

THE UNIVERSITY OF OKLAHOMA  
GRADUATE COLLEGE

THE PRACTICES OF OKLAHOMA SCHOOL BOARDS IN THE INSURING  
OF SCHOOL DISTRICT PHYSICAL PROPERTY

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THE PRACTICES OF OKLAHOMA SCHOOL BOARDS IN THE INSURING  
OF SCHOOL DISTRICT PHYSICAL PROPERTY

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## DEDICATION

This dissertation is dedicated to the memory of  
Dr. D. Ross Pugmire, who directed the study in its formative  
stages.

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THE PRACTICES OF OKLAHOMA SCHOOL BOARDS IN THE INSURING  
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CHAPTER I

INTRODUCTION

Background and Need for the Study

School districts have an important financial interest in their buildings and equipment. In many communities the school plant is the largest economic enterprise in the community. Since the school plant is such an important investment of the taxpayers which houses the most precious resource of the community, its children, it would appear that its protection against loss would be mandatory. But the state does not hold boards of education responsible for insuring school plants against possible loss.<sup>1</sup> The State of Oklahoma has an unwritten policy of not insuring state property, and this policy holds for school district property in that insurance of district property is not made mandatory. It is a discretionary power of the board of education to

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<sup>1</sup>Interview with Harry Johnson, Assistant Attorney General, April 6, 1959.

insure district property. The Oklahoma State Legislature has recognized the need for such discretionary power for boards of education in the Oklahoma School Law:

Part I, Article IV, Section 59. Powers and Duties--Rules and Regulations: The board of education of each school district shall have powers . . . to have school district property insured . . .

Part II, Article IV, Section 304. Insurance of Buildings: The Governing Board of any county, city, town, or school district, dependent or independent, is hereby authorized to insure or cause to be insured at the cost of such municipality, any or all of the public buildings and property or other tangible and insurable assets owned or held by such municipality, in the name of the lawful Treasurer of such municipality . . .<sup>1</sup>

Accompanying this section of the Oklahoma School Law is a ruling made by the State Attorney General on June 6, 1941, in which he states: "It is not mandatory for school boards to carry insurance on school district property."<sup>2</sup> It is clear from the unwritten policy and the Oklahoma School Law, reinforced by the ruling by the Attorney General, that the protection of school district property by means of insurance is strictly discretionary as far as the state is concerned.

Even though the state does not hold boards of education responsible for insuring school district property, many boards have felt that it was their responsibility to insure district property. Since these boards of education use insurance to carry out their responsibility to the

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<sup>1</sup>State of Oklahoma, School Laws of Oklahoma, 1955.

<sup>2</sup>Ibid., p. 130.

district, those responsible for the school district insurance program should know the best practices for administering such a program.

A number of studies of the practices of boards of education in insuring school district property show that the school districts are not getting full value for their premiums. These studies show two things: first, that those responsible for school district property insurance programs are not using the best practices for the proper insurance of the district property and secondly, that the schools are paying higher premium rates than the risk seems to warrant.

Studies have been made of the school district property insurance practices of the local boards of education of a number of states, such as: Melchior<sup>1</sup> (New York), Viles<sup>2</sup> (Missouri), Steinhauer<sup>3</sup> (Pennsylvania), Ewing<sup>4</sup> (Illinois),

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<sup>1</sup>William T. Melchior, Insuring Public School Property, Contributions to Education No. 168 (New York: Teachers College, Columbia University, 1925).

<sup>2</sup>Nelson E. Viles, Improving the Insurance Program in the Local School District (Jefferson City, Mo.: Midland Printing Co., 1934).

<sup>3</sup>Milton H. Steinhauer, "Fire Insurance on Public School Property in Pennsylvania" (unpublished Ph.D. dissertation, University of Pennsylvania, 1939).

<sup>4</sup>Parmer L. Ewing, "A Study of Insurance Practices of Boards of Education in the State of Illinois" (unpublished Ed.D. dissertation, New York University, 1950).

Schuur<sup>1</sup> (Florida), Finchum<sup>2</sup> (Tennessee), Taylor<sup>3</sup> (Nebraska), Kent<sup>4</sup> (California), Ditto<sup>5</sup> (Oregon), Curry<sup>6</sup> (Indiana), Robinson<sup>7</sup> (Michigan), and Mills<sup>8</sup> (Arkansas). These investigators generally found that poor insurance practices by the school districts of their respective states contributed to higher premiums and less protection. They also found that it was apparent that the schools were paying higher rates for their property insurance than were realistic in comparison with the losses paid by the insurance companies.

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<sup>1</sup>Earl J. Schuur, "A Recommended School Insurance Program for Florida" (unpublished Ed.D. dissertation, Indiana University, 1952).

<sup>2</sup>Ralph N. Finchum, "A Study of the Insurance Practices and Procedures of Tennessee Public School Boards" (unpublished Ed.D. dissertation, University of Tennessee, 1953).

<sup>3</sup>Floyd L. Taylor, "A School Insurance Program for Nebraska" (unpublished Ed.D. dissertation, University of Nebraska, 1953).

<sup>4</sup>John R. Kent, "The Administration of Public School Insurance Affairs" (unpublished Ed.D. dissertation, Stanford University, 1954).

<sup>5</sup>Charles E. Ditto, "Public School Fire Insurance Practices and Procedures as Related to Oregon School Districts" (unpublished Ed.D. dissertation, University of Oregon, 1955).

<sup>6</sup>John C. Curry, "Fire Insurance Protection and Policies in the School Cities and Towns of Indiana" (unpublished Ed.D. dissertation, Indiana University, 1956).

<sup>7</sup>George R. Robinson, "State Insurance of Public School Property in Michigan" (unpublished Ed.D. dissertation, Wayne University, 1956).

<sup>8</sup>Hugh L. Mills, "A Study of Public School Insurance in Arkansas" (unpublished Ed.D. dissertation, University of Arkansas, 1958).

A few nation-wide studies have been made regarding local school board practices of insuring school district property. The leading agency in these investigations has been the National Association of Public School Business Officials, which recently changed its name to the Association of School Business Officials of the United States and Canada. This organization has made three successive surveys of the premium-loss ratios in school district property fire insurance, as well as the practices of the school districts in the insuring of district property. The first of these surveys was completed in 1932, covering the period of 1921-1930, inclusive;<sup>1</sup> the second survey covered the period of 1931-1937, inclusive;<sup>2</sup> and the third survey covered the period of 1938-1945, inclusive.<sup>3</sup>

The Association of School Business Officials sponsored a fourth nation-wide study of public school property

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<sup>1</sup>National Association of Public School Business Officials, Insurance Practices and Experiences of City School Districts of the United States and Canada, Bulletin No. 2 (Trenton, N. J.: Association of Public School Business Officials, 1932).

<sup>2</sup>National Association of Public School Business Officials, An Investigation of Insurance Practices in Various Lines Covering United States City Schools, a report prepared by the Association Research Committee on Insurance, Bulletin No. 9 (Pittsburgh: Association of Public School Business Officials, 1941).

<sup>3</sup>Association of School Business Officials, Insurance Committee Report on School Fire Losses, 1938-45 (Kalamazoo, Mich.: Association of School Business Officials of the United States and Canada, 1948).

insurance to cover the period of 1946-1955, inclusive. This study was made by Salmon as a doctoral dissertation at the University of Southern California.<sup>1</sup> It was later published, in part, by the Association of School Business Officials as their Bulletin No. 18.<sup>2</sup> Salmon's findings very largely agreed with the findings of the other three national studies, in that the practices of the local school districts in insuring their property were poor and that the premium-loss ratio indicated that fire insurance rates were too high.

In the spring of 1955, a study of school district property insurance practices was made of four Caddo County, Oklahoma schools.<sup>3</sup> This study revealed that the superintendents lacked knowledge of proper practices in insuring public school property and that there was almost complete dependence upon insurance agents for information and advice about the insuring of school district property.

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<sup>1</sup>Paul B. Salmon, "Fire Insurance Principles and Practices in School Districts Employing Nationally Affiliated Business Officials" (unpublished Ed.D. dissertation, University of Southern California, 1957).

<sup>2</sup>Paul B. Salmon, Fire Insurance Principles and Practices in School Districts Employing Nationally Affiliated Business Officials, Bulletin No. 18 (Evanston, Ill.: Association of School Business Officials of the United States and Canada, 1958).

<sup>3</sup>Paul L. Brent, "A Study of the Practices and Procedures for Insuring the Buildings of Four Caddo County School Systems" (an unpublished report for a practicum in education, College of Education, University of Oklahoma, 1955).



A number of persons who are acquainted with the insuring of school property were interviewed in order to determine whether a need existed for a study of the school property insurance practices in the state of Oklahoma. These persons included N. E. Viles, School Buildings Consultant for the U. S. Office of Education; N. L. George, Assistant Superintendent and Hugh B. Ginn, Business Manager, Oklahoma City Public Schools; Phil Gruber, Director, School Plant Services Division, Oklahoma State Department of Education; Roy H. Emans, Director and Clarence DeWeese, Assistant Director, Finance Division, Oklahoma State Board of Education; a number of superintendents of public schools in Oklahoma; and a number of insurance agents. All of these persons, who were well acquainted with school district property insurance in Oklahoma and in some instances in other states, stated that they were certain that there was a need for a study of the practices of boards of education in the insuring of the physical property of the public school districts of Oklahoma. Therefore, upon the presentation of these indications that a need existed, such a study was proposed.

#### Purpose of the Study

The purpose of the study was:

1. To determine the status of the present program of insuring the physical property of public school districts in Oklahoma.

2. To evaluate the status of the present program in order that recommendations could be made for:

- a. Effecting greater economies in the purchase of school district property insurance.
- b. Providing more adequate protection of school district property.

### The Problem

The problem was stated in the form of a question: How do the practices of Oklahoma school boards in the insuring of public school district property compare with established criteria and how might present practices be modified to provide greater protection and economy?

### Analysis of the Problem

Analysis of the problem indicated that answers must be sought to the following sub-problems:

1. What present practices contribute toward a sound property insurance program for Oklahoma public schools?
2. What present practices contribute toward an unsound program for insuring the district property of Oklahoma public schools?
3. In what ways must present practices be modified in order to make the present school district property insurance program provide more protection than they do at present?
  - a. Which practices must be modified in the insuring of the school district physical

properties?

b. Which practices must be modified in order to lessen the risks to which the properties are exposed?

4. In what ways may present practices be modified in order to take advantage of existing economies?

5. In what ways may present practices be modified in order to effect greater economies than those now existing?

6. Are school district physical property fire insurance rates realistic when compared to the premium-loss ratio?

#### Delimitation of the Problem

The study was confined to the responses to a questionnaire<sup>1</sup> sent to all public school districts listed in the Oklahoma Educational Directory, 1958-1959<sup>2</sup> that employed four or more teachers.

The study was confined to an investigation of insuring school district physical property under the fire insurance policy, the extended coverage, the vandalism and malicious mischief, and the windstorm and hail endorsements.

#### Definition of Terms

For clarification and understanding, the following

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<sup>1</sup>See Appendix.

<sup>2</sup>State of Oklahoma, Department of Education, Oklahoma Educational Directory, Bulletin No. 109-H (Oklahoma City, Okla.: State Department of Education, 1958-1959).

terms were identified as they were used in this study:

"Actual cash value" is the sum of money required to replace property, less depreciation.

An "agent" is a person authorized to write and sign insurance contracts that bind his company.

"Appraisal" is the process of determining the insurable value of a property.

An "appraiser" is a person that makes an appraisal.

"Appraised value" is defined as the value arrived at by the appraisers, usually the "Actual Cash" or "Sound Value."

"Assessments" are the additional payments required by a mutual insurance company from the insureds, in case the losses are in excess of those expected.

A "blanket policy" is an insurance policy which covers several different properties under one policy and under one rate. It requires either a high rate of coinsurance or the pro rata distribution clause. It is either written at the highest rate that applies to a property covered or an average rate, if one is established.

A "broker" is a person soliciting insurance business, acting as the agent of the insured and not as the agent of an insurance company, placing the business with companies of the insured's own choice.

"Coinsurance" is a provision in an insurance policy in which the insured agrees to purchase an amount of insurance equal to or above a stated percentage of the insurable

value of the property. In many cases lower rates are given in return for the inclusion of this provision. The clause provides for full payment of all losses, up to the amount of the policy, if the insured has at least the percentage of insurance stated in the agreement. If he has not purchased this amount of insurance, then the payments for losses are reduced in the proportion the actual amount of insurance carried bears to the required amount of insurance.

"Concurrency" is the state of agreement in which all of the policies covering the same property must be exactly alike in declarations, wording, forms, and endorsements.

An "endorsement" is an additional agreement made a part of and attached to the policy which restricts, amends, or extends the coverage of the policy.

"Extended coverage" is an endorsement to the fire insurance policy which extends the coverage of the policy to include losses, with certain exceptions, due to windstorm, hail, explosion (except of steam boilers and pipes), riot and civil commotion, aircraft, vehicles, and smoke.

A "hazard" is any condition which may create or increase the probability of a loss due to a certain peril.

The "insured" is any person, corporation, or school district whose interest is protected by the insurance policy.

The "insurer" is the insurance company providing the insurance.

"Insurable interest" exists when a person, corporation, or school district has such an interest in a property that if something happened to the property, the person, corporation, or school district would suffer monetary loss.

The "insurable value" is the highest value for which a property may be insured and collected in case of complete loss of the property. Also known as the "actual cash value."

A "mutual insurance company" is an insurance company organized so that the policy holders stand all operating losses and enjoy all profits.

A "peril" is any cause of possible loss, such as fire, windstorm, and hail.

The "premium" is the amount of money paid for the insurance policy.

The "premium-loss ratio" is the amount of losses divided by the amount of the premiums paid by the policy holders. A premium-loss ratio of 55 means that the policy holders were paid on an average 55 cents of each premium dollar for losses suffered.

The "rate" is the unit cost of insurance.

The "pro rata distribution clause" is used to divide the amount of insurance issued under a blanket policy among the various buildings and their contents according to the ratio their specific value bears to the total value of the property insured under the blanket policy. If this clause were not used it would be possible for an insured to be

underinsured under a blanket policy and have a loss that was only a part of the actual value of the property, but collect the whole amount of the policy.

A "school district" is any "area or territory comprising a legal entity, whose sole purpose is that of providing free school education, whose boundary lines are a matter of public record and the area of which constitutes a complete tax unit."<sup>1</sup>

"School district physical property" includes the buildings and their contents belonging to or held by the school district.

"Sound value" is the same as "actual cash value."

A "stock insurance company" is an insurance company organized on a capital stock basis. The stockholders usually organize a stock insurance company for investment purposes.

The "vandalism and malicious mischief endorsement" is an endorsement to the extended coverage endorsement which extends the coverage to include wilful and malicious physical injury or destruction of the property covered in the policy.

The "windstorm and hail endorsement" is an endorsement to the fire policy which extends the coverage to include losses due to any kind of windstorm or hail.

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<sup>1</sup>State of Oklahoma, Oklahoma School Law, Part I, Art. I, Sec. 9.

Procedure

In order to gain a background in the field of school property insurance, the literature in the field was surveyed. A number of dissertations on school property insurance, a large number of magazine articles on the subject, and a textbook on school insurance were read. Three textbooks dealing with general insurance were also read in order to obtain a background for the understanding of the principles of insurance. A course in general insurance was audited to obtain a better understanding of the insurance industry than would have been obtained through reading alone.

It was felt that criteria for measuring the status of the present practices in insuring public school physical property were needed. After reviewing the literature in the field of school property insurance, it was evident that investigators and authors were in agreement on criteria for an ideal school property insurance program. Thus any set of criteria selected would include almost exactly the same criteria set forth in any one piece of the literature in the field.

The question arose as to whether to use one of the lists of recommended criteria or to establish another which perhaps would better apply to the population included in this study. The criteria established by Salmon in his doctoral dissertation were selected as the basis for the



criteria used in this study.<sup>1</sup> There were two reasons for selecting Salmon's criteria: (1) these had been validated by submission to a jury of experts in the field of school property insurance and (2) his study had determined the property insurance practices of 378 schools in the United States and Canada. It is expected that these schools use the best of school business practices by virtue of their employing specialists in the field of school business management. These criteria were modified and two new criteria were added in order to make the criteria fit the present study better than they would have in their original form. The Oklahoma schools were compared with both the criteria and the practices of schools over the nation.

The practices of Oklahoma school boards in the insuring of their school district property were determined by a questionnaire. The questionnaire was modeled after the one developed by Salmon, since the responses of the Oklahoma schools were to be compared with the Salmon study.<sup>2</sup> The questionnaire was structured so that most of the responses could be made from a checklist. This was in accordance with a recommendation of Salmon.<sup>3</sup> This questionnaire was

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<sup>1</sup>Salmon, "Fire Insurance Principles and Practices . . .," pp. 335-40.

<sup>2</sup>Ibid., pp. 378-85.

<sup>3</sup>Letter from Paul B. Salmon, dated October 28, 1958.

submitted to a number of persons acquainted with the construction of questionnaires, the insurance industry, school administration, and school finance for criticism and recommendations. The revised questionnaire was mailed to the prospective respondents.

The 678 school districts listed in the Oklahoma Educational Directory, 1958-1959 were selected as the population to be studied.<sup>1</sup> This population included all school districts in the state of Oklahoma employing four or more teachers and/or administrators in the state of Oklahoma during the school year 1958-1959. Questionnaires were mailed to all school districts listed in the directory, except the University of Oklahoma Laboratory School, which is not a public school in the sense that it is not supported by a definite tax area and does not have its policies determined by a school board elected by its patrons.

The returns from the districts maintaining only elementary schools were insufficient to be included in the study. Usable questionnaires were received from 272 of the 590 school districts maintaining high schools in the state in time to be used in the study. This was a return of 46.1 per cent of the 590 high school districts. These school districts were arbitrarily divided into four groups:

(1) those districts employing four to 15 teachers, (2) those

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<sup>1</sup>State of Oklahoma, Department of Education, op. cit., pp. 22-70.

districts employing 16 to 30 teachers, (3) those districts employing 31 to 60 teachers, and (4) those school districts employing over 60 teachers. This division was made in an effort to see if there were differences in the insurance practices of the districts of various sizes. Table 1 shows the number of districts in each group of schools, the number returning completed questionnaires and the per cent returning the questionnaires in each group. The group returning the highest per cent was the group of largest schools, with 68.9 per cent returned. The group with the lowest per cent of returned questionnaires was the group of smallest schools with 37.6 per cent returned.

