Several recommendations related specifically to this program are presented, as follows:

1. The initial one year planning period is essential to the program's efficient organization and early operation.
2. The Director's salary must be sufficient to attract a well-qualified individual, and his position should be appointive and not political.
3. The reserve fund must be safeguarded from raids by other state agencies.
4. The reserve fund must be built up to the required level before there is any reduction in premium rates.
5. A major function of the Division should be to provide risk management training and advice to the local school districts.
6. An educational program should be established to enhance the knowledge of school personnel in regard to insurance procedure.
7. The program should be evaluated on a continuing basis to improve and enlarge the program as needed.
8. Local school personnel should be actively engaged in the program.

Since there appears to be a lack of information at

the local level, and since most school personnel are not well-versed in the insurance field, it is recommended that further research be carried on in the following areas:

1. A similar study of other types of school insurance, such as liability and transportation, be conducted.
2. The desirability of including all state property in such a program be investigated.
3. That a uniform recording system be developed for use by all school districts.
4. An investigation be made into the use of safety devices, such as outside alarm systems, to reduce the amount of losses.

APPENDIXES

APPENDIX A

FIRE INSURANCE PROGRAM QUESTIONNAIRE
MONTANA PUBLIC SCHOOL SYSTEMS

Name of School System _____ Date _____

County _____

The following questions deal with the school district as a whole. These questions are concerned with coverage for all buildings and the contents of all buildings in the entire school district. The answers should be secured from the insurance register or from the policies where appropriate. Please use the back of each sheet for answers that may require additional space.

1. What is the total value of all school buildings and contents in your school district?

Buildings \$ _____ Contents \$ _____

2. What is your current operating budget for the academic year 1969-70?

3. How much of this budget is allocated for fire insurance?

4. How many buildings are utilized in your district? _____

5. What is the current rate now paid by your district for fire insurance?

6. How was this rate arrived at? _____

(If by formula, what is the formula?) _____

7. Are your buildings insured as independent risks or under a blanket policy?

8. What is the total amount of fire insurance coverage?

Buildings \$ _____ Contents \$ _____

9. Specify the types and amounts of extended coverage:

Type	Amounts
_____	_____
_____	_____
_____	_____

10. What is the total amount of annual premiums now being paid by your district for the following types of insurance protection?

a) Fire insurance on:

1. Buildings \$ _____

2. Contents \$ _____

3. Combined under blanket policy \$ _____

b) Extended coverage:

1. \$ _____ for what type? _____

2. \$ _____ for what type? _____

11. What is the nearest approximate percentage of your insurance coverages according to types and policy periods, as follows:

	Buildings	Contents
a) One-year term	_____ %	_____ %
b) Three-year term	_____ %	_____ %
c) Five-year term	_____ %	_____ %

12. Give the total amount of your fire losses by types and by years as indicated:

	Buildings	Extended Coverage	Premiums Paid
1960	_____	_____	_____
1961	_____	_____	_____
1962	_____	_____	_____
1963	_____	_____	_____
1964	_____	_____	_____
1965	_____	_____	_____
1966	_____	_____	_____
1967	_____	_____	_____
1968	_____	_____	_____
1969	_____	_____	_____

13. Give the total amounts of your insurance recoveries by year for the ten years:

	Fire Losses Recovered	Extended Coverage Recovered
1960	_____	_____
1961	_____	_____
1962	_____	_____
1963	_____	_____
1964	_____	_____
1965	_____	_____
1966	_____	_____
1967	_____	_____
1968	_____	_____
1969	_____	_____

14. In determining the amounts of fire insurance to be placed on your school property, what method is used to arrive at the full, sound or true value of your property?
- a. By whom? _____ How frequently? _____
- b. If by an appraisal firm, give name and address: _____

15. How is the insurable value of the contents of your building determined?
- a. By taking inventory? Yes ___ No ___ If so, by whom? _____
_____ b. How frequently? _____
16. What proportional amounts of your fire and extended coverage insurance is placed with:
- a. Mutual insurance companies _____ %
- b. Stock insurance companies _____ %
- c. Other--Specify: _____ %
17. If your payments are made to commercial insurance companies as policy premiums fall due, is approximately the same amount paid each year? Yes ___ No ___
18. How do you distribute your insurance business: (a) companies (b) agents (Check appropriate answers)
- a. To Companies:
1. Let local agents choose companies. _____
 2. Use a rating system such as Best's. _____
 3. The Board of Education, Superintendent, or business manager allocates policies to companies. _____
 4. The Board of Education sets up certain criteria, such as size, liquidity, reserves, etc., as a basis for selection. _____
 5. The Board of Education asks for bids. _____
 6. Other? (Describe) _____

b. To Local Agents:

1. Uncontrolled distribution. _____
2. Ask all local agents to work with the Board in determining distribution. _____
3. Board sets up eligibility requirements and then allocates business to local agents who meet these requirements. _____
4. Insurance business is distributed to all local agents on an equal basis. _____
5. Tend to continue the same agent since the service has been satisfactory. _____
6. Distribution is made by superintendent or business manager. _____
7. Other--Specify: _____

19. If your district uses a set of forms for record keeping for the insurance program, kindly attach copies. If an insurance register is used, please give a brief description.