TABLE 1  
QUESTIONNAIRES RETURNED FROM HIGH SCHOOL  
DISTRICTS IN OKLAHOMA

Size of District by Number of Teachers	Number Returning Questionnaire	Number Sent Questionnaire	Per Cent Returned
4 - 15	128	340	37.6
16 - 30	68	138	49.3
31 - 60	45	67	67.2
Over 60	31	45	68.9
Total	272	590	46.1

A prospectus of the study was reviewed by Roy H. Emans, Director, and Clarence DeWeese, Assistant Director, Finance Division, State Board of Education. Both Emans and DeWeese suggested improvements. Emans endorsed the study in a letter in which he stated that the information would be "of great value to the State Department of Education, Legislature, School Administrators and others interested in a better property insurance program."<sup>1</sup> Emans also gave permission to use copies of his letter to encourage return of the questionnaire.

The study was presented to the Committee on Budgeting, Accounting, Reporting and Business Management of the Oklahoma Commission on Educational Administration. This committee, after due consideration, endorsed the study and requested that the information be presented to the committee for possible dissemination.<sup>2</sup>

The responses obtained from the returned questionnaires were compared with the criteria and with the practices of the schools surveyed by Salmon.

The fire insurance premium-loss ratio was determined for the educational institutions of the state of Oklahoma.

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<sup>1</sup>Letter from Roy H. Emans, dated January 8, 1959. See Appendix.

<sup>2</sup>Letter from Arthur Farrar, Secretary, Committee on Budgeting, Accounting, Reporting and Business Management of the Oklahoma Commission on Educational Administration, dated January 22, 1959.

This was compared with the premium-loss ratio determined by Viles<sup>1</sup> to determine any difference that might exist. A number of investigators have given very different premium-loss ratios for the state of Oklahoma than did Viles. The determination was based upon a comparison of this data with the information covering premiums paid to and losses paid by insurance companies doing business in the state of Oklahoma as reported to the State Insurance Board by the agencies responsible for making these reports. A check was made on these figures using the amount of money reported in the Annual Financial Report for Independent and Dependent School Districts as being spent for insurance premiums, and the money reported in the School District Estimate of Needs and Financial Statement of Fiscal Year as being received for loss payments. This information was collected for the five-year period July 1, 1953 to June 30, 1958, inclusive.

Recommendations based upon the information obtained from the returned questionnaires were made for the modification of present school district property insurance practices.

#### Value of the Study

The findings of this study and the recommendations made with respect to the results of the study should be

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<sup>1</sup>Nelson E. Viles, School Property Experience on the State Level, U. S. Department of Health, Education and Welfare Bulletin 1956 No. 7 (Washington, D. C.: U. S. Government Printing Office, 1956), p. 21.

valuable to the state legislature, the state board of education, to the school districts of the state, and others interested in the schools of the state. The findings of this study should, if properly applied, result in greater protection of the school district property of the taxpayers of the state of Oklahoma and result in the saving of money through less losses of property, better coverage of property that is lost, and through reduced cost of insurance. Another value should be the reduced risk of the lives of the approximately one-half million school children enrolled in the public schools of the state through better protection of the property.

## CHAPTER II

### REVIEW OF RELATED LITERATURE

The literature in the field of school district property insurance is almost completely confined to four types of sources. These sources are doctoral dissertations, studies by the Association of School Business Officials of the United States and Canada, articles in periodical literature, and handbooks prepared for various state school boards associations.

Probably the most important source of information about the field of school property insurance comes from the doctoral dissertations in the field. Most of these have been written on the school insurance problems of individual states. Also, several master's theses have been written on school insurance; but most of these have appeared to be studies of local problems in school insurance.

One of the most important sources of information about school property insurance is the series of three studies by the National Association of Public School Business Officials, now known as the Association of School Business Officials of the United States and Canada. These

investigations have been studies of the problems of school insurance on a national basis. Two of these studies include information from Canadian school systems. These surveys have been very extensive and the findings and recommendations are very useful to those interested in the problems of school property insurance.

The material found in periodical literature is chiefly confined to three professional journals that publish articles on the problems of school administration. These periodicals are the American School Board Journal, Nation's Schools, and the School Executive. Articles on school insurance appear in other periodicals from time to time, but the great majority are published in those named above.

A few state school boards associations have published handbooks on school insurance for use by the school authorities of their respective states. These handbooks generally contain state laws concerning school insurance, information about the different types of policies, and modifications of the policies as well as recommended practices.

Probably the only textbook entirely devoted to the subject of school insurance is Insurance Practices in School Administration.<sup>1</sup> This book covers the entire field of school insurance; it is a very complete handbook for school

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<sup>1</sup>Henry H. Linn and Schuyler C. Joyner, Insurance Practices in School Administration (New York: The Ronald Press, 1952).



administrators on the subject of school insurance.

A review of studies in the field of school property insurance that are pertinent to this study is given here. These studies are divided into: (1) studies made on the state level and (2) studies made on the national level. A review of the textbook on school insurance is also included.

#### Studies Made on the State Level

Melchior's<sup>1</sup> study of school property insurance in the state of New York, completed in 1925, was one of the earliest studies on the subject. This investigation was an attempt to determine what elements in the school building insurance program could be modified to help reduce costs and how insurance could be provided most economically. Melchior investigated the insurance practices, costs, and losses in the schools in New York and in cities over the nation.

Among the findings were: (1) that practically all school districts carried insurance, (2) New York State law required that school districts carry insurance on school property, (3) school authorities made the appraisals of property in 66 per cent of the districts and that these were mostly unscientific and inaccurate, (4) there were few school buildings in New York that were not hazardous, (5) the cheapest and best protection against fire loss is prevention, (6) the majority of city school districts insured with stock

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<sup>1</sup>Melchior, op. cit.

companies, but about 25 per cent of the rural districts insured with mutual companies, (7) no insurance records were maintained by 52 per cent of the districts, (8) school authorities depended upon insurance agents to inform them when insurance policies fall due, (9) coinsurance was used by 66 per cent of the districts, (10) the three-year term policy was used by 92 per cent of the districts, (11) the premium-loss ratio for New York was 35.6, which means that 35.6 cents of each premium dollar was returned to the schools in payment of losses.<sup>1</sup>

In 1934, Viles<sup>2</sup> completed a study of the insurance practices of Missouri public school districts. The purpose of this investigation was to determine some of the prevailing practices in administering the insurance programs and to show how improvements might be made in these practices in order to reduce premiums and to simplify the administration of the insurance programs.

It was revealed among the findings that approximately 11 per cent of all fires originated in the basement. More fires started in the basements of elementary schools than in the basements of high schools. Twice as many fires originated in the mechanical and chemical laboratories as in all other classrooms. Fires starting in the attic amounted to

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<sup>1</sup>Ibid., pp. 171-180.

<sup>2</sup>Viles, Improving the Insurance Program . . .

27 per cent of the fires. Many of these fires were attributed to defective wiring and defective flues. The majority of all of these fires could have been prevented.

Viles found that over one-third of the premium rate charged the buildings that he studied was due to penalties added because of fire hazards. A large number of these penalties could have been eliminated by removing the hazards. A check on the plans for buildings before construction can prevent many penalty-causing hazards from being built into the building. The premium-loss ratio for Missouri public buildings for the years 1926-1930, inclusive, was found to be 38.4.

Viles recommended: (1) that districts carry the amount of insurance needed to protect the district, (2) that the board should plan a simple insurance program that could easily be administered, (3) that some method of establishing and maintaining up-to-date appraisals be adopted and that inventories of contents be kept up-to-date, (4) that insurance records show all information needed for the program, (5) the use of the specific schedule policy, and (7) the use of the three or five-year term policies instead of the annual policy.<sup>1</sup>

In 1939, Steinhauer<sup>2</sup> completed a study of fire

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<sup>1</sup>Ibid., p. 93.

<sup>2</sup>Steinhauer, op. cit.

insurance on public school property in Pennsylvania. The purpose of the study was to see if a state could economically operate and maintain a system of insurance for school property which would be consistent with the principles of sound insurance.

Steinhauer found that the appraisals of property values were largely in the hands of board members. There was little attempt to determine the replacement cost of the property. Stock companies were the most prevalent insurers in the larger districts, but many of the smaller districts used mutual insurance. The influence of the insurance agent on matters of insurance was very great in the local districts. Most of the larger districts purchased insurance in three or five-year terms but the smaller districts were forced to purchase annual policies due to their financial difficulties. The premium-loss ratio for an 11-year period was 36. The loss experience indicated that a state insurance plan would have been feasible.

Steinhauer proposed three types of state plans for school property insurance:

1. Self-insuring districts.
2. A state insurance fund.

3. An association of public school districts in an association in the form of a mutual insurance company.

He stated that in only the very largest districts of the state were the numbers of pieces of property great enough

and scattered enough to consider self-insurance. Steinhauer had doubts that the state legislature would pass legislation authorizing a state insurance fund. It was recommended that the schools organize a mutual insurance association to be known as the Public School Mutual Insurance Company of Pennsylvania.<sup>1</sup>

Ewing's<sup>2</sup> study of the insurance practices of Illinois boards of education, completed in 1950, was made for the purpose of gathering information so that a handbook on school insurance might be prepared for the Illinois Association of School Boards. A questionnaire was sent to all schools outside of Chicago. The total number of questionnaires returned was 300 but only 194 were usable.

The premium-loss ratio for Illinois schools was found to be 22 per cent. It was found that the majority of the schools used the extended coverage endorsement. Approximately one-third of the schools used appraisal firms to determine the appraisal of property value. About 25 per cent of the schools placed their insurance business with one agent. The five-year term policy was used by the majority of the districts. The use of mutual insurance by school districts was illegal in Illinois, but ten schools were using mutual insurance. The insurance purchased by the schools in

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<sup>1</sup>Ibid., pp. 103-07.

<sup>2</sup>Ewing, op. cit.

proportion to the sound value of the property was judged to be inadequate. It was found that 90 per cent coinsurance was more popular than 80 per cent coinsurance.

Ewing presented a complete school insurance program for the public schools of Illinois. This was to have been published by the Illinois Association of School Boards.

In 1951, Schuur<sup>1</sup> recommended a school insurance program for the schools of the state of Florida, which incorporated the best features of the various state insurance fund programs. During the investigation of the school property insurance program in Florida, it was found that the law required that county boards insure all school plants of four or more classrooms with five-year policies arranged so that one-fifth of the policies expired each year and one-fifth of the premium was due each year. Schuur found that of the 67 counties in the state, only 41 were complying with the law and that eight were partially complying. It was found that in nine of the counties the appraisals were made by insurance agents alone, in two counties the superintendent and a licensed appraiser made the appraisal and in 13 counties no appraisal had been made. Many of the insurance agents were selling insurance as a side-line to some other business and knew very little about the appraisal of property. The two most common methods of appraisal were to adjust the original

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<sup>1</sup>Schuur, op. cit.

cost for appreciation and depreciation and to apply cost factors on a per-room or square-foot basis. In general, appraisals were made every two years. The amount of coverage to sound value varied from 100 per cent to 10 per cent, with the state average 76.3 per cent. There was definitely some underinsurance in 37 counties. The fire premium-loss ratio for the years 1940-1950 was 22 for schools while the premium-loss ratio for other property was 43.5. It was found that 16 counties used 90 per cent coinsurance, four counties used 80 per cent coinsurance, two counties used both 80 and 90 per cent coinsurance and 45 counties did not use coinsurance. Eight counties used extended coverage and three counties used the windstorm endorsement. The windstorm premium-loss ratio was 60.

The Florida counties found that the way to stop trouble with insurance agents was to purchase insurance through agents' associations. Two plans have evolved. One plan, called the Alachua County Plan, allocated the business to the agencies on the basis of the gross premium volume of the agency. The other plan was to designate one agent as the insurance broker for the county. This plan resulted in a reduced number of policies and the payments for losses came in one check. Only five counties had any plan for the selection of insurance companies.

Schuur proposed a state insurance fund for school property that would have mandatory participation and

mandatory premium payment. The state would set up a reserve fund of \$2,000,000 to be repaid as the reserves increased above 5 per cent of the insured value of the property. The rates would be high enough to pay losses and to increase the reserve fund. The expenses would not be limited to any set amount. The school would be insured in the fund as their existing policies expired. Complete insurance of all school property would take five years. After the \$2,000,000 loaned by the state was repaid, the fund would issue free or reduced cost insurance to all risks that had been insured in the fund for at least five years. After 11 years it was calculated that the fund would start repaying the loan to the state. After 15 years the fund would issue free or greatly reduced cost insurance to the schools.<sup>1</sup>

In 1953, Finchum<sup>2</sup> completed a study of the practices and procedures of Tennessee public school boards in insuring school district property. The purpose of this study was to determine the practices and procedures followed by school administrators in the state of Tennessee, with respect to the operation of insurance programs covering the buildings and contents in those systems. The areas of study included: (1) the determination of the legal responsibility of school authorities in the protection of school property, (2) the

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<sup>1</sup>Ibid., pp. 256-83.

<sup>2</sup>Finchum, op. cit.



determination of the extent to which the school authorities had tried to meet those responsibilities, (3) the definition of practices and procedures which would afford protection by elimination, or at least reducing to a minimum, the hazards to which school property was exposed, and (4) the identification of the factors involved in setting up an adequate system of school district property insurance.

Finchum made a case study of 28 school buildings in nine school districts in order to determine what could be done in the way of better housekeeping, alterations, and repairs that would result in a lowering of insurance rates. A questionnaire was sent to 150 school districts in the state to determine their insurance practices. Sixty-one or 40.2 per cent of the questionnaires were returned.

It was found that boards of education made their own appraisals in 38 per cent of the cases and insurance company representatives made the appraisals in 23 per cent of the cases. Inventories of contents were not kept by 75 per cent of the districts and 85 per cent do not keep any insurance information other than policies. Insurance agents select the insurance companies for 85 per cent of the districts. Only 45 per cent of the districts had plans for the distribution of business to insurance agents.

Finchum's recommendations to the local school boards for an adequate property insurance program were as follows:

1. Place responsibility for the entire school insurance program in the hands of one school official.
2. Determine the insurable values through the use of competent appraisers and through the use of annual inventories made by school personnel.
3. Select the type and term of insurance coverage best suited to the needs of the local system.
4. Determine the form and extent of coverage needed by the local system.
5. Select insurance carriers that operate on a national basis.
6. Distribute the insurance business to local agents by some objective system.
7. Secure all possible insurance economies by:
  - a. using the coinsurance clause.
  - b. using the extended coverage endorsement for both buildings and contents.
  - c. using three or five-year or 78 per cent optional renewal term plans.
  - d. classifying contents of a fixed nature as a part of the buildings rather than as contents.
  - e. excluding unburnable items if the coinsurance clause is used.
  - f. securing survey rating sheets to determine the penalty factors on each building specifically rated, making corrections of indicated faults, and calling for reinspection.
  - g. budgeting insurance payments.
  - h. installing and maintaining adequate underwriter approved fire protective equipment.
  - i. making minor alterations in existing buildings to provide for rate credits.
  - j. using the blanket policy form in the larger districts.
  - k. insuring for no more than the property is worth.
  - l. asking for competitive bids.
  - m. investigating the possibilities of the single-client association.
  - n. using mutual insurance carriers, provided the policies are non-assessable and provided agency services compare to stock agency services.
8. Keep adequate insurance records. Store all policies in a fire-proof vault which is located away from school premises.
9. Check all policies for concurrency and accuracy of property description.
10. Submit all plans and specifications for new buildings to the inspection bureau for suggestions and recommendations.
11. Insure all heating boilers not only for protection, but also for the inspection services provided, being

sure that the company accepting the risk provides inspection service.<sup>1</sup>

A study for the purpose of developing an insurance program suited to the needs of the public schools of Nebraska was completed by Taylor<sup>2</sup> in 1953. Taylor established five basic elements for a good school insurance program: (1) there must be a centralization of the responsibility for the control of the program, (2) the administration of the school insurance program should be placed on a scientific basis, (3) the administration of the insurance program should be prudential, (4) the administration of the insurance program should conform to the laws of Nebraska, (5) the program itself must be subject to evaluation.

A questionnaire was sent to 476 public high school districts, omitting class I schools and those not maintaining high schools. Completed questionnaires were received from 155, or 32.7 per cent of the schools, representing 76 of the 93 counties in Nebraska.

The survey revealed that the boards retained responsibility for the insurance program in 52.47 per cent of the districts; in 7.4 per cent of the districts the responsibility was delegated to the superintendent. In 35.5 per cent of the districts the control was placed in a combination of

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<sup>1</sup>Ibid., pp. 345-47.

<sup>2</sup>Taylor, op. cit.

officials. Insurance was purchased from an agent in 74.1 per cent of the districts. Some method of apportionment of the business was used by 19.3 per cent of the districts. Insurance was bought on bid in 4.2 per cent of the districts. The five-year term policy was used by 76.1 per cent of the districts and 14.9 per cent of the districts used the three-year term policy. The coinsurance clause was used by 76.7 per cent of the districts, with 51.3 per cent using 80 per cent and 88.7 per cent using 90 per cent coinsurance. It was found that 45.4 per cent of the districts purchased more insurance than the coinsurance clause required; 27.7 per cent did not carry enough insurance to satisfy the coinsurance agreement and only 21 per cent purchased the required amount. The district property was appraised by insurance agents in 41.8 per cent of the districts, by the school board in 30.4 per cent, by an appraising group in 23.4 per cent, and by contractors in 2.2 per cent of the districts. Depreciation of property was computed on a percentage basis in 47.2 per cent of the cases, 14.2 per cent estimated depreciation, and 10.2 per cent used a formula for calculating depreciation. The extended coverage endorsement was used by 77.4 per cent of the districts, but in 32.5 per cent of the cases the amount did not agree with the amount of fire insurance.

Taylor made the following recommendations:

1. The control of the insurance program should be in the hands of one individual.

2. School boards should adopt simple concise insurance records.

3. Every school official should study the Nebraska laws concerning school insurance.

4. School districts should obtain accurate, scientific appraisals.

5. Districts should initiate a system for accurately determining depreciation.

6. Insuring up to the amount of the coinsurance clause.

7. School districts should check to see if enough insurance is being carried.

8. The use of the coinsurance clause to obtain lower rates.

9. All secured contents should be included as part of the buildings, since the building rate is lower than the contents rate.

10. The use of three or five-year policies.

11. The use of the extended coverage endorsement.

12. All schools preparing school administrators should offer information about insurance practices and problems somewhere in the training.<sup>1</sup>

In 1954, Kent<sup>2</sup> made a study of the insurance practices

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<sup>1</sup>Ibid., pp. 177-80.

<sup>2</sup>Kent, op. cit.

of the schools of a California county, fictitiously called Redwood County, in order to analyze and evaluate the current insurance practices in terms of established criteria, to make recommendations for the improvement of these practices and to define what appeared to be a sound insurance program on the state, county or intermediate, and local levels.

It was found that insurance was the most pressing problem of the local school superintendents and that the county superintendents could give very little assistance, if any, in the solution of these school district insurance problems.

The findings revealed that there was a great amount of chaos in the administration of school insurance affairs. The conditions which contributed to this state of chaos included:

1. There was a failure in the districts to make one school official responsible for the insurance program.
2. Where the administration did assume the responsibility for the insurance program, their lack of technical knowledge and understanding of the principles of insurance prevented proper administration of the program.
3. There was a lack of competent technical advice about school insurance on the part of the agents.
4. There was no alternative source of technical advice about the school insurance program.
5. There was evidence that in some cases the school

insurance program was handled on a patronage basis.

6. Districts failed to maintain adequate records concerning the insurance program.

To the schools of Redwood County, Kent recommended that:

1. The school districts and insurance agents be informed of the weaknesses of the present program and that the proper school officials seek joint solutions to these problems.

2. The responsibility of the district insurance program be delegated to one school official.

3. A manual on school insurance be prepared and distributed to school officials.

4. The professional training of some administrators in the colleges and universities include information on the proper handling of school insurance affairs.

5. Each district develop a definite objective policy for distribution of its insurance business.

6. School districts keep adequate insurance records.

7. Each district develop its own insurance form based on the state form and define the specifications for liability insurance.

Kent recommended that the state define the minimum requirements for school insurance programs, enforce them, gather and disseminate information pertaining to school insurance programs.

He recommended that the county or intermediate unit assist the state in the enforcement of insurance program laws and assist the local districts in complying with the law.<sup>1</sup>

A study of the fire insurance practices of the Oregon public schools was made by Ditto<sup>2</sup> in 1955. The purpose of this investigation was to identify and evaluate the fire insurance practices in the school districts of Oregon as a basis for making recommendations for their improvement. A questionnaire was sent out to all schools in the first, second, and third classes. There were 794 schools in this group; of these, 396, or slightly more than 50 per cent, returned the questionnaire.

The survey revealed that in the first class schools the responsibility for the insurance programs was delegated to the superintendent. In the second and third class schools the boards retained the responsibility, but they often called for outside help, usually insurance agents. The persons responsible for the insurance programs generally did not have a clear idea as to what constituted the insurable value of the district property. The districts did not maintain adequate up-to-date insurance records. Few of the districts had written policies regarding the selection of insurance companies. Most of the insurance business was distributed

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<sup>1</sup>Ibid., pp. 132-43.

<sup>2</sup>Ditto, op. cit.



on the basis of services rendered and personal acquaintance. About 75 per cent of the districts used the extended coverage endorsement. The coinsurance clause was used by 74 per cent of the districts. The three-year term policy was used by 20 per cent of the districts; 74 per cent used the five-year term and 6 per cent used the annual policy. The premium-loss ratio was 30.3 for the period 1948-1952, inclusive.

Recommendations for the improvement of the insurance practices of the school districts were:

1. That the Oregon State Department of Education help the districts by (a) providing an insurance manual, (b) providing consultant services to schools on insurance affairs, and (c) revising the annual reports to require better annual insurance reports.

2. That the Oregon State School Boards Association and the Superintendents Association make cooperative studies of insurance costs and problems.

3. That the State Fire Marshall maintain a separate class for public school buildings in his record of fires and fire losses.

4. If rates are not lowered, interested officials and other persons should seek the establishment of a state insurance program.<sup>1</sup>

In 1956, Curry<sup>2</sup> made a study of the insurance

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<sup>1</sup>Ibid., pp. 209-10.

<sup>2</sup>Curry, op. cit.

practices and policies in the school cities and towns of Indiana. The purpose of the study was to investigate the current practices in the administration of the fire insurance programs of the public schools of Indiana. The study was limited to the school cities and towns because returns of the questionnaire were so low from the township and county unit systems that they could not be included. A questionnaire was sent to 162 school cities and towns and 73, or 45 per cent, were returned after ten months of effort.

Curry established the following five criteria from the literature:

1. Type of Insurance Company: The type of insurance company carrying the risk should be one that is reliable and financially sound.
2. Economy: The term and type of the insurance policy should be provided that will render the school corporation the most effective coverage at the least cost.
3. Experienced Personnel: The administration of the insurance program should be performed by individuals having the proper training and experience.
4. Efficiency: Systematic organization and planning of the insurance program should have the necessary data for effective control.
5. Educational Implications: The insurance program should be so organized that it will further the educational program.<sup>1</sup>

Major findings were:

1. The public school officials responsible for the Indiana school insurance programs were not keeping adequate records, were not expending funds for insurance efficiently and economically. They did not investigate the financial

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<sup>1</sup>Ibid., pp. 4-5.

standing and reliability of their insurance carriers. Much of their property was underinsured. Much of their property was improperly appraised. They were lax in providing fire safety and fire protective measures. They did not inspect their buildings for fire hazards.

2. School officials were saving money through the use of three and five-year term policies, and the use of coinsurance.

3. The State Department of Public Instruction did not enforce fire drills and safety measures in the schools.

4. The fire marshall's office and local fire departments did not lend much help in providing inspection services and promotion of fire prevention in the schools.

5. Schools were very favorable and preferred risks.

6. The agents' association seemed to be the most desirable way to allocate the school's insurance business.

7. The necessary conditions existed for a state insurance fund in Indiana which should save the taxpayers money as the state insurance funds have done in the five states that have them.<sup>1</sup>

In 1956, Robinson<sup>2</sup> investigated the practicability and desirability of state insurance of public school property in the state of Michigan. An analysis of the state insurance

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<sup>1</sup>Ibid., pp. 139-43.

<sup>2</sup>Robinson, op. cit.

funds in Alabama, North Carolina, North Dakota, South Carolina, and Wisconsin showed that these five states had had successful experience with the insurance of public school property. The oldest fund is that of South Carolina, which was established in 1900. The most recently established fund is that of North Carolina, which was established in 1949. The rates charged by these state insurance funds have never exceeded the existing commercial rates at any time. In most instances the rates have been lower than the existing commercial rates. Rates have been reduced to 50 per cent of the commercial rates in Wisconsin. In spite of these low rates a sum of \$5,000,000 has been transferred to the Wisconsin general fund to help balance the state budget. At times North Dakota has provided free insurance for risks that have been insured in the state fund for at least five years. At other times the North Dakota fund has charged lower than commercial rates.

Robinson sent a questionnaire to the schools of Michigan employing a superintendent and employing ten or more teachers. He received 392 completed forms for a return of 76.9 per cent. This questionnaire revealed two districts to be self-insured with 390 districts insuring with insurance companies. The study also revealed that the premium-loss ratio for an eight-year period of 1947-1954, inclusive, was 33.34.

Robinson proposed two plans for a state program for

the insuring of school buildings and their contents:

Plan I. To establish a state insurance fund which would insure all state-owned or leased buildings as well as school buildings. A \$2,000,000 appropriation from the general fund of the state would provide an initial reserve fund. This fund would be repaid to the state in two \$1,000,000 payments when the reserve fund increased that amount above the \$2,000,000 originally appropriated. A fund of \$50,000 would also be appropriated for the expenses of operation for the first biennium. After this period the operational expense would be limited to 10 per cent of the combined income of premiums and earnings of the reserve fund. The rates charged would be 75 per cent of the existing commercial rates. Protection would be for the perils of fire and those under the extended coverage endorsement. Participation in the fund would be mandatory. Schools would join the fund as their existing policies expired, paying pro rata premiums in case part of the insurance expired each year.

Plan II. This plan was for the insurance of school district property only. Buildings and contents would be insured against loss due to fire, lightning, windstorm and hail. The state was to appropriate \$2,000,000 to exist as a reserve fund. All losses were to be paid from this reserve fund. The losses were to be repaid to the reserve fund by an assessment against the state aid funds due each school the succeeding year on a pro rata pupil membership basis.

In case the losses were greater than the reserve fund, the schools would be charged immediately on a pro rata pupil membership basis for the excess losses. An original appropriation of \$35,000 would be made for the operation of the fund for the first year. On succeeding years this operating fund would be replaced in the same manner as the reserve fund. Participation in the fund would be mandatory. In 1954 the per membership pupil charge would have been 15.7 cents, if Plan II had been in operation, as against a cost of 57.7 cents per membership child for commercial insurance. For the eight-year period, 1947-1954, inclusive, while schools actually paid \$1.15 per membership child for commercial insurance.<sup>1</sup>

Mills<sup>2</sup> made a study of public school property insurance in Arkansas in 1958. The purposes of the study were: (1) to provide a background in the area of property insurance, (2) to identify certain practices and procedures used by Arkansas boards of education in the insuring of public school property, (3) to recommend what appeared to be a sound school property insurance program, and (4) to submit a proposed guide by which Arkansas school districts might improve the management of their school district property insurance programs.

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<sup>1</sup>Ibid., pp. 140-47.

<sup>2</sup>Mills, op. cit.

The findings of the study were: (1) the superintendents were responsible for handling the districts' insurance affairs in 62.9 per cent of the districts reporting, (2) the ledger was the most common form for keeping insurance records, but that 19.2 per cent of the schools kept only policies and that 28.14 per cent reported that they kept no records at all, (3) most of the districts had their property insured with stock companies, but only a few districts had regulations against insuring with mutual companies, (4) that 70.5 per cent of the districts reporting had no regular appraisal of values, (5) over 77 per cent of the districts reporting determine the value of their contents by estimate alone, (6) approximately 60 per cent of the districts do not use the coinsurance clause, (7) the percentage of insured value to true value was reported as being 40 to 80 per cent of the true value, (8) that 20 per cent of the districts reported the use of the vandalism and malicious mischief endorsement, (9) over 64 per cent of the districts reported that they had not requested a rating sheet on their buildings in the last three years, and (10) only 20 per cent of the districts reported that they had any plan for determining the depreciation of property. The returns indicated that the practices of the North Central Accredited schools were better than the practices of the other schools in the state.<sup>1</sup>

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<sup>1</sup>Ibid., pp. 113-14.

Mills submitted a list of suggestions for improving the fire insurance program in the local school district. The recommendations were those made by Finchum in his study.<sup>1</sup> It was also recommended that the Arkansas State Department of Education require better and more complete reports to be made to the department concerning the insurance program. Recommendations were made to the Arkansas legislature that it enact more definite laws concerning school insurance, that it investigate the desirability of a state insurance fund for school property, and that it conduct an investigation into rates and require a lowering of rates if indicated.

#### Studies Made on the National Level

The first of the surveys of the National Association of School Business Officials<sup>2</sup> was issued in 1932 as Bulletin No. 2. The study covered the ten-year period 1921-1930. This was a very extensive study which covered among other things the insurance practices of 380 city school districts in the United States and Canada. The purposes of this study were to determine the practices of school authorities in the insurance of school property and to determine if public schools were a preferred insurance risk.

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<sup>1</sup>Finchum, op. cit., pp. 345-47. These recommendations are also given in the review of the Finchum study on pages 32 and 33 above.

<sup>2</sup>National Association of Public School Business Officials, Insurance Practices and Experiences in City School Districts.



A series of four surveys made up the study. The first survey sought general information regarding the physical facilities of the school districts; the second survey was made of self-insurance by school districts. The third survey was made of the practices and success of the state insurance funds for public school property. The fourth survey was made of the practices in the insuring of school property against fire and all other hazards to which school property, personnel, and the public might be exposed. The investigation of fire insurance practices made up the greater part of the study.

It was found that the premium-loss ratio for the 380 schools was only 28.7 for the ten-year period. This meant that the insurance companies had a margin of 71.3 cents out of every premium dollar for profit, operating costs, and payments to reserve funds.

It was concluded that:

1. School buildings were a greatly preferred risk.
2. Schools were being unduly penalized by being put into a class with churches, private schools, and all other educational institutions.
3. Reliable appraisals of school property, adequate insurance records, and a knowledge of property values were necessary in setting up a sound insurance program.
4. The first step in reducing school insurance rates was to get rating sheets to determine the existing hazards

and to eliminate them.

5. The use of coinsurance would reduce rates in many cases.

6. The use of mutual insurance instead of stock company insurance was another way to reduce premium rates.

7. That the high rates for steam boiler insurance was probably justified by the value of the inspection services provided by the companies.<sup>1</sup>

The second investigation into school property insurance by the National Association of Public School Business Officials<sup>2</sup> was issued in 1941. This was a study covering the seven-year period 1931-1938. The purpose of the study was to determine whether or not the data collected in the first study was correct. This second study included data from 257 city school districts in 42 states.

The premium-loss ratio for the seven-year period was found to be 26.7. This was a slight reduction from the premium-loss ratio of 28.7, which was determined by the first study. There had been a general reduction of rates since 1930. From the premium-loss ratios determined before and after the reduction it is apparent that the reduction was ineffective in-so-far as bringing rates in line with losses was concerned. It was also found that stock insurance

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<sup>1</sup>Ibid., pp. 219-23.

<sup>2</sup>National Association of Public School Business Officials, An Investigation of Insurance Practices.

companies were taking advantage of the fact that schools are political in nature and the local agents were exerting political pressure to force school boards to accept stock insurance with its exorbitant rates, instead of seeking more economical methods of insuring district property.

Convenient methods of doing business and other services make it desirable for schools to continue doing business with stock companies. However, the cost of these conveniences is too high. It was concluded that the stock companies were not going to do anything that would reduce the large profit that they were getting from the school insurance business. The Association, therefore, recommended that school districts insure with mutual companies. A better plan would be to establish state insurance funds. As a last resort, it was recommended that the larger districts self-insure their property.<sup>1</sup>

The third Association of Public School Business Officials<sup>2</sup> study covered the eight-year period of 1938-1945, inclusive. The investigation included a survey of insurance practices and forms of coverage. The premium-loss ratio for city school districts in the United States and Canada was found to be 31.9 for the period. This study completed a

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<sup>1</sup>Ibid., p. 288.

<sup>2</sup>Association of Public School Business Officials, Insurance Committee Report on School Fire Insurance, 1939-45.

25-year period of investigation of insurance practices and premium-loss ratios experienced by public schools.

The following were included among the findings:

- (1) the larger districts used the three-year term policy, while the smaller districts used the five-year term policy,
- (2) the majority of districts used the blanket policy,
- (3) the use of coinsurance was practically universal, the 80 and 90 per cent being the most popular, (4) the elimination of hazards was the most common reason for lowered rates,
- (5) about 75 per cent of the districts had objective plans for distributing business to insurance agents, (6) unreliable appraisals were common, (7) there was no agreement on a pattern of frequency of appraisal.

A number of recommended practices were given in order to provide schools with a plan for a complete fire insurance program. This plan included:

1. Place responsibility for handling the school district's insurance.
2. Secure a realistic appraisal to determine insurable values.
3. Determine the method to be used in insuring the buildings and contents.
4. Develop a school form.
5. Obtain all possible rate reductions.
6. Maintain adequate records.
7. Establish an equitable plan for distributing insurance to companies and agents.
8. Obtain maximum adjustment on fire losses.<sup>1</sup>

In 1956, Viles<sup>2</sup> completed a study for the U. S.

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<sup>1</sup>Ibid., pp. 8-30.

<sup>2</sup>Viles, School Property Insurance.

Office of Education which was the first attempt to determine the total cost of fire insurance on a state-by-state and national basis. The data presented in this investigation included the amount of premiums paid by the schools and the amounts received by the schools for fire losses for each class of building construction. The loss ratio was determined in each case for each of the states. This data, obtained from the various state insurance departments, was that compiled by the National Board of Fire Underwriters and the Mutual Insurance Advisory Association for their reports to the respective state insurance departments. The investigation covered the five-year period 1948-1952. This was the first five-year period after a change in insurance classification was made which placed public schools in a class which contained only educational institutions. This classification included all educational institutions: both public and private schools, libraries, museums, and auxiliary buildings on the premises.

A discussion of the experiences of the five states maintaining state insurance funds for public school property was given.

It was found that the national premium-loss ratio for all types of buildings, for both stock and mutual companies combined, was 35.5. The premium-loss ratio for the state of Oklahoma was 59.4, which was the highest premium-loss ratio

of any state in the nation for the five-year period.<sup>1</sup>

Salmon's<sup>2</sup> study of the fire insurance practices of schools employing nationally affiliated business officials was the fourth in a series of studies made and sponsored by the Association of School Business Officials of the United States and Canada. These four studies covered the 35-year period 1921-1955. The purpose of the investigation was to determine how the school districts employing affiliated school business officials develop and operate their insurance programs. An attempt was made to determine if these officials were carrying out their insurance programs in accordance with principles and standards accepted by the Association. Three other areas were investigated: (1) the methods used by rating jurisdictions in rating school property, (2) the use districts were making of the regularly scheduled fire inspection programs, and (3) the establishment of standards or criteria of good insurance practices for the public schools of the United States and Canada.

A questionnaire was developed from the literature in the field of school property insurance for determining the insurance practices of the districts. This questionnaire was sent to the 1164 districts in the two countries employing members of the Association of School Business Officials.

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<sup>1</sup>Ibid., pp. 9-21.

<sup>2</sup>Salmon, "Fire Insurance Practices and Principles."

The number of questionnaires returned was 378 or slightly more than 36 per cent.

A questionnaire was developed to be sent to the various rating jurisdictions in the United States and Canada for the purpose of determining how rates were determined for school property. This questionnaire was sent to the 35 rating jurisdictions and 26 were returned in time to be included in the study.

After the responses to the questionnaire were tabulated, it was discovered that the practices differed greatly from the recommendations given in the literature. It was decided to test the validity of both the practices and the theory. The principles given in the literature and those revealed as practices were submitted to a jury of seven experts in the field of school property insurance. The jurors made their judgements, which were tabulated. The combined judgements of the jurors made up the criteria for the evaluation of the practices.

Salmon came to the following conclusions:

1. That school officials apparently have not taken advantage of what competition benefits there are in the insurance industry. Even though the stock insurance companies charge exorbitant rates, they dominate the field of school property insurance.

2. The development of a special school broad coverage insurance form has been developed and used only in the

states served under the jurisdiction of the Pacific Rating Bureau. Other districts need to push vigorously for a special broad coverage school form.

3. The majority of schools did not assume their responsibility for determining the appraised value of their property, but allowed the insurance companies to do this for them. Many districts were facing a great loss by not keeping their property appraisals up-to-date.

4. Many districts could have saved money on premiums by awarding insurance on the basis of competitive bids.

5. There had been no appreciable change in the low premium-loss ratio that has existed over many years. Even though many studies have pointed out the discrepancy between the premium-loss ratio and rates, nothing had been done to lower rates as indicated by the premium-loss ratio. School administrators should actively press State Insurance Commissioners to take steps to bring rates in line with the premium-loss ratio.<sup>1</sup>

#### Textbook

The only textbook in the field of school insurance is Insurance Practices in School Administration.<sup>2</sup> This book is in reality a handbook for school administrators, covering the entire field of insurance that might conceivably be used

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<sup>1</sup>Ibid., pp. 357-60.