If no system is used other than filing all of the policies in one place, please check. _____

20. Do you check all policies for concurrency? Yes ___ No ___

21. Considering the size and type of construction, what per cent of your buildings have no insurance at all?

<u>Size</u>	<u>Type of Construction</u>	<u>% Not Insured</u>
One-Room Buildings	Frame	_____ %
	Brick or stone	_____ %
	Hollow Block	_____ %
Two-Room	Frame	_____ %
	Brick or stone	_____ %
	Hollow block	_____ %
Three or More Rooms	Frame	_____ %
	Brick or stone	_____ %
	Hollow Block	_____ %

22. Do you use a co-insurance plan Yes No

What co-insurance percentage do you use?

60% 70% 80% 90% Other

23. If you do not use co-insurance, what percentage of the true and actual value of the property is insured?

%

24. Answer question 23 with respect to contents: %

25. Does your Board have any educational policies that assist you in handling the insurance program for your district? Yes No

26. If you have suffered any losses covered by insurance, what has been your experience with the companies in making settlements?

Excellent ; Good ; Fair ; Poor

27. Do you think you receive maximum protection for each premium dollar spent for insurance?

Yes No Uncertain

28. Additional Comments:

APPENDIX B

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January 27, 1970

Dear

I am currently conducting a study under the supervision of Dr. Robert Thibeault, College of Education, and Dr. Harvey Larson, Director, School of Commerce, Montana State University. This study is designed to examine the cost of fire insurance, and the possibility of establishing a state fire insurance program for the public school systems in Montana.

It is imperative that I obtain information from your school district in order to develop a composite state picture. I realize that the best approach would be to visit each district and search out the information myself, but due to the distances involved, the number of districts, and the cost it is virtually impossible for me to do so. Thus, it appears that I must rely upon the good will and cooperation of those who work with the fire insurance programs in the districts involved.

Therefore, I am enclosing a questionnaire which deals with school fire insurance programs. I fully realize that this may place some imposition upon your office, but I sincerely believe that this study could be beneficial, not only to your district but to the entire State of Montana as well. The questionnaire may appear somewhat lengthy, but the answers are short and should require a minimum of time to complete.

A study of this type could (1) initiate a significant savings for all school districts in the state, (2) act as an incentive for commercial companies to re-examine their own rates, (3) present a clear state-wide picture of fire insurance practices now being utilized, and (4) present the administrator with the facts necessary to up-date current practices.

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In summary, I would be very appreciative if you would complete the enclosed questionnaire and return it to me as soon as possible. Please use the enclosed self-addressed, stamped envelope for your return. Your information will only be used for compilation of a factual profile of current practices. Any suggestions you might care to offer will be appreciated. At the conclusion of the study a summary of the findings and recommendations will be sent to you.

Sincerely,

Harold H. Holen
School of Commerce

Enc.

132

March 6, 1970

Dear

A few weeks ago you received an insurance questionnaire concerning the property in your school district. Perhaps you have already completed it and laid it aside for future mailing. If so, this letter is intended as a friendly reminder that we would be very pleased if you would return it to us.

However, you may have been too busy with your other duties to complete the questionnaire. I would suggest that you might be able to complete it before other approaching activities, such as the budget, are upon you. A few minutes of your time is all that is required.

It is possible that you will be interested in the findings of this study; but for the results to present a true picture of insurance practices in Montana, it is most important that all the school systems be incorporated in the study. The results of this study will be made available to you shortly after it is completed. However, to make the study valid it is necessary that everyone complete the questionnaire.

If it is at all possible for you to do so, please complete and return the questionnaire as soon as possible, preferably by March 20, 1970. For your convenience I have enclosed another copy of the questionnaire.

Sincerely,

Harold H. Holen
School of Commerce

Enc.

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April 17, 1970

Dear

Last month you received an insurance questionnaire about fire and extended coverage on your district's school property. This letter is intended as a friendly reminder that I have not received a response from your district.

I realize this is a busy time of year for you and your staff. However, all I ask is a few minute's time from you or your clerk. To make this study as complete and comprehensive as possible I am again soliciting your cooperation.

Both the State Association of School Administrators and the State Association of Insurance Agents have expressed considerable interest in this study. In order to present an objective and thorough report to those concerned it is imperative that as many returns as possible be included.

Hopefully, the findings will be of help to both the school administrators and the insurance people. Considering the current state of social unrest throughout the nation and the somewhat depressed economic activity, it is imperative that those of us engaged in education attempt to find equitable solutions to some of the economic and social problems which now confront us.

At the present over one hundred thirty returns have been received out of slightly over two hundred mailed. This number is sufficient to provide much of the information, but it would be more accurate if everyone would participate. Therefore, I am taking this opportunity to request your cooperation and assistance in this project.

Sincerely,

Harold H. Holen
School of Commerce

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SELECTED REFERENCES

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