<sup>2</sup>Linn and Joyner, op. cit.



at one time or another by schools.

The first part of the book is a general discussion of the insurance industry. The principles of insurance are discussed and their importance to schools is explained. The following complete program for a school fire insurance program is developed:

1. Place the responsibility for handling the school district's insurance.
2. Secure a reliable appraisal of property to determine insurable values.
3. Determine the method to be used in insuring the buildings and contents.
4. Develop a school form.
5. Obtain all possible rate reductions.
6. Maintain adequate records.
7. Establish an equitable plan for distributing insurance to companies and agents.
8. Obtain maximum adjustments on fire losses (when they occur).<sup>1</sup>

The problems of fire prevention in school plants is discussed and the means are given by which the problems might be solved. Forms of policies and their modifications are explained.

The second part of the book takes up an explanation of all other types of insurance that a school system might need in almost any situation. The various types of crime insurance, boiler insurance, glass insurance, and inland marine insurance are explained. The forms of policies and their modifications are discussed.

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<sup>1</sup>Ibid., p. 76.

Insurance Practices in School Administration is a book that should be in the library of every school administrator. It should be consulted when problems in the field of school insurance arise.

## CHAPTER III

### THE ESTABLISHMENT OF THE CRITERIA

As stated in Chapter I the criteria established by Salmon<sup>1</sup> in his doctoral dissertation were selected as the basis for criteria used in this study for the following reasons: (1) these criteria had been validated by submission to a jury of experts in the field of school property insurance and (2) his study had determined the property insurance practices of 378 school districts in the United States and Canada. It is expected that these schools use some of the better school business practices by virtue of the fact that they employ specialists in the field of school business management. Due to the fact that this set of criteria is being used for this study, it is possible to compare the property insurance practices of Oklahoma public schools with the criteria for an ideal school property insurance program and the actual practices of schools distributed throughout the United States and Canada.

Salmon had selected a set of criteria from the

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<sup>1</sup>Salmon, "Fire Insurance Principles and Practices," pp. 335-39.

literature in the field of school property insurance. He then submitted the list to a jury of seven persons judged to be experts in the field of school property insurance.<sup>1</sup> These judges were selected by Salmon, D. Loyd Nelson, Chairman of Salmon's Guidance Committee, and Schuyler C. Joyner, Immediate past president of the Association of School Business Officials, who is also an outstanding authority in the field of school insurance.<sup>2</sup> The jury consisted of the following seven persons:

- A. A business official from a large school district (over 250,000 average daily attendance).
- B. A business official from a moderate sized school district (under 100,000 average daily attendance).
- C. A business official from a small school district (under 10,000 average daily attendance).
- D. A representative of a stock insurance company.
- E. A representative of a mutual insurance company.
- F. A professor education with a specialty in the field of school business management.
- G. A representative of a rating bureau.<sup>3</sup>

The jury selected 20 desirable practices for the insurance of school district property under the fire insurance policy and its associated endorsements.<sup>4</sup>

After a careful perusal of the literature and consultation with experts in the field of insurance in Oklahoma, the 20 desirable practices were modified and combined into

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<sup>1</sup>Ibid., pp. 306-34.

<sup>2</sup>Letter from Dr. Paul B. Salmon, October 28, 1958.

<sup>3</sup>Salmon, "Fire Insurance Principles and Practices," p. 309.

<sup>4</sup>Ibid., pp. 334-39.

15 criteria. Two criteria were added in order to make the criteria cover a complete school district property insurance program. The additional criteria related to the need for designating the responsibility for the school insurance program and the keeping of records for the school insurance program. These criteria, numbers 16 and 17, have been recommended by such authorities in the field of school property insurance as: Linn and Joyner,<sup>1</sup> the Association of School Business Officials of the United States and Canada,<sup>2</sup> the American Association of School Administrators,<sup>3</sup> the California State Department of Education,<sup>4</sup> Ralph N. Finchum,<sup>5</sup> and N. E. Viles<sup>6</sup> among other writers in the field of school property insurance.

The criteria which have been selected and modified for use in this study as applied to the insurance of school

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<sup>1</sup>Linn and Joyner, op. cit., p. 76.

<sup>2</sup>Association of Public School Business Officials, Insurance Committee Report on School Fire Losses, 1938-45, pp. 8 and 21.

<sup>3</sup>American Association of School Administrators, Managing the School District Insurance Program (Washington, D. C.: American Association of School Administrators, 1953), pp. 5 and 20.

<sup>4</sup>California State Department of Education, Administration of the School Insurance Program (Sacramento: California State Department of Education, 1956), p. 10.

<sup>5</sup>Finchum, op. cit., pp. 345-47.

<sup>6</sup>Viles, Improving the Insurance Program in the Local School District, p. 86.

buildings and their contents under the fire insurance policy and the extended coverage endorsement are listed below:

1. School districts should secure accurate appraisals of the insurable values of the property of the district and the appraisals should be kept up-to-date through the use of reappraisals on an annual, 18-months, or biennial basis.

2. School districts should require itemized appraisals for establishing the insurable values of buildings and contents.

3. School districts should make use of a competent professional firm of valuation engineers for establishing the insurable values of buildings and contents. In case the school district does not employ a competent firm of professional valuation engineers but has school district employees make the appraisal of insurable values, the school district should require that the insurable values be established on either of these two bases:

- a. They should take the original construction cost of the property, subtract the cost of uninsurable items, such as architects' fees, cost of excavations, cost of brick, stone or concrete foundations below the basement or below the ground level, if there is no basement, underground pipes and plumbing, and all work beyond the building lines, add any

appreciation of the value of the property and subtract any depreciation of the value of the property to obtain the insurable value. In determining the appreciation and depreciation of property values, reliable appreciation and depreciation indices, appropriate to the type of construction and the geographic location of the property should be used.

- b. They should, when the original construction cost is not available, determine the present cost of construction of a building of the same type of construction and area, and subtract the depreciation to determine the insurable value. The present construction cost and the depreciation should be determined from indices of construction costs and depreciation that are appropriate for that type of construction and geographic area.

4. School districts should use district-wide blanket policies, instead of a separate policy or policies for each building and its contents or a separate policy for the buildings and contents for each site.

5. School districts should make use of the extended coverage endorsement as a regular procedure. When local conditions are such that it is advisable to have vandalism and

malicious mischief coverage, it should be included with the extended coverage endorsement.

6. School districts should purchase their insurance policies for a five-year term, in order to save on the cost of the premium, whenever it is possible.

7. School districts should arrange their insurance policies in such a way that there are five series of five-year blanket policies, each series covering one-fifth of the insured value. The policies should have their expiration dates arranged so that one series of policies, covering one-fifth of the district property, expires each year. This arrangement allows for full credit for the use of the five-year term, yet allows for an approximately even budget appropriation for insurance premiums.

8. School districts should take all possible steps that they can to help reduce insurance premium rates, such as:

- a. Specific action on the part of the district to lessen risk, which may include such action as making minor alterations to existing buildings to remove penalty-causing hazards, having plans for new buildings checked by the inspection bureau for suggestions and recommendations, installing and maintaining underwriter approved fire protection equipment, using good housekeeping and maintenance practices



to prevent the accumulation of preventable hazards.

- b. Change from specific insurance to coinsurance, whenever the change will result in lower rates, preferably using the 90 per cent coinsurance percentage.
- c. Cooperate with other districts, with the insurance industry, and with governmental agencies to develop a substantial volume of experience data for a basis for the establishment of rates appropriate to the premium-loss ratio and the establishment of a "Class Rating" for public school district property within the rating jurisdiction.

9. School districts should purchase their insurance through competitive bidding.

10. School districts should, when selecting insurance companies with which to place the insurance of school property, take into account:

- a. The quality of service rendered by the company and its agents.
- b. The company's record of satisfactory settlement of losses.
- c. The financial strength of the company, which should be determined in one of these ways:
  - (1) require a minimum management and financial

strength rating of A+AAAA, as given in Best's Insurance Guide, (2) make use of the information published in the Spectator, (3) consult the analyses of the financial statements of the companies filed with the state insurance commissioner.

11. School districts should require that all policies be checked for concurrency, that is, to make sure that all policies covering the same property are exactly the same in form and endorsements as the existing policies which cover the same property, by both the servicing agent or broker and by the school official in charge of school insurance affairs.

12. School districts should conduct regularly scheduled fire inspections of all facilities at least every four months, but preferably on a monthly and a quarterly basis, as recommended by the National Board of Fire Underwriters.

13. School districts should require the use of a self-inspection blank, preferably the form approved by the National Board of Fire Underwriters, to conduct the regularly scheduled fire inspections of all facilities.

14. School districts should arrange to have the regularly scheduled fire inspections carried out by one of these groups of personnel or a combination of these:

- a. Personnel assigned to the site as a regular base of operations, who have been trained to make fire inspections.

- b. Personnel from the school central office who have been trained to make fire inspections.
- c. Fire department personnel who are competent to make fire inspections.
- d. Representatives of the insurance industry who are competent to make fire inspections.

15. School districts should provide in-service training for the district personnel whose responsibility it is to make the regularly scheduled fire inspections.

16. School districts should keep, in a fire-resistant vault, preferably located away from the school site, adequate records pertaining to the school district insurance program, such as:

- a. A record of the valuation of each building, the date constructed, cost of construction, date of appraisal, cost of non-insurable items, appreciation and depreciation, information about all additions and alterations and the date of each, the amount of insurance and the losses experienced at each building.
- b. A complete inventory, kept up-to-date, of the contents of each building, showing the date of purchase and the price. High unit cost items should be identified and the cost given.

- c. A complete schedule of insurance policies should be kept, showing the amount of coverage, premium rates, total premium, date premium is due, endorsements, effective and expiration dates, property covered by the policy, name and address of the company, and the name and address of the servicing agent or agency.

17. School districts should delegate to some person or group of persons the responsibility for handling the insurance affairs of the district.

## CHAPTER IV

### ANALYSIS OF SCHOOL PROPERTY INSURANCE PRACTICES IN OKLAHOMA

In this chapter the data will be analyzed in terms of the criteria presented in Chapter III. These will be organized topically under the following headings:

- The determination of property values.
- Policy types and modifications
- Action by schools to reduce premium rates.
- Placement of insurance.
- Fire prevention practices.
- Insurance records.
- Delegation of responsibility for the insurance program.

The practices of Oklahoma public schools in the handling of their property insurance affairs, as revealed by the survey, will be discussed under each of these headings.

#### The Determination of Property Values

The foundation upon which an adequate school property insurance program must be based is an accurate, scientific appraisal of the insurable value of both buildings and

contents. Without such an accurate appraisal of the insurable value a property insurance program cannot be adequate regardless of other measures taken to strengthen the program.

Criterion 1:

School districts should secure accurate appraisals of the insurable values of the property of the district and the appraisals should be kept up-to-date through the use of reappraisals on an annual, 18-months, or biennial basis.

The frequency of reappraisal is important as a result of the combined changes in value due to appreciation and depreciation, as well as addition and losses to the property. Through use and the passage of time, buildings and contents decrease in value. The rates of appreciation and depreciation are not likely to be equal nor to remain constant. For these reasons frequent reappraisals are necessary in order to be able to provide insurance companies with the actual cash value of property in case of loss.

It is an impossibility to determine the accuracy of the appraisals of school district property for the entire state, in such a study as this. It is possible, however, to determine the frequency of appraisal. The frequency of appraisal of school buildings is shown in Table 2.

Table 2 presents evidence that Oklahoma school districts in most cases fail to meet the criterion. Only 27 per cent of the total number of districts reappraise their buildings as often as each two years. The great difference

TABLE 2

REPORTED FREQUENCY OF REAPPRAISAL  
OF SCHOOL BUILDINGS

Interval between Appraisals	Size of District by Number of Teachers								Oklahoma		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
One year	24	19	10	15	5	13	6	19	45	17	61	42
18 months	1	1	0	0	0	0	0	0	1	0	10	7
2 years	13	11	7	11	2	5	3	10	25	10	18	12
3 years	12	9	7	11	7	18	3	10	29	11	16	11
5 years	56	44	33	49	21	52	11	35	121	46	5	4
Less often than 5 years	15	12	7	11	4	10	5	16	31	12	22	15
Irregularly	6	5	1	1	1	2	3	10	11	4	13	9
Total	127	100	65	100	40	100	31	100	263	100	145	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 154. Includes both buildings and contents.

between Oklahoma schools and the schools reporting in the Salmon study is that 46 per cent of the Oklahoma schools reappraise their buildings at five-year intervals, while 42 per cent of the schools in Salmon's national study reappraise annually. The group of smallest Oklahoma schools reappraises most frequently with 31 per cent reappraising at least every

two years. Twenty-nine per cent of the largest schools re-appraise at least every two years. Eighteen per cent of the 31 - 60 teacher schools reappraise their buildings at least every two years. This is the group which is in least agreement with the criterion.

TABLE 3  
REPORTED FREQUENCY OF REAPPRAISAL  
OF SCHOOL BUILDING CONTENTS

Interval between Appraisals	Size of District by Number of Teachers								Oklahoma		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
One year	27	22	12	20	7	16	9	30	55	22	61	42
18 months	1	1	0	0	0	0	0	0	1	0	10	7
2 years	14	12	7	11	2	5	2	7	25	10	18	12
3 years	10	8	6	10	7	16	3	10	26	10	16	11
5 years	44	36	27	44	21	50	10	33	102	40	5	4
Less often than 5 years	20	17	6	10	4	11	3	10	33	13	22	15
Irregularly	5	4	3	5	1	2	3	10	12	5	13	9
Total	121	100	61	100	42	100	30	100	254	100	145	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 154. Includes both buildings and contents.



The interval of reappraisal of contents is shown in Table 3. The table reveals that the reappraisal of contents by Oklahoma school districts is more frequent than is reappraisal of school buildings. While the Oklahoma school districts reappraise buildings on a two-year or less basis in only 27 per cent of the reported cases, 32 per cent of the districts reappraise their contents at least every two years. Over two-thirds of the Oklahoma schools reappraise contents as frequently as recommended by the criterion. The largest schools lead in frequency of reappraisal of contents with 37 per cent reappraising contents at least each two years. The 31 - 60 teacher schools appraise contents with less frequency than any other group with only 21 per cent reappraising as often as every two years. The schools of the nation, according to Salmon, reappraise both buildings and contents at least each two years in 61 per cent of the cases, but only 32 per cent of Oklahoma's districts do this.

Criterion 2:

School districts should require itemized appraisals for establishing the insurable values of buildings and contents.

Itemized appraisals of contents are just as important as itemized appraisals for buildings. Due to the fact that there are a great number of items which may be moved from one location to another, and because of greatly varying costs, it may be more difficult to establish the value of

contents after a loss than to establish the cash value of a loss to a building. Schools should be very careful to keep itemized appraisals of contents as well as appraisals of buildings.

TABLE 4  
SCHOOLS REQUIRING AN ITEMIZED ORIGINAL APPRAISAL

Property Appraised	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Buildings:										
Yes	90	71	44	69	33	77	28	90	195	74
No	37	29	20	31	10	23	3	10	70	26
Total	127	100	64	100	43	100	31	100	265	100
Contents:										
Yes	63	52	33	54	27	67	24	86	147	59
No	57	48	28	46	13	33	4	14	102	41
Total	120	100	61	100	40	100	28	100	249	100

Table 4 shows the number of schools requiring an itemized, original appraisal. The data presented here show very clearly that the majority of the schools are meeting this criterion in respect to building appraisal. The 16 - 30

teacher school group is lowest with only 69 per cent requiring itemized appraisals for buildings. The large school group is highest with 90 per cent requiring itemized appraisals for buildings; of all schools, 74 per cent meet the criterion.

The schools of Oklahoma do not meet the criterion in requiring itemized appraisals for contents nearly so well as they did in requiring itemized appraisals for buildings. Of the total number of schools, only 59 per cent require itemized appraisals for contents. The group of largest schools is the high group with 86 per cent requiring itemized appraisals of contents; the smallest schools were low with only 52 per cent.

Criterion 3:

School districts should make use of a competent professional firm of valuation engineers for establishing the insurable values of buildings and contents. In case the school district does not employ a competent firm of professional valuation engineers and school district employees make the appraisal of insurable values, the school district should require that the insurable values be established on either of these two bases:

a. They should take the original construction cost of the property, subtract the cost of uninsurable items, such as architects' fees, cost of excavations, cost of brick, stone, or concrete foundations below the basement or below the ground level, if there is no basement, underground pipes and plumbing, and all work beyond the building lines, add any appreciation of the value of the property and subtract any depreciation of the value of the property to obtain the insurable value. In determining the appreciation of property values, reliable appreciation and depreciation indices, appropriate to the type of construction and the geographic location of the property should be used.

b. They should, when the original construction cost is not available, determine the present cost of construction of a building of the same type of construction and area and subtract the depreciation to determine the insurable value. The present construction costs and the depreciation should be determined from indices of construction costs and depreciation that are appropriate for that type of construction and geographic area.

The officials or groups of officials who determine the insurable value of district property are shown in Table 5. Oklahoma school districts make no use of commercial evaluation firms. Salmon reported that 31 per cent of the schools in his study used the commercial appraisal firms and 13 per cent used commercial firms and other officials. Two of the 16 - 30 teacher schools in this study indicated that they had used commercial appraisal firms. However, they indicated that insurance company appraisers actually made the appraisal of the insurable values. One school gave the cost of the service as \$100.00 and the other stated that the service cost \$25.00. It is rather unlikely that a very extensive appraisal of these districts' properties was made in recent years.

The data in Table 5 reveal that the insurable value of Oklahoma school district property is often determined by some representative of the insurance industry. Insurance company appraisers alone make 33 per cent of the appraisals. Representatives of the insurance industry in combination with other officials make appraisals in an additional 45 per cent of the districts. Insurance industry representatives

TABLE 5

## OFFICIALS DETERMINING INSURABLE VALUES OF SCHOOL PROPERTY

Officials Making the Appraisals	Size District by No. of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Commercial appraisal	-	-	-	-	-	-	-	-	-	-	100	31
Combination including commercial appraisal firm	-	-	-	-	-	-	-	-	-	-	43	13
Ins. co. appraisers	33	36	29	43	13	31	9	30	84	33	136	42
Insurance agent	8	6	1	2	1	3	-	-	10	3	1	0
Supt. and ins. agent	12	9	5	7	5	12	1	3	23	9	-	-
Ins. co. appraisers, supt. and board	8	6	11	17	6	14	3	10	28	10	-	-
Ins. co. appraisers, ins. agent, supt. and board	4	3	4	6	2	4	-	-	10	3	-	-
Ins. co. appraisers and supt.	3	2	1	2	2	4	1	3	7	2	-	-
Ins. co. appraisers, ins. agent, and supt.	5	4	-	-	1	3	-	-	6	2	-	-
Ins. agent, supt., and board	19	15	3	4	3	8	1	3	26	10	-	-

TABLE 5--Continued

Officials Making the Appraisals	Size District by No. of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Combination of various school officials and ins. co. representatives	6	5	4	6	6	14	7	24	23	9	-	-
Qualified district employee	1	1	1	2	-	-	1	3	3	1	20	6
Superintendent	1	1	1	2	-	-	-	-	2	1	-	-
Superintendent and board	28	22	6	9	3	7	-	-	37	14	-	-
Combination of school officials only	-	-	1	2	-	-	4	14	5	2	8	2
Architect	-	-	-	-	-	-	3	10	3	1	5	2
Building contractor	<sup>b</sup>	-	<sup>c</sup>	-	<sup>b</sup>	-	<sup>d</sup>	-	-	-	3	1
Unclassified	-	-	-	-	-	-	-	-	-	-	11	3
<b>Total</b>	<b>128</b>	<b>100</b>	<b>67</b>	<b>100</b>	<b>42</b>	<b>100</b>	<b>30</b>	<b>100</b>	<b>267</b>	<b>100</b>	<b>327</b>	<b>100</b>

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," pp. 146 and 148.

<sup>b</sup>Contractors included in a combination of officials in 1 case.

<sup>c</sup>Contractors included in a combination of officials in 3 cases.

<sup>d</sup>Contractors included in a combination of officials in 2 cases.

in some way are involved in the establishment of insurable values of school district property in 81 per cent of the districts in Oklahoma.

Perusal of Table 5 indicates that the school board is involved in property appraisal to a greater extent in the small schools than in the larger districts. In the smallest schools 59 per cent of the boards of education are involved in the appraisals. The board of education is involved in appraisal in only 13 per cent of the larger schools. There is a steady decrease in board participation in appraisal as schools become larger.

Insurance companies are involved in the establishment of insurable values in the majority of Oklahoma school districts. This places both the schools and the insurance companies in peculiar positions. Even though the insurance companies furnish the appraisal service, it is still the responsibility of the school district to prove the actual value of the lost or destroyed property.<sup>1</sup> No waiver is made to relieve the insured of this responsibility, even though the appraisal by appraisers employed by the insurance company established the insurable value of the property. In case a loss occurs and there is a disagreement over the actual cash value of the property damaged or destroyed, the school is placed in a position of not being able to produce as

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<sup>1</sup>New York Standard Fire Policy (1943), lines 97-103.

witnesses the persons responsible for establishing the very value that they are trying to defend. It might well be that these insurance company appraisers would be testifying on the side of their employers. If the school district had employed a competent commercial appraisal firm and such a disagreement occurred, the commercial firm would be available as a witness for the school district. It appears that the insurance companies have been quite ethical about this unhealthy situation and have generally accepted these appraisals as indicated in Table 6.

TABLE 6

ACCEPTANCE OF SCHOOL PROPERTY APPRAISALS BY INSURANCE  
COMPANIES AS INDICATED BY SETTLEMENT OF LOSSES  
WITHOUT COINSURANCE PENALTIES

Acceptance	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	65	51	43	64	26	62	22	79	156	59
No	9	7	4	6	3	7	1	4	17	6
No experience	54	42	20	30	13	31	5	17	92	35
Total	128	100	67	100	42	100	28	100	265	100



Table 6 shows that 59 per cent of the reporting schools (90 per cent of those with losses) state that insurance companies have settled losses based on such appraisals without coinsurance penalties. Only 6 per cent of the schools reported that penalties were applied to their settlement. Probably the per cent of settlements without penalty would have been higher if those reporting no experience had experienced losses and thus would have been able to report their experience. The insurance companies are to be commended for placing the appraisal service at the disposal of the schools at no cost above the premium. Schools should realize that by accepting this appraisal they are placing the security of their property in the hands of insurance companies and in many cases, if a loss occurred, the district would have little legal basis on which to stand in case the insurance companies decided to repudiate these appraisals.

Inspection of the data presented in Tables 4, 5, and 6 reveal that Oklahoma schools do not meet the criterion in respect to the use of competent appraisal firms for establishing insurable values.

Table 7 shows that the same officials appraise both buildings and contents in 84 per cent of the districts reporting. Information given by the responding schools reveals that in the cases where different officials appraise the buildings and contents, that insurance company representatives tend to be the appraisers of buildings and school

TABLE 7

## APPRAISAL OF BUILDINGS AND CONTENTS BY SAME OFFICIAL

Same officials appraise both buildings and contents	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	110	93	56	85	29	66	21	68	216	84
No	7	7	10	15	15	34	10	32	42	16

district personnel tend to appraise the contents. This information is too scattered to be recorded in a table.

Table 8 reveals that in 87 per cent of the cases the reappraisals are made by the same officials that made the original appraisal. There is little variation in this proportion among the various sizes of schools. Information from the returned questionnaires reveals that when different officials make the reappraisal, insurance companies tend to reappraise the buildings and school district personnel reappraise the contents.

In the matter of deducting non-insurable values from the construction cost in order to arrive at the insurable value, Table 9 shows that of the reporting schools, all four groups of schools deduct each of the five items with almost the same frequency. There are very good reasons for deducting

TABLE 8

## ORIGINAL APPRAISAL AND REAPPRAISAL BY SAME OFFICIALS

Same officials make both original appraisal and reappraisal	Size of District by Number of Teachers								Total	
	4-15		16-30		31-60		Over 60			
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	69	85	43	83	33	97	23	89	168	87
No	12	15	9	17	1	3	3	11	25	13
Total	81	100	52	100	34	100	26	100	193	100

TABLE 9

NON-INSURABLE ITEMS DEDUCTED FROM ORIGINAL CONSTRUCTION  
COSTS BY PERSONNEL OF REPORTING DISTRICTS  
TO DETERMINE INSURABLE VALUE

Item Deducted	Size of District by Number of Teachers								Total	
	4-15		16-30		31-60		Over 60			
	No.	%	No.	%	No.	%	No.	%	No.	%
Architects' fees	12	22	13	20	17	23	15	24	57	21
Costs of concrete or stone founda- tions below the level of the base- ment or the level of the ground	13	24	14	22	18	24	14	22	59	23
Costs of excava- tions	12	22	14	22	14	19	13	20	53	20
Underground pipes	9	16	10	14	11	15	11	18	41	16
Work outside building lines	9	16	14	22	14	19	10	16	47	10
Total	55	100	65	100	74	100	63	100	257	100

these items in case the school uses the coinsurance clause. By reducing the value of the building the amount of insurance may be proportionately high enough to place the insurance under a higher coinsurance percentage. The insuring of a new building that cost \$500,000 to construct and containing \$50,000 in non-insurable items may be used to illustrate this principle. To meet the 90 per cent coinsurance requirement, the building would need to be insured for \$450,000. If the \$50,000 in non-insurable items are deducted from the actual cost, the insurable value would be reduced to \$450,000. Thus the \$450,000 required for 90 per cent coinsurance at the original value would be 100 per cent of the new insurable value and would qualify the district to insure the building for \$450,000 at the 100 per cent coinsurance percentage. This would allow the district to insure the building for \$450,000 at a lower premium than they could have done under the 90 per cent clause even though the building is insured for the same amount.

Table 10 shows the methods used by the reporting districts to determine appreciation and depreciation of buildings. In every group of schools the most common method of determining appreciation and depreciation was estimation. More than two-thirds of the school districts in each group use estimation. The public schools of Oklahoma certainly do not meet the criterion in this respect. The use of various tables for determination of appreciation and depreciation is

TABLE 10

METHODS USED BY PERSONNEL OF REPORTING DISTRICTS  
TO DETERMINE APPRECIATION AND DEPRECIATION

Method	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Estimates	53	66	29	73	22	69	9	75	113	69
Use of tables	12	15	4	10	3	9	3	25	22	13
Other methods	2	3	1	2	2	6	0	0	5	3
Insured for original cost	13	16	6	15	5	16	0	0	24	15
Total	80	100	40	100	32	100	12	100	164	100

reported by only 13 per cent of the schools. Fifteen per cent do not even attempt to determine appreciation and depreciation but insure at original cost. This situation in most cases is inexcusable.

Table 11 shows the methods used by district personnel to determine construction costs when the original construction costs are not available. The most common method employed was the use of tables. From information reported in the questionnaire, it appears that most of these tables were furnished by the insurance industry. A few of the tables were supplied by architects and building contractors.

TABLE 11

METHODS USED BY DISTRICT PERSONNEL TO DETERMINE  
CONSTRUCTION COSTS WHEN ORIGINAL COSTS  
ARE NOT AVAILABLE

Method	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Used appropriate tables to compute cost <sup>a</sup>	25	40	17	59	18	72	9	82	69	54
Did not use tables to compute cost <sup>a</sup>	23	36	10	34	5	20	1	9	39	30
Did not compute cost	15	24	2	7	2	8	1	9	20	16
Total	63	100	29	100	25	100	11	100	128	100

<sup>a</sup>Construction tables appropriate to the type of construction and locality of the buildings.

Policy Types and Modifications

The public schools of Oklahoma have no choice in the basic fire insurance policy that they may purchase. The legal fire insurance policy, in Oklahoma and most other states, is the New York Standard Fire Policy (1943). The choice of endorsements, terms, premium payment schedule, coinsurance clause, and other possible modifications allows the school district to modify the basic policy, within certain limitations, to better fit the needs of the district.

The proper use of these modifications will make the policy more convenient to administer and will, in many cases, allow a reduction in premium for the same amount of insurance.

Criterion 4:

School districts should use district-wide blanket policies instead of a separate policy or policies for each building, a separate policy for each building and its contents, or a separate policy for the buildings and contents for each site.

Linn and Joyner state that the blanket policy is advantageous for the following reasons:

1. The district definitely knows at all times that property at locations designated in the blanket form is insured.
2. Removal of property from one building to another at the location designated in the blanket form is automatically covered.
3. The district has but one rate to use for the locations covered, and errors are not as likely to occur when policies are being checked. With specific insurance, there are many individual rates on buildings and contents.<sup>1</sup>

These reasons show that the advantage derived from the use of the blanket policy is ease of administration. With the blanket policy, the larger school districts will receive greater benefits than the smaller districts. If the district is very large and has a large number of sites, it may be more advantageous to use a blanket policy for each site. In case a loss occurs, it will then be necessary to prove the value for the site instead of the value of the entire district. Another advantage of the blanket policy is that

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<sup>1</sup>Linn and Joyner, op. cit., p. 93.

if a high enough coinsurance clause is used, usually 90 or 100 per cent, the total amount of the policy is available for payment of losses until the total loss is equal to the amount of the policy. Under specific insurance, with 90 per cent coinsurance, the greatest amount recoverable is 90 per cent of the actual cash value. Under a blanket policy, with the 90 per cent coinsurance clause, 100 per cent of the actual cash value would be recoverable. This situation would exist unless a conflagration destroyed property with a total value greater than the face value of the policy, in which case, the face value of the policy would be the limit recoverable and the district would have to sustain the additional loss.

Disadvantages in the use of the blanket policy include: (1) coinsurance requirements must be met or the district may be required to prove the value of the property of the entire district in case of a loss exceeding a certain minimum stated in the policy; (2) if the coinsurance percentage is not high enough usually 90 per cent is required, the pro rata distribution clause is attached; (3) the average rate calculated for the district may be such that the premium for the blanket policy may be higher than for specific insurance. The premium will not be reduced through use of the blanket policy.<sup>1</sup>

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<sup>1</sup>Ibid.



The advantages and disadvantages of the blanket policy should be carefully considered before a final decision is made regarding the use of the types of policies and assistance from an insurance counselor would be very desirable in making this decision.

Table 12 shows the types of policies used by Oklahoma school districts with respect to location. The data reveal that 78 per cent of the Oklahoma school districts have a number of policies for each site and that only 19 per cent use the district-wide blanket policy. It should be noted that only 3 per cent use a single policy for each site. Over three-fourths of the schools in the three smaller groups have a number of policies for each site. In the largest schools 61 per cent of the districts use the district-wide blanket policy, while 39 per cent use a number of policies for each site. The district-wide blanket policy was used by 86 per cent of the schools reporting to Salmon. Only 11 per cent of these schools used several policies for each site. In this respect the group of largest Oklahoma schools compares favorably with the schools surveyed by Salmon, both groups of which more nearly comply with the criterion than do the three groups of smaller Oklahoma schools. For the most part Oklahoma schools fail to meet Criterion 4.

TABLE 12

TYPES OF POLICIES USED BY OKLAHOMA SCHOOL DISTRICTS  
WITH RESPECT TO LOCATION

Type of Policy with Respect to Location	Size of District by Number of Teachers											
	4-15		16-30		31-60		Over 60		Okla.		U.S. <sup>a</sup>	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
A number of policies for each site	104	85	52	84	35	78	12	39	203	78	39	11
A single poli- cy for each site	4	3	2	3	1	2	0	0	7	3	13	3
District-wide blanket policy	15	12	8	13	9	20	19	61	51	19	322	86
Total	123	100	62	100	45	100	31	100	261	100	374	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 132.

Criterion 5:

School districts should make use of the extended coverage endorsement as a regular procedure. When local conditions are such that it is advisable to have vandalism and malicious mischief coverage, it should be included with the extended coverage endorsement.

The extended coverage endorsement makes the fire insurance policy a much more comprehensive policy than does the use of the windstorm and hail endorsement. The advantage of protection against loss due to the much larger number of

perils included under coverage is worth much more than the difference in premium rates. Whenever local conditions are such that there is a likelihood of damage due to vandalism and malicious mischief, it is probably wise to include that coverage also.

Table 13 shows the use of the extended coverage, windstorm and hail, and vandalism and malicious mischief endorsements in insuring buildings. A completely accurate picture of the Oklahoma school districts is clouded by the response to the question: "Do you insure your buildings and/or their contents for: (a) fire, (b) extended coverage, (c) windstorm, no extended coverage?" Of the schools reporting, 31 per cent of the smallest, 23 per cent of the 16 - 30 teacher schools, 38 per cent of the 31 - 60 teacher schools, and 29 per cent of the largest schools reported the use of both extended coverage and windstorm and hail. The following conclusions may be made: (1) the schools insure some property under each of the two endorsements, (2) the person reporting did not know that windstorm protection was afforded under the extended coverage endorsement, or (3) some schools may be purchasing both coverages for the same property. The data show that as the size of the school district increases the use of the extended coverage endorsement also increases. The 54 per cent of Oklahoma schools using the extended coverage endorsement does not compare favorably with

TABLE 13

USE OF THE EXTENDED COVERAGE, WINDSTORM AND HAIL,  
AND VANDALISM AND MALICIOUS MISCHIEF  
ENDORSEMENTS IN INSURING BUILDINGS

Endorsement	Size of District by Number of Teachers								Okla. U.S. <sup>a</sup>			
	4-15		16-30		31-60		Over 60		Okla.		U.S. <sup>a</sup>	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Extended coverage	55	39	41	60	30	67	20	65	146	54	325	89
Windstorm and hail	22	17	5	7	2	4	1	3	30	11	-	-
Both E.C. and W.&H.	43	31	22	32	17	38	9	29	91	33	-	-
Vandalism and malicious mischief	36	28	23	34	16	36	8	26	83	31	95	29

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 130. Buildings and contents not tabulated separately.

the 89 per cent of the schools reporting use of this endorsement in the Salmon study.

Table 14 shows the use of the extended coverage, windstorm and hail, and the vandalism and malicious mischief endorsements for contents. A careful examination of Table 14 shows that it almost parallels Table 13. The chief difference is a slight decrease in reported use of extended coverage and windstorm endorsements combined with a slight

TABLE 14

USE OF THE EXTENDED COVERAGE, WINDSTORM AND HAIL,  
AND VANDALISM AND MALICIOUS MISCHIEF  
ENDORSEMENTS IN INSURING CONTENTS

Endorsement	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Extended coverage	49	38	39	57	22	49	23	74	133	49	325	89
Windstorm and hail	20	16	5	7	1	2	1	3	27	9	-	-
Both E.C. and W.&H.	33	26	18	27	13	29	6	19	70	26	-	-
Vandalism and malicious mischief	31	24	23	34	15	33	8	26	77	28	95	29

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 130. Buildings and contents not tabulated separately.

increase in use of extended coverage alone. Table 14 shows an over-all decrease in reporting schools of about 20 per cent in all classifications.

Tables 13 and 14 show that Oklahoma schools use the vandalism and malicious mischief endorsement almost as frequently as the schools reporting to Salmon. The 16 - 30 teacher schools and the 31 - 60 teacher schools use the vandalism and malicious mischief endorsement for both

buildings and contents more than the schools surveyed by Salmon. Twenty-nine per cent of the schools reporting in Salmon's nation-wide study used this endorsement, but 34 per cent of the 16 - 30 teacher schools and 33 per cent of the 31 - 60 teacher schools use vandalism and malicious mischief coverage.

If Oklahoma schools would substitute the extended coverage endorsement for the windstorm and hail endorsement, the insurance program of the schools of the state would be improved. If there are actually 20 per cent fewer schools insuring contents than insuring buildings, these schools should examine their insurance programs very closely. Oklahoma schools do not meet the criterion in the use of the extended coverage endorsement.

Criterion 6:

School districts should purchase their insurance policies for a five-year term, in order to save on the cost of the premium, whenever it is possible.

One of the simplest ways to reduce premiums is to write insurance policies for a three- or five-year term instead of a one-year term. Formerly it was possible to purchase a five-year term policy for only four times the annual premium, thus saving 20 per cent of the premium over a five-year period. It was also possible to purchase a three-year term policy for only two and one-half times the annual premium. Recently the discount for purchase of term policies

has been reduced. The five-year policy costs 4.4 times the annual premium. The three-year policy costs 2.7 times the annual rate. It is possible to save 12 per cent of the annual rate by use of the five-year term policies and 10 per cent by use of the three-year term policies. The five-year optional renewal policy has been a rather popular payment plan. This plan provided that the insured pay the full annual rate the first year and then pay 78 per cent of the annual rate for the remaining four years. The new plan provides for the payment of the full annual rate for the first year and then 88 per cent of the annual rate for the remaining four years. The saving under the 78 per cent plan was 17.5 per cent and under the 88 per cent optional renewal plan the saving is slightly below 10 per cent. By using these term plans a substantial saving in premium can be made.

Table 15 shows the term for which fire insurance policies are purchased by reporting districts in Oklahoma. The data reveal that 86 per cent of the smallest districts, 80 per cent of the 16 - 30 teacher districts, 87 per cent of the 31 - 60 teacher districts, and 74 per cent of the largest schools are reducing premiums by use of the five-year term policy. In this respect the Oklahoma schools are conforming to the criterion better than the schools of the nation, according to Salmon. It is probably impossible for all districts to write all policies for a five-year term. It can be said that Oklahoma schools meet this criterion in

TABLE 15

## TERMS FOR WHICH FIRE INSURANCE POLICIES ARE WRITTEN

Term of Policy	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
5-years	108	86	53	80	37	87	23	74	221	83	289	77
3-years	7	5	3	4	2	4	6	20	18	7	77	21
1-year	4	4	2	3	1	2	1	3	7	3	5	2
Combination	7	5	9	13	3	7	1	3	20	7	-	-
Total	126	100	66	100	43	100	31	100	266	100	371	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 231.

that 90 per cent of the schools use at least a three-year term and 83 per cent use the five-year term policies.

Criterion 7:

School districts should arrange their insurance policies in such a way that there are five series of five-year blanket policies, each series covering one-fifth of the insured value. The policies should have their expiration dates so that one of the series of policies, covering one-fifth of the district property, expires each year. This arrangement allows for full credit for the use of the five-year term, yet allows for an approximately even budget appropriation for insurance premiums.

The plan under which the policies are purchased in five series, each series covering one-fifth of the value of



the property, with one series expiring each year is called the five-year budget plan. The plan where five-year policies are purchased with the same effective and expiration dates with one-fifth of the premium falling due each year is known as the five-year installment plan. In many cases the insurance companies charge interest on the unpaid balance of the premium. These plans and the optional renewal plan are also available on a three-year basis. The amount of saving is less on the three-year plan than on the five-year plans.

The great advantage in these plans lies in the district's being able to appropriate approximately the same amount for insurance premiums in the budget each year. It is difficult for a district to accumulate a large amount of money to pay insurance premiums every five years, but it is not too difficult to appropriate approximately the same amount each year, especially when the annual appropriation is approximately one-fifth of the larger amount.

Districts should consider carefully the needs of the district and the financial situation as well as the over-all cost of the insurance plan before deciding which plan to initiate. It may be possible to work out an agreement with the present insurers so that the district can change to the budget plan by cancelling out present policies on a pro rata basis rather than on the short-rate basis, if the policies are renewed with the present insurers.

Table 16 shows the premium payment schedules of school districts in Oklahoma. The most popular plan is the five-year budget plan with a total of 39 per cent of the schools using it. Twenty per cent of the schools use no set premium payment schedule, but pay premiums without trying to pay approximately equal amounts each year. The five-year budget plan is the most popular with the smallest and the largest districts with 44 and 40 per cent respectively using this plan. The five-year budget plan is most popular with the 31 - 60 teacher schools, with 27 per cent using the plan, while 29 per cent use the five-year optional renewal plan. The three-year budget plan is used most by the largest schools, with 17 per cent using this plan. This compares quite closely with the 19 per cent of the schools surveyed by Salmon that use the three-year budget plan.

The Oklahoma schools differ from the schools reporting to Salmon in that the five-year installment and five-year optional renewal plans are used more frequently by the Oklahoma schools. Only 39 per cent of the Oklahoma schools use the five-year budget plan as compared with 70 per cent of the schools reporting nationally. No planned premium schedule is used by 20 per cent of the Oklahoma schools, while only 6 per cent of the schools of the nation, according to Salmon, have no established plan for premium payment. The Oklahoma schools are probably coming closer to meeting the criterion than it would appear, since it may be that

TABLE 16

## PREMIUM PAYMENT SCHEDULES USED BY PUBLIC SCHOOLS

Premium Payment Schedule	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60		No.	%	No.	%
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
5-year budget plan	56	44	24	36	13	29	12	40	105	39	260	70
3-year budget plan	4	3	5	7	-	-	5	17	14	5	70	19
5-year install- ment plan	15	12	13	19	8	18	3	10	39	15	-	-
3-year install- ment plan	1	1	3	5	1	2	-	-	5	2	-	-
5-year optional renewal	11	9	10	15	12	27	7	23	40	15	6	2
3-year optional renewal	3	2	-	-	-	-	-	-	3	1	7	2
Payment in advance, no set schedule	32	26	10	15	9	20	2	7	53	20	24	6
Other	4	3	2	3	2	4	1	3	9	3	4	1
Total	126	100	67	100	45	100	30	100	268	100	371	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 231.

use of the five-year installment and five-year optional renewal plans may fit the needs better than the budget plan.

Action by the School to Reduce Premium Rates

School authorities must be ever alert to ways by which premium rates may be reduced. In many cases by direct action, the school authorities may either reduce rates or prevent rate increases. This is one means of rate reduction that the schools have largely under their control.

Oklahoma schools were asked to respond to the question, "What has happened to the fire insurance rates in your district since January 1, 1953?" The responses to this question, summarized in Table 17, show that the property insurance rates for Oklahoma schools have increased in all groups of schools, except the 16 - 30 teacher schools, more frequently than they have decreased or remained the same. In the 16 - 30 teacher schools the rates have remained the same in more districts than they have either increased or decreased. The rates increased in 56 per cent of the smallest schools. The rate change in the largest schools is different than the experience of the rest of the schools. In the largest schools the rates increased in 39 per cent of the districts, decreased in 32 per cent of the districts, and remained the same in 29 per cent of the districts. For all of the districts 46 per cent reported a rate increase, 16 per cent reported a rate decrease, and 38 per cent reported no change

TABLE 17

CHANGE IN SCHOOL PROPERTY INSURANCE RATES  
SINCE JANUARY 1, 1953, AS REPORTED BY  
239 OKLAHOMA SCHOOL DISTRICTS

Change in Rates	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Increased	61	56	20	36	17	40	12	39	110	46
Decreased	8	7	11	19	10	23	10	32	39	16
No change	40	37	25	45	16	37	9	29	90	38
Total	109	100	56	100	43	100	31	100	239	100

in rates.

When Salmon asked the districts included in his study what had happened to fire insurance rates since July 1, 1946, the responses were entirely different. The responses of 218 districts indicated that there had been a decrease in fire insurance rates in all but two states.<sup>1</sup> Oklahoma was among those states reporting a decrease. Salmon states that any conclusions reached through use of these responses should be qualified by the fact that the number of samples from each state is very small in comparison with the number of

<sup>1</sup>Salmon, "Fire Insurance Principles and Practices," pp. 254-57.

TABLE 18

AMOUNT OF CHANGE IN SCHOOL PROPERTY INSURANCE RATES  
SINCE JANUARY 1, 1953, AS REPORTED BY  
108 OKLAHOMA SCHOOL DISTRICTS

Change in Per Cent	Increase in Rates		Decrease in Rates	
	Number	Per Cent	Number	Per Cent
1 - 5	28	34	7	28
6 - 10	29	35	12	48
11 - 15	4	5	1	4
16 - 20	12	14	1	4
21 - 25	6	7	3	12
Total	83	100	25	100

districts in the states. The sample taken by Salmon either does not reveal the true conditions or the conditions have materially changed if the experience of Oklahoma schools is typical of the experience of schools over the United States.

The amount of change, increase or decrease, in fire insurance rates is shown in Table 18. The most frequent increase or decrease has been 10 per cent or less. It is interesting to note that 48 per cent of the decreases were 6 to 10 per cent, while increases of 1 to 5 per cent were indicated in 34 per cent of the cases and increases of 6 to 10 per cent were reported by 35 per cent of the districts reporting increases. Fourteen per cent of the districts

reporting increases reported increases of 16 to 20 per cent.

Criterion 8:

School districts should take all possible steps that they can to help reduce insurance premium rates, such as: (a) Specific action on the part of the district to lessen risk, which may include such action as making minor alterations to existing buildings to remove penalty-causing hazards, having plans for new buildings checked by the inspection bureau for suggestions and recommendations, installing and maintaining underwriter approved fire protection equipment, using good housekeeping and maintenance practices to prevent the accumulation of preventable hazards; (b) change from specific to coinsurance, whenever the change will result in lower rates, preferably using the 90 per cent coinsurance percentage; (c) cooperate with other districts, with the insurance industry and with governmental agencies to develop a substantial volume of experience data for a basis for the establishment of a "Class Rating" for public school district property within the rating jurisdiction.

Table 19 shows the reasons for changes in rates as reported by Oklahoma school districts compared with reasons for decreased rates reported to Salmon. It is interesting to note that Oklahoma districts reported an increase or decrease in coverage as the cause for increased rates in 40 per cent of the districts. Change in fire protection classification of the city or part of the city in which the schools are located accounted for 19 per cent of the increase. Rate increases by insurance companies with little or no explanation other than a need for a rate increase was the reason given for 24 per cent of the increases.

Study of Table 19 reveals that in the reported reasons for rate decrease the Oklahoma schools and the schools reporting to Salmon gave almost the same reasons for rate

TABLE 19

REASONS FOR CHANGE IN SCHOOL PROPERTY INSURANCE RATES  
AS REPORTED BY 136 OKLAHOMA SCHOOL DISTRICTS

Reason	Reasons for increased Rates (N=99)		Reasons for decreased Rates (N=37)		Reasons for decreased Rates (U.S.) <sup>a</sup> (N=242)	
	No.	%	No.	%	No.	%
Action by school to lessen risk	5	4	20	35	108 <sup>b</sup>	45
Change in type of construction	8	7	22	39	51	21
Increase or decrease in coverage	46	40	3	5	5	2
Change from specific to coinsurance or vice versa	5	4	1	2	-	-
Change in rating classification of the city	22	19	11	19	51 <sup>c</sup>	21
Increase in rates by insurance company	28	24	-	-	-	-
Cooperative action with others	-	-	-	-	27	11
Other	2	2	-	-	-	-
Total	116	100	57	100	242	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 258.

<sup>b</sup>Classified as removal of hazards.

<sup>c</sup>Classified as increased protection.



decreases, removal of hazards or action by the school to reduce risk: change in the type of construction and change in the fire protection rating classification of cities where schools were located, or increased protection. One reason for rate reduction reported in Salmon's national survey was decrease due to cooperation action with others. No Oklahoma school reported any type of cooperation with other schools in an attempt to reduce insurance rates.

In many cases the use of coinsurance will result in lower premium rates than the rates for insurance without the coinsurance clause. The coinsurance clause is an attempt by the insurance companies to arrive at an equitable rate for all insureds. The experience of insurance companies has been that there are more small losses than moderate losses and there are more moderate losses than heavy losses. As a result of this experience the insurance companies have found that an insured insuring his property for a small amount stands a greater chance of collecting the full value of the policy than an insured who insures his property for full value. In this manner the insured who insures for full value is in effect helping to pay the losses that he is not collecting. The principle of coinsurance was devised to make these rates more equitable. Briefly, coinsurance is an agreement between the insured and the insurer that in return for a reduced rate the insured agrees to maintain an amount

of insurance equal to a certain percentage of the sound value of the property. The higher the percentage of the sound value the lower the rate. There is one disadvantage to co-insurance. If the insured fails to keep the property insured in the proportion agreed to and a loss occurs, payment will be made in the proportion that the actual amount of insurance bears to the required amount of insurance. The formula for the operation of coinsurance is:

$$\frac{\text{Amount of insurance carried}}{\text{Amount of insurance required}} \times \text{loss} = \text{Payment for loss (Up to the face value of the policy)}$$

Example 1:

Amount of insurance carried	\$40,000	
Amount of insurance required	80,000	Notice that the insurance carried is one-half that required.
Amount of loss	10,000	
$\frac{\$40,000}{\$80,000}$	$\times \$10,000 = \frac{1}{2} \times \$10,000 = \$5,000$	payment for loss

In this instance the insured would receive only one-half of the amount of the value of the lost or damaged property.

Example 2:

Amount of insurance carried	\$80,000	
Amount of insurance required	80,000	
Amount of loss	10,000	
$\frac{\$80,000}{\$80,000}$	$\times \$10,000 = 1 \times \$10,000 = \$10,000$	payment for loss

In this case since the insured carried the amount of insurance required, the loss is paid in full. Table 20 shows the operation of the coinsurance clause in a number of situations to illustrate the necessity for keeping up the required amount of insurance.

TABLE 20  
OPERATION OF THE COINSURANCE CLAUSE

Value of Property	Coinsurance Percentage	Insurance Required	Insurance Carried	Amount of Loss	Loss Payment
\$100,000	80	\$ 80,000	\$ 60,000	\$ 40,000	\$ 30,000
100,000	80	80,000	90,000	40,000	40,000
100,000	90	90,000	60,000	60,000	40,000
100,000	90	90,000	90,000	60,000	60,000
100,000	90	90,000	90,000	100,000	90,000
100,000	90	90,000	100,000	100,000	100,000

By careful inspection of Table 20 it can be seen that while the insured receives payment for loss in the proportion that the insurance carried bears to the insurance required, payment will never be greater than the amount of the loss or the face of the policy.

When using the coinsurance clause, the insured must be very careful to maintain the required amount of insurance or suffer a loss in the settlement of loss. In order to be certain that the amount of insurance bears the correct

TABLE 21

COINSURANCE PERCENTAGES USED IN THE INSURING  
OF BUILDINGS BY RESPONDING DISTRICTS

Coinsurance Percentage	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
100	5	6	1	2	2	5	-	-	8	4
90	4	5	5	10	16	41	10	33	35	18
90 and 80	-	-	-	-	3	8	20	67	23	12
80	63	80	40	80	18	46	-	-	121	61
60	1	1	-	-	-	-	-	-	1	0
50	4	5	4	8	-	-	-	-	8	4
Other	2	3	-	-	-	-	-	-	2	1
Total	79	100	50	100	39	100	30	100	198	100

proportion to the sound value, the property must be accurately appraised and the appraisal kept up-to-date. In case of loss the burden of proof is upon the insured. In case it is possible to purchase the same amount of insurance without the coinsurance clause for the same premium, it would probably be wise to do so in order to not be penalized for underinsurance.

Table 21 shows the coinsurance percentages used in insuring buildings by school districts. With Oklahoma schools the 80 and 90 per cent clauses are about equally

used by the 31 - 60 teacher schools. The use of the 80 and 90 per cent clause is used by 61 per cent of the districts, the combined 80 and 90 per cent clause is used by 12 per cent of the schools and the 90 per cent clause is used by 35 per cent of the districts.

Table 22 shows the use of the coinsurance clause with the insurance of contents. The 80 per cent clause is most popular with 71 per cent of all districts using it.

TABLE 22  
COINSURANCE PERCENTAGES USED IN THE INSURING  
OF CONTENTS BY RESPONDING DISTRICTS

Coinsurance Percentage	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
100	5	7	2	5	1	3	-	-	8	5	9	3
90	4	6	5	11	10	30	10	36	29	17	200	59
90 and 80	-	-	1	2	3	9	-	-	4	2	-	-
80	55	80	35	80	16	49	18	64	124	71	124	37
60	2	3	-	-	-	-	-	-	2	1	-	-
50	3	4	-	-	-	-	-	-	3	2	-	-
Other	-	-	1	2	3	9	-	-	4	2	3	1
Total	69	100	44	100	33	100	28	100	174	100	336	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 158. Buildings and contents not distinguished.

The 90 per cent clause is next in order of use with 17 per cent of the districts using it. The 90 per cent clause is used more frequently as districts increase in size.

Salmon reported that the schools of the nation used the 90 per cent coinsurance clause more frequently for insuring both buildings and contents than the other percentages. The 90 per cent clause was used by 59 per cent of the schools and the 80 per cent clause was used by 37 per cent of the districts. The Oklahoma schools do not conform to the criterion as well as do the schools reporting nationally. However, if the schools cannot afford to purchase the insurance required by the coinsurance agreement, they should use a lower percentage or should not coinsure.

Table 23 shows the percentage of overinsurance of buildings when the amount of insurance is compared with coinsurance requirements. From this table it can be seen that over half of the 54 districts reporting could be insuring under the next higher coinsurance percentage and getting the same amount of insurance for a lower premium. When the insurance is 10 per cent of the sound value over the coinsurance requirements, the insured is eligible to insure at the next higher coinsurance percentage. The largest schools insure more closely to the coinsurance requirements than the smaller schools. The median per cent overinsurance is 10 per cent or over in all groups, which means that one-half or more of the schools in each group could use the next higher

TABLE 23

PERCENTAGE OF OVERINSURANCE OF BUILDINGS WHEN INSURANCE  
IS COMPARED WITH COINSURANCE REQUIREMENTS

Per cent Overinsured	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1 - 5	4	17	5	33	3	27	-	-	12	22	57	63
6 - 10	2	9	3	20	5	46	3	60	13	24	28	31
11 - 15	3	13	2	13	1	9	-	-	6	11	5	6
16 - 20	13	57	4	27	2	18	1	20	20	37	-	-
21 - 40	-	-	-	-	-	-	1	20	1	2	-	-
41 - 60	1	4	1	7	-	-	-	-	2	4	-	-
61 - 80	-	-	-	-	-	-	-	-	-	-	-	-
80 - 100	-	-	-	-	-	-	-	-	-	-	-	-
Over 100	-	-	-	-	-	-	-	-	-	-	-	-
Total	23	100	15	100	11	100	5	100	54	100	90	100
Median per cent	20		10		10		10		12.6		4.5	
Extreme per cent	53		42		20		28		53		15	

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 162. Buildings and contents not tabulated separately.

coinsurance percentage and purchase the same amount of insurance at a lower premium. The extreme overinsurance of 53 per cent in one district and 42 per cent in another show that the persons in charge of the insurance programs should take steps to correct the situation.

Table 24 shows the percentage of underinsurance of buildings when the amount of insurance is compared with the amount of insurance required by the coinsurance clause. The group of smallest Oklahoma schools were most underinsured and overinsured. Schools that are underinsured will suffer a deduction from their loss payments in case they suffer a loss if they use coinsurance. A school which is underinsured 75 per cent will receive payment for only one-fourth of the loss that might occur.

The Oklahoma school buildings are overinsured more often than the schools surveyed by Salmon, as indicated by the median for Oklahoma schools of 12.6 per cent as compared with a median of 4.5 per cent for the schools reporting to Salmon. The Oklahoma school buildings are also more underinsured than schools reporting to Salmon. The median underinsurance of Oklahoma schools is 13.3 per cent as compared with 3.5 per cent for the schools reporting in Salmon's national study.



TABLE 24

PERCENTAGE OF UNDERINSURANCE OF BUILDINGS WHEN INSURANCE  
IS COMPARED WITH COINSURANCE REQUIREMENTS

Per cent Underinsured	Size of District by Number of Teachers								Okla.	U.S. <sup>a</sup>		
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%				
1 - 5	4	18	8	42	5	38	4	40	21	33	20	54
6 - 10	-	-	2	12	1	8	3	30	6	10	9	23
11 - 15	4	18	2	12	2	15	0	0	8	13	4	11
16 - 20	3	14	4	22	1	8	1	10	9	14	0	0
21 - 40	5	22	2	12	4	31	1	10	12	19	5 <sup>b</sup>	13
41 - 60	3	14	-	-	-	-	-	-	3	5	-	-
61 - 80	3	14	-	-	-	-	1	10	4	6	-	-
81 - 100	-	-	-	-	-	-	-	-	-	-	-	-
Over 100	-	-	-	-	-	-	-	-	-	-	-	-
Total	22	100	18	100	13	100	10	100	63	100	38	100
Median per cent	22.5		10		11		7		13.3		3.5	
Extreme per cent	75		25		37		73		75		63	

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 162. Buildings and contents not tabulated separately.

<sup>b</sup>Designated as "Over 25."

Table 25 shows the percentage of overinsurance of contents when the insurance is compared with the coinsurance requirements. The contents of the smallest schools are overinsured from 16 to 20 per cent in 75 per cent of the cases. The 16 - 30 teacher schools report that 52 per cent overinsure their contents in 16 - 20 per cent of the cases. The two groups of largest schools have overinsured their contents in 50 per cent or more of the cases. The median overinsurance of Oklahoma school contents is 16.5 compared with 4.5 per cent in the schools of the nation, according to Salmon. The 100 and 118 per cent extreme percentage of overinsurance is almost out of the realm of possibility.

Table 26 shows the percentage of underinsurance of contents when insurance is compared with coinsurance requirements. The data reveal that the contents of Oklahoma school buildings are more often underinsured than are the contents of the schools reporting in Salmon's nation-wide survey. The median underinsurance of contents of Oklahoma schools is 14.8 per cent as compared with 3.5 per cent for the schools reporting to Salmon. The extreme underinsurance of contents is more than the extreme underinsurance of buildings.

TABLE 25

PERCENTAGE OF OVERINSURANCE OF CONTENTS WHEN INSURANCE  
IS COMPARED WITH COINSURANCE REQUIREMENTS

Per cent Overinsured	Size of District by Number of Teachers								Okla.	U.S. <sup>a</sup>		
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%		
1 - 5	1	5	3	25	2	22	1	12	7	14	57	63
6 - 10	1	5	3	25	5	56	4	50	13	26	28	31
11 - 15	-	-	-	-	-	-	-	-	-	-	5	6
16 - 20	16	75	5	42	2	22	1	12	24	48	-	-
21 - 40	1	5	-	-	-	-	-	-	1	2	-	-
41 - 60	1	5	-	-	-	-	1	13	2	4	-	-
61 - 80	-	-	-	-	-	-	-	-	-	-	-	-
81 - 100	1	5	1	8	-	-	-	-	2	4	-	-
Over 100	-	-	-	-	-	-	1	13	1	2	-	-
Total	21	100	12	100	9	100	8	100	50	100	90	100
Median per cent	20		7.5		10		8.5		16.5		9.5	
Extreme per cent	100		83		20		118		118		15	

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 162. Buildings and contents not tabulated separately.

TABLE 26

PERCENTAGE OF UNDERINSURANCE OF CONTENTS WHEN INSURANCE  
IS COMPARED WITH COINSURANCE REQUIREMENTS

Per cent Underinsured	Size of District by Number of Teachers								Okla.	U.S. <sup>a</sup>		
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%				
1 - 5	4	18	3	23	5	46	3	75	15	30	20	54
6 - 10	-	-	4	31	-	-	-	-	4	8	9	23
11 - 15	4	18	1	8	1	9	1	25	7	14	4	11
16 - 20	3	14	2	15	1	9	-	-	6	12	-	-
21 - 40	5	22	1	8	3	27	-	-	9	18	5 <sup>b</sup>	13
41 - 60	3	14	2	15	1	9	-	-	6	12	-	-
61 - 80	3	14	-	-	-	-	-	-	3	6	-	-
81 - 100	-	-	-	-	-	-	-	-	-	-	-	-
Over 100	-	-	-	-	-	-	-	-	-	-	-	-
Total	22	100	13	100	11	100	4	100	50	100	38	100
Median per cent	46		10		15		1.5		14.8		3.5	
Extreme per cent	72		55		51		11		72		63	

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 162.

<sup>b</sup>Designated as "Over 25."

The Placement of the Insurance Business

The agents or brokers with whom the school district places its insurance and the companies represented by these agents have a direct bearing upon the cost of the insurance, the service rendered to the school district concerning insurance matters, and the safety of the insurance program. The quality of service rendered by an active, well-informed agent or broker who realizes his responsibility to his clients as well as to the company he represents, can be one of the most valuable assets of a school district. However, the school district must retain control of the insurance program and purchase its insurance as economically as possible. The manner in which these agents are selected by the school district is important.

The problem of whether to give the insurance business to one agent or to a number of agents is very important to school districts. Table 27 shows the distribution of insurance to agents or brokers by Oklahoma schools. Data presented in Table 27 reveal that 66 per cent of the smallest districts place their insurance with one agent or broker. This practice is less frequent as the size of the school becomes larger. The largest schools do not place their insurance with one agent or broker. Many of the smaller schools are in small communities where there is no insurance agent or there is only one agent.

TABLE 27

DISTRIBUTION OF INSURANCE BUSINESS TO AGENTS AND/OR  
BROKERS BY REPORTING OKLAHOMA SCHOOLS

Distribution of Business	Size of District by No. of Teachers								Total	
	4-15		16-30		31-60		Over 60			
	No.	%	No.	%	No.	%	No.	%	No.	%
To one agent or broker	84	66	20	29	4	10	-	-	108	40
To several agents and/ or brokers	44	34	48	71	39	90	31	100	162	60
Total	128	100	68	100	43	100	31	100	270	100

There is really no reason why schools should not place all of their insurance business with one agent rather than several agents, except that all agents want to make a profit from the school's business. A school district placing its business with a good, well-informed agent who provides the best service available at a reasonable or lower cost, and can show that this is not the spoils system at work, should not be required to apportion its insurance business to the other agents in the community. Certainly there is no valid reason why an agent who provides no service to the school insurance program should share in any profits from the school business while other agents do the work that is

needed. It seems likely that if one agent received all of the business, the size of the commissions might be large enough to stimulate him to provide excellent services in order to continue to retain the business.

The criteria used by Oklahoma school districts to determine the eligibility of agents or brokers are shown in Table 28. The data reveal that only 54 per cent of the responding districts require that the agents write in companies acceptable to the board of education. The group of smallest schools requires that the agent write in companies acceptable to the board in 59 per cent of the cases. Only 22 per cent of the 16 - 30 teacher schools have this requirement. As the schools increase in size, the requirement that the agent or broker be a resident of the community becomes more frequent. Only 19 per cent of the smallest schools have this requirement, but 55 per cent of the largest schools require the agent to be a resident of the community. Seventeen per cent of the responding districts have no criteria for determining the eligibility of agents. Twenty-three per cent of the smallest schools, 13 per cent of the 16 - 30 teacher schools, 12 per cent of the 31 - 60 teacher schools, and 10 per cent of the largest schools have no requirements for agents participating in the school insurance program.

The fact that only 54 per cent of the responding schools require that the agents write in companies acceptable to the board of education and that 17 per cent have no

TABLE 28

CRITERIA USED BY OKLAHOMA SCHOOLS TO DETERMINE ELIGIBILITY  
OF AGENTS AND/OR BROKERS TO PARTICIPATE  
IN SCHOOL INSURANCE BUSINESS

Criteria	Size of District by No. of Teachers									
	4-15 (N=119)		16-30 (N= 67)		31-60 (N=43)		Over 60 (N=31)		Total (N=260)	
	No.	%	No.	%	No.	%	No.	%	No.	%
Membership in agents' association	14	12	4	6	2	5	7	23	27	10
Writes in companies acceptable to board	70	59	32	48	22	51	17	55	141	54
Must be resident of community	22	19	29	43	21	49	17	55	89	34
Must maintain office separate from home	3	3	3	4	6	14	4	13	16	6
Must deal exclusively in insurance	8	7	5	7	5	12	-	-	18	7
Must have been in insurance business a certain no. of yrs.	7	6	3	4	4	9	5	16	19	7
No criteria used	28	23	9	13	5	12	3	10	45	17
Other	10	8	10	15	7	16	3	10	30	12



criteria to determine the eligibility of agents, shows lack of attention to the selection of agents by 71 per cent of the districts. If the schools pay no more attention to the selection of agents than is indicated here, it is surprising that districts are satisfied with their insurance programs.

Criterion 9:

School districts should purchase their insurance through competitive bidding.

When the subject of taking bids for insurance is mentioned to most persons, the almost inevitable response is that there is no need to take bids for insurance. This is actually not the case. There are certain stock companies called non-deviating stock companies, which subscribe to the rating bureaus which follow the same rate. The deviating stock companies file rates with the state insurance commissioners. Their rates deviate from the rates filed by the non-deviating stock companies. The mutual companies often file rates that are the same as the non-deviating stock companies. They refund any profits accruing from the operation of business as dividends which may be deducted from the premium in advance. These dividends result in a lower premium. Another advantage in asking for bids is that agents tend to be more careful to find means by which the rates may be reduced, thus giving the district all advantages available under the conditions for lower premiums.

The following suggestions are offered to schools which wish to call for competitive bids on the school insurance:

1. Indicate clearly the exact coverage desired and permit bidding companies to bid on only that coverage. Many school business officials have experienced difficulty or embarrassment in trying to evaluate the premium worth of variations in coverages offered by competing insurance companies.
2. Set up minimum eligibility requirements for competing insurance companies. The use of Best's ratings will be the most convenient way of eliminating undesirable companies.
3. If prevention of 'chiseling' on the part of certain agents (who get a bid from one company and then use it to pry out a better rate from another company) is desired, bids can be submitted direct by the company or rating bureau on behalf of a bidding agent or group of agents. In this manner the amount of the quotation is kept secret until bid opening time.
4. If there is a possibility there are several agents bidding for the same company at the same rates, have some plan for determining who is to service the policy and how to distribute the commissions.<sup>1</sup>

When using competitive bidding, school officials must have a thoroughly planned course of action. They must have a good knowledge of the insurance industry and what type of insurance program they need.

Table 29 shows the frequency with which responding districts apply criteria to determine which of the eligible agents and/or brokers receive the school insurance business. It will be noticed that a total of 21 Oklahoma districts or 8 per cent have taken advantage of competitive bidding.

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<sup>1</sup>Association of Public School Business Officials, Insurance Committee on School Fire Insurance, 1938-45, pp. 20-21.

TABLE 29

CRITERIA REPORTED USED TO DETERMINE WHICH ELIGIBLE AGENTS  
AND/OR BROKERS RECEIVE SCHOOL INSURANCE BUSINESS

Criteria	Size of District by Number of Teachers								Okla.	U.S. <sup>a</sup>		
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%		
Objective basis <sup>b</sup>	-	-	-	-	-	-	-	-	-	-	71	20
Previous satisfactory service	84	68	43	65	21	49	15	48	163	62	-	-
Personal acquaintance or friendship	11	9	6	9	2	5	1	3	20	7	-	-
No plan	2	1	3	5	2	5	2	6	9	3	-	-
Pressure	2	1	1	2	1	2	1	3	5	2	-	-
Political expediency	-	-	1	2	-	-	1	3	2	1	-	-
Reasons of good public relations	12	10	15	23	8	19	6	19	41	16	-	-
Recommendation of school board	29	24	24	36	12	28	10	32	75	29	-	-
Competitive bidding	13	11	6	9	2	5	-	-	21	8	37	11
Member of agents association	2	1	3	5	2	5	9	29	16	6	134	38
Other	1	1	11	17	13	30	2	6	27	10	111	31

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 204.

<sup>b</sup>"Of these 71 districts only 36 described operational methods which could be classified as objective procedure."

This compares quite well with the 11 per cent of the districts surveyed by Salmon. The smallest districts lead in the frequency of use of bids, with 11 per cent asking for bids. Nine per cent of the 16 - 30 teacher schools, 5 per cent of the 31 - 60 teacher schools and none of the largest schools ask for bids. The criterion most frequently used by responding Oklahoma schools is previous satisfactory service. While this is not a completely objective criterion, the person responsible for the insurance program for the district should be able to determine fairly accurately whether the service of the agent is satisfactory. The final test of the value of an agent to the district is satisfactory service. Requiring agents or brokers to be members of an association might appear to be objective but can be no more objective than the method by which the members of the association are selected. All of the other criteria listed in Table 29 are of doubtful value as to objectivity for selecting agents is concerned.

Salmon's objective basis for placement of business with agents and of brokers included criteria for the selection of the agents, the selection of the companies, and the basis for distributing the business.<sup>1</sup> This objective basis is not directly comparable to any single criterion in Table 29, but is really a composite of the objective criteria

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<sup>1</sup>Salmon, Fire Insurance Principles and Practices, pp. 28-29.

TABLE 30

CRITERIA USED TO DETERMINE VOLUME OF BUSINESS  
FOR EACH AGENT OR BROKER

Criteria	Size of District by Number of Teachers								Total	
	4-15		16-30		31-60		Over 60			
	No.	%	No.	%	No.	%	No.	%	No.	%
Volume of business of the agency	4	4	1	2	2	5	5	16	12	5
Local taxes paid by the agency	3	3	2	4	-	-	3	10	8	4
Number of full-time employees	-	-	-	-	-	-	2	6	2	1
Each agency receives the same amount	26	26	22	44	31	76	15	48	94	42
No criteria used	61	60	28	56	7	17	5	16	101	46
Agents decide	-	-	-	-	1	2	4	13	5	2
Other	7	7	1	2	-	-	1	3	9	4

listed in Tables 28, 29, and 30.

Table 30 shows the criteria reported in use to determine the volume of business for each agent or broker. The objective criteria, volume of business, local taxes paid by the agency, and number of full-time employees are used infrequently. The most common method used was to use no

criteria at all, as reported by 46 per cent of the districts. The next most common method, to give each agent or agency the same amount of business, was reported used by 42 per cent of the districts. The objectivity of determining the volume of business for each agency or brokerage is little better in the largest districts than the smallest districts. Oklahoma school districts employ poor methods for determining the volume of insurance business as far as objectivity is concerned.

Criterion 10:

School districts should, when selecting insurance companies with which to place the insurance of school property, take into account:

- a. The quality of service rendered by the company and its agents.
- b. The company's record of satisfactory settlement of losses.
- c. The financial strength of the company, which should be determined in one of these three ways:
  1. Require a minimum management and financial strength rating of A+AAAA, as given in Best's Insurance Guide.
  2. Make use of the information published in the Spectator.
  3. Consult the analyses of the financial statements of the companies filed with the state insurance commissioner.

The selection of the company which will insure school district property is very important. The satisfaction that the district has with its insurance program is dependent upon the service provided by the company and its agents. The amount of service an agent can provide is limited by the services provided by the company. If the company has a

record of poor loss settlement or is not financially sound, there is a distinct possibility that the district may fail to recover full payment for any loss suffered.

Table 31 presents the criteria reported used to select insurance companies with which to insure school property. The most frequently used criterion, previous satisfactory service, is used by 37 per cent of the responding districts. The quality of service offered by the company is closely related to previous satisfactory service and is used as a criterion by 19 per cent of the districts. This follows closely the data in Table 29 in which 62 per cent of the districts select agents on the basis of satisfactory service. The recommendation of the agent or broker is used as a criterion for the selection of insurance companies in 31 per cent of the schools. This is much less than the 73 per cent of the districts reporting to Salmon. It is to be noted that Oklahoma school districts do very little investigating of the financial soundness of insurance companies. A total of only 8 per cent of the districts make any attempt on their own to determine the financial soundness of the companies. Only 4 per cent of the schools use Best's ratings. This compares unfavorably with the schools reporting nationally, 24 per cent of which use the Best's ratings. Of those Oklahoma schools reporting the actual Best's ratings that they used, one district reported the use of A+ AAAA, two districts used A+ BBB, one district A+, and one district AA. Only two

TABLE 31

CRITERIA USED TO SELECT INSURANCE COMPANIES  
WITH WHICH TO INSURE SCHOOL PROPERTY

Criteria	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Recommendation of agent or broker	48	24	37	38	26	39	19	38	130	31	276	73
Quality of service offered by company	40	20	18	18	11	16	11	22	80	19	-	-
Previous satisfactory service	83	41	32	32	26	39	13	26	154	37	-	-
Lowest rates	27	13	7	7	4	6	-	-	38	9	-	-
General management characteristics of the company	-	-	1	1	-	-	2	4	3	1	-	-
Financial rating	-	-	-	-	-	-	-	-	-	-	12	3
Best's rating	3	2	2	2	-	-	2	4	7	2	90	24
Other	-	-	2	2	-	-	3	6	5	1	-	-
Total	201	100	99	100	67	100	50	100	417	100	378	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 216.



of these ratings are complete Best's ratings. Oklahoma schools conform to the criterion in demanding highly satisfactory service but fail completely in demanding soundness of the company. This is dangerous procedure.

Table 32 shows the type of insurance companies with which Oklahoma schools insure their property. The majority of schools in all groups insure exclusively with stock insurance companies, with 59 per cent of the total schools doing so. Of the schools reporting to Salmon, 72 per cent used stock companies exclusively. Among the smaller schools the exclusive use of mutual companies is quite frequent. Twenty-eight per cent of the smallest schools, 19 per cent of the 16 - 30 teacher schools, and 12 per cent of the 31 - 60 teacher schools use mutual companies exclusively. This exclusive use of mutual companies is very different from the schools surveyed by Salmon, which reported the exclusive use of mutual companies in only 3 per cent of the cases. The use of both stock and mutual companies is reported by 18 per cent of the Oklahoma schools and 25 per cent of the schools reporting in Salmon's nation-wide survey. The largest Oklahoma schools report that 43 per cent of the group use both mutual and stock companies. This is almost three times the use of both types of companies by the three groups of smaller schools.

TABLE 32

## TYPES OF COMPANIES INSURING SCHOOL DISTRICT PROPERTY

Type of Company	Size of District by Number of Teachers								Okla.	U.S. <sup>a</sup>		
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%		
Exclusively stock	59	52	37	64	30	73	16	57	142	59	254	72
Exclusively mutual	38	34	11	19	5	12	-	-	54	23	10	3
Both mutual and stock	16	14	10	17	6	15	12	43	44	18	87	25
Total	113	100	58	100	41	100	28	100	240	100	351	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," pp. 94, 100, and 103.

Table 33 shows the reasons for exclusive use of stock companies by responding schools. The most frequently stated reason for exclusive use of stock companies by Oklahoma schools is safety, 31 per cent, and local pressure, 32 per cent. These are exactly the same reasons given most frequently by the schools reporting to Salmon, in which local pressure and safety were reported as used 33 per cent each. In the case of Oklahoma schools the reason given most frequently for exclusive use of mutual companies was satisfactory or superior service. Satisfactory service was the

TABLE 33

REASONS FOR EXCLUSIVE USE OF STOCK OR MUTUAL  
INSURANCE COMPANIES BY RESPONDING SCHOOLS

Reason for Exclusive Use	Stock Only				Mutual Only	
	Okla. Schools		U.S. <sup>a</sup>		Okla. Schools	
	No.	%	No.	%	No.	%
Satisfactory or superior service	18	20	25	25	13	41
Safety	28	31	33	33	3	9
Local pressure	29	32	33	33	4	12
No reason	12	13	9	9	6	19
Unsatisfactory experience with mutual company	4	4	-	-	-	-
Low rates	-	-	-	-	6	19
Total	91	100	100	100	32	100

Salmon, "Fire Insurance Principles and Practices,"  
p. 96.

reason given for exclusive use of stock companies in 20 per cent of the cases. Only 19 per cent of the Oklahoma schools gave low rates as the reason for exclusive use of mutual companies. Local pressure as a reason for selection of a particular type of insurance company is a very poor business practice, especially when the safety of the investment of

TABLE 34

DEGREE OF SATISFACTION REPORTED BY SCHOOLS DEALING  
EXCLUSIVELY WITH STOCK COMPANIES

Degree of Satisfaction	Oklahoma Schools		U.S. <sup>a</sup>	
	Number	Per cent	Number	Per cent
Highly satisfactory	104	72	222	89
Satisfactory	32	22	10	4
Unsatisfactory	-	-	3	1
No experience	9	6	15	6
Total	145	100	250	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 94.

the school district is concerned.

Table 34 shows the degree of satisfaction experienced by schools dealing with stock insurance companies exclusively. The table reveals that no Oklahoma school reported unsatisfactory experience with the stock companies, while 1 per cent of the schools reporting to Salmon had unsatisfactory experiences. Oklahoma schools reported that their experiences have been highly satisfactory in 72 per cent of the cases, while the schools surveyed by Salmon reported highly satisfactory experience in 89 per cent of the cases. Experience with the exclusive use of stock companies definitely appears to be satisfactory.

TABLE 35

DEGREE OF SATISFACTION REPORTED BY SCHOOLS DEALING  
EXCLUSIVELY WITH MUTUAL COMPANIES

Degree of Satisfaction	Oklahoma Schools		U.S. <sup>a</sup>	
	Number	Per cent	Number	Per cent
Highly satisfactory	31	61	7	70
Satisfactory	16	31	-	-
Unsatisfactory	-	-	-	-
No experience	4	8	3	30
Total	51	100	10	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 103.

Table 35 shows the degree of satisfaction experienced by schools insuring exclusively with mutual companies. No schools reported unsatisfactory service with mutual companies when they were used exclusively; however, 4 per cent of the schools using stock companies exclusively gave as a reason for doing so their unsatisfactory experience with mutual companies. The Oklahoma schools reported highly satisfactory experience in 61 per cent of the instances and the schools reporting to Salmon indicated highly satisfactory experience in 70 per cent of the cases. It appears that a higher degree of satisfaction was experienced by schools insuring exclusively with stock companies than was experienced by schools

insuring exclusively with mutual companies. There may be some question as to what constitutes the difference between highly satisfactory service and satisfactory service in the minds of the persons making the ratings. The important thing is that in no case was the service judged to be unsatisfactory in Oklahoma schools.

Table 36 shows the degree of satisfaction in dealing with stock and mutual companies. Oklahoma schools again did not report a single case of unsatisfactory experience with either stock or mutual companies. The schools of the nation, according to Salmon, reported unsatisfactory experiences with both mutual and stock companies in 2 per cent of the cases. A higher degree of satisfaction was experienced for the stock companies than for mutual companies by Oklahoma schools, 54 to 44 per cent, and the schools reporting nationally also reported higher satisfaction with stock companies than with mutual companies, 62 to 54 per cent.

The data indicate that practically all of the schools reporting both in this study and Salmon's study reported at least satisfactory service with both mutual and stock companies.

When school authorities consider the purchase of school property insurance, the philosophical argument of stock insurance companies versus mutual insurance companies often arises. On certain occasions this argument can become very spirited. It is in order to inform school authorities

TABLE 36

DEGREE OF SATISFACTION IN DEALING WITH MUTUAL AND STOCK  
COMPANIES AS REPORTED BY SCHOOLS INSURING WITH  
BOTH MUTUAL AND STOCK COMPANIES

Degree of Satisfaction	Oklahoma Schools				U.S. <sup>a</sup>			
	Stock Co.		Mutual Co.		Stock Co.		Mutual Co.	
	No.	%	No.	%	No.	%	No.	%
Highly satisfactory	21	54	17	44	62	73	50	59
Satisfactory	14	36	17	44	12	14	15	19
Unsatisfactory	-	-	-	-	2	2	2	2
No experience	4	10	5	12	9	11	17	20
Total	39	100	39	100	85	100	84	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 100.

of some of the facts in the argument.

It is incorrect for anyone to make a general statement that all stock companies are safe and sound and that all mutual companies are unsound and that the insured is always under the threat of an assessment on the premium. Some mutual companies are in better financial condition than some stock companies. The reverse is also true. Many mutual companies have sufficient assets so that the issuance of assessable policies is not necessary and they issue only

non-assessable policies. The premium charged for non-assessable policies is as unchangeable as any policy issued by any stock company. Many mutual companies do insure property at lower rates than do some stock companies. The safety and soundness of both stock and mutual companies must be judged on an individual basis for there are sound and unsound companies of both types.

Often certain insurance agents imply that it is illegal for schools to insure with mutual carriers because of the fact that the premium is not stable and that the school in effect lends its credit to the mutual. This may be corrected by purchasing only non-assessable policies. A ruling of the Attorney General of Oklahoma of January 19, 1933, concerning the purchase of mutual insurance by school districts states:

It is, therefore, the opinion of the Attorney General that municipal corporations, including school districts, may insure their property with a mutual company, where the policy provides in addition to a cash premium a maximum or limited contingent liability.<sup>1</sup>

In this ruling it can be noted that not only is it legal for schools to insure with mutuals using non-assessable policies, but that it is legal to insure with them using an assessable policy, if there is a limit to the assessment stated in the policy. Every school official faced with the question of

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<sup>1</sup>The Attorney General of Oklahoma, ruling of January 19, 1933. See Appendix.



mutual versus stock company insurance should be familiar with this ruling which is included in the Appendix.

The main difference between stock and mutual companies is the basis upon which they are organized. Stock companies are organized by investors who feel that there is a profit to be made in the insurance business. They place their capital in the company as a security of their promise to meet payments for losses occurring in excess of the premiums, the capital is used to pay losses. In case there are more losses than premiums and capital, the company is bankrupt. In case there are no more losses than expected, the company makes a profit, which is returned to the stockholders as dividends.

Mutual companies are organized largely by groups of people who wish insurance at a lower cost than that available through usual channels. In the mutual companies the policyholders are, in effect, the stockholders. Until the assets of the mutual company grow large enough, assessable policies are issued. In these the policyholders promise to pay additional assessments or premiums in case the losses exceed the amount that can be paid with the premiums. When the assets of the company become large enough, many mutuals issue non-assessable policies, in which there is no assessment agreement. The mutual company uses the assessment feature to secure the payments for losses in the same way the capital of the stockholders is used by the stock company. Both types

of companies very often reinsure their risks with other insurance companies to reduce the risk of failure and in order to be able to pay losses in case they occur. School authorities should investigate this practice in all companies with which they insure. In the case of mutual companies, any profits are distributed to the policyholders in the form of dividends. Many times these dividends are distributed in advance in the form of reduced payments.

Criterion 11:

School districts should require that all policies be checked for concurrency, that is, to make sure that all policies covering the same property are exactly the same in form and endorsements as the existing policies which cover the same property, by both the servicing agent or broker and by the school official in charge of school insurance affairs.

The checking of property insurance policies for concurrency is an extremely important duty. The provision of pro rata liability states the conditions under which concurrency of policies is important:

Pro rata liability: This company shall not be liable for a greater proportion of any loss than the amount hereby insured shall bear to the whole insurance covering the property against the peril involved, whether collectible or not.<sup>1</sup>

Any time there is more than one policy covering a certain property the problem of concurrency appears. To be concurrent the policies covering a certain property must be exactly alike in all respects with the exception of amount of

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<sup>1</sup>New York Standard Fire Policy (1943), lines 86-89.

insurance, rate, and term. If the policies are not concurrent and a loss occurs, the insured may have a difficult time in securing a just settlement; in fact, it is very likely that he will never receive what he feels is a just settlement. Magee gives the following frequently found forms of non-concurrency:

1. Non-concurrency as to type of form, one instance of which might be a blanket form on part of the policies, with the other written specific;
2. Non-concurrency as to the coinsurance clauses;
3. Non-concurrency as to coverage, some forms being more inclusive than others, one policy perhaps covering the building and another including various additions and extensions;
4. Non-concurrency as to permits and warranties, various clauses and permits incorporated into one form being omitted from another.<sup>1</sup>

No careful person responsible for the school district insurance program will permit policies to be unchecked for concurrency. The greater the number of policies, the greater is the opportunity for non-concurrency to exist.<sup>2</sup>

Table 37 shows the officials responsible for checking the concurrency of school district insurance policies. Only 20 per cent of the Oklahoma schools and 33 per cent of the schools reporting to Salmon conform to the criterion by having all policies checked for concurrency by the servicing agent or broker and the person responsible for the school

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<sup>1</sup>John H. Magee, General Insurance (4th ed.; Homewood, Ill.: Richard D. Irwin, Inc.), p. 160.

<sup>2</sup>Ibid.

TABLE 37

OFFICIALS RESPONSIBLE FOR CHECKING THE CONCURRENCY  
OF SCHOOL DISTRICT PROPERTY INSURANCE POLICIES

Officials Responsible for Checking the Concurrence	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60		No.	%	No.	%
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Business manager	-	-	-	-	-	-	5	16	5	2	125	37
Superintendent	56	51	25	41	16	38	7	23	104	42	-	-
Insurance agent or broker	7	6	7	11	7	18	6	19	27	11	101	30
Secretary or clerk	1	1	-	-	6	14	1	3	8	3	-	-
Member of board of education	7	6	2	3	-	-	-	-	9	4	-	-
Superintendent and insurance agent	18	17	18	29	9	21	4	13	49	20	110 <sup>b</sup>	33
Superintendent and board of education	13	12	2	3	1	2	-	-	16	7	-	-
Supt., board, and insurance agent	5	5	2	3	0	-	-	-	7	3	-	-
Other combina- tions of offi- cials	2	2	6	10	3	7	8	26	19	8	-	-
Total	109	100	62	100	42	100	31	100	244	100	336	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 238.

<sup>b</sup>Designated "Insurance agent and school business  
official."

insurance program. An additional 3 per cent of the Oklahoma schools conform to the criterion by having the superintendent, school board, and the servicing agent or broker check the concurrency. The problem of these various officials is whether they know enough to be able to check policies for concurrency. The person checking the policies for concurrency most frequently in Oklahoma schools is the superintendent in 42 per cent of the cases. This 42 per cent plus the 2 per cent checked by business managers is higher than the 37 per cent checked by business managers reporting in Salmon's national study. There is no excuse for policies not being checked for concurrency by both the insurance agent and the school business official. Oklahoma schools do not conform to this criterion.

#### Fire Prevention Practices

"The cheapest and best protection against the fire hazard is prevention."<sup>1</sup> School administrators largely determine the extent to which fire prevention is practiced in schools. Before the school administration can apply fire-preventive measures, two steps should be taken: (1) regularly scheduled fire prevention inspections of all facilities must be required, and (2) personnel must be trained to make regularly scheduled fire prevention inspections.

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<sup>1</sup>Melchior, op. cit., p. 173.

Frequent inspection is necessary to prevent the accumulation of fire hazards. If frequent inspections are not made, the hazards will accumulate in spite of the efforts of the school administration.

Criterion 12:

School districts should conduct regularly scheduled fire inspections of all facilities at least every four months, but preferably on a monthly and quarterly basis, as recommended by the National Board of Fire Underwriters.

TABLE 38

DISTRICTS MAINTAINING REGULARLY SCHEDULED  
FIRE PREVENTION INSPECTION PROGRAMS

Does the district maintain a regularly scheduled fire prevention inspection program?	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60		No.	%	No.	%
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	74	58	29	43	26	60	25	89	154	58	273	77
No	54	42	39	57	17	40	3	11	113	42	87	23
Total	128	100	68	100	43	100	28	100	267	100	360	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 287.

Table 38 shows the districts maintaining regularly scheduled fire prevention inspection programs. The majority of three of the groups of Oklahoma schools studied maintain

regularly scheduled fire inspections. The 16 - 30 teacher schools report that in only 43 per cent of the cases are the inspections scheduled. The largest schools report that 89 per cent schedule the fire inspections. The total of 58 per cent of the districts scheduling the inspections is less than the 77 per cent of the schools reporting in Salmon's nation-wide survey that they schedule their fire inspections.

Table 39 reveals the frequency of fire inspections of school facilities. The most frequent interval between fire inspections in one year, which is the interval reported by 34 per cent of all of the Oklahoma schools. The table shows that 25 per cent of the Oklahoma schools are inspected irregularly and that 2 per cent are seldom, if ever, inspected. The Oklahoma schools reported that 69 per cent are inspected as often as once a year. Salmon reported that 87 per cent of the schools in his survey inspected as often as once a year. Both the Oklahoma schools and the schools reporting to Salmon revealed that 13 per cent held inspections once a month. Four per cent of the Oklahoma schools and 6 per cent of the schools reporting to Salmon are inspected quarterly. Neither Oklahoma schools nor the schools in Salmon's study conform to the criterion which requires inspections on a monthly and a quarterly basis. Twenty-six per cent of the Oklahoma schools and 24 per cent of the schools reporting nationally report inspections frequently enough to meet the criterion requirement of inspections at

TABLE 39

FREQUENCY OF FIRE PREVENTION INSPECTION  
OF SCHOOL BUILDINGS

Interval between Inspections	Size of District by Number of Teachers								Okla.	U.S. <sup>a</sup>		
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%		
Continuously	-	-	-	-	1	2	-	-	1	-	6	2
Daily	-	-	-	-	-	-	-	-	-	-	4	1
One week	8	7	4	6	1	2	3	10	16	6	4	1
One month	15	12	7	11	7	16	4	14	33	13	35	13
Two months	3	2	-	-	-	-	1	3	4	2	-	-
Three months	6	5	1	2	2	5	2	7	11	4	15	6
Four months	2	2	-	-	-	-	-	-	2	1	3	1
Six months	8	7	7	11	5	11	2	7	22	9	44	16
One year	47	38	18	28	11	25	13	45	89	34	127	47
Two years	-	-	-	-	-	-	-	-	-	-	5	2
Irregularly	28	23	22	34	13	30	2	7	65	25	30	11
Seldom, if ever	3	2	2	3	-	-	-	-	5	2	-	-
Other	2	2	3	5	4	9	2	7	11	4	-	-
Total	122	100	64	100	44	100	29	100	259	100	273	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices,"  
p. 290.



least every four months.

If fire inspections are made without some guide or check list to make sure that all places are checked, the inspections may be superficial and relatively worthless.

Criterion 13:

School districts should require the use of a self-inspection blank, preferably the form approved by the National Board of Fire Underwriters, to conduct the regularly scheduled fire inspections of all facilities.

A self-inspection blank or check list such as the one prepared by the National Board of Fire Underwriters should be used.<sup>1</sup> Another self-inspection blank that is not so detailed, but may be more suitable for use in some schools for rapid inspections, is the check list prepared by the National Fire Protection Association.<sup>2</sup> Other self-inspection blanks may be obtained from the Arson and Investigation Division of the Oklahoma State Bureau of Investigation and in some cases from the local fire departments.

Table 40 shows frequency of use of a self-inspection blank. The 47 per cent of Oklahoma schools reporting the use of the self-inspection blank is slightly more than the 43 per cent of the schools reporting to Salmon. Neither the Oklahoma schools nor the schools reporting to Salmon conform

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<sup>1</sup>Inspection Blank for Schools (New York: National Board of Fire Underwriters). See Appendix.

<sup>2</sup>School Inspection Short Check List (Boston: National Fire Protection Association).

TABLE 40

USE OF SELF-INSPECTION BLANK BY SCHOOLS  
REPORTING REGULARLY SCHEDULED FIRE  
PREVENTION INSPECTION PROGRAM

Does the dis- district use a self-inspection blank or check- list while making the inspections?	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60		No.	%	No.	%
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	30	40	16	55	14	54	12	48	72	47	117	43
No	31	42	9	31	9	35	5	20	54	35	115	42
No response <sup>b</sup>	13	18	4	14	3	11	8	32	28	18	15	41
Total	74	100	25	100	26	100	25	100	154	100	273	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 289.

<sup>b</sup>These districts reported maintaining a regularly scheduled fire prevention inspection program but did not answer this question.

to the criterion.

Table 41 shows the agencies reported as preparing the self-inspection blanks used by schools. Only 6 per cent of the Oklahoma schools use the blanks prepared by the National Board of Fire Underwriters, while 61 per cent of the schools reporting to Salmon use it. There is the possibility that some of the 11 per cent of the Oklahoma schools reporting the use of blanks prepared by fire insurance

TABLE 41

AGENCY PREPARING SELF-INSPECTION BLANKS USED  
FOR FIRE PREVENTION INSPECTIONS

Agency Preparing Self-inspection Blank	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60					
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
National Board of Fire Under- writers	3	10	-	-	-	-	1	8	4	6	71	61
State Fire Marshall	4	13	3	20	1	7	-	-	8	11	-	-
Local fire department	-	-	1	7	1	7	4	34	6	8	-	-
Superintendent of schools	3	10	2	13	2	14	-	-	7	10	-	-
Insurance co.	3	10	3	20	1	7	1	8	8	11	-	-
Insurance agt.	2	7	-	-	-	-	-	-	2	3	-	-
Inspection bureau	1	3	-	-	1	7	-	-	2	3	-	-
Utility co.	-	-	1	7	-	-	-	-	1	1	-	-
Not reporting <sup>b</sup>	11	37	2	8	5	36	6	50	24	33	46	39
Blank not used	3	10	4	25	3	22	0	-	10	14	-	-
<b>Total</b>	<b>30</b>	<b>100</b>	<b>16</b>	<b>100</b>	<b>14</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>72</b>	<b>100</b>	<b>117</b>	<b>100</b>

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 289.

<sup>b</sup>Reported use of a self-inspection blank but did not respond to this question.

companies or fire departments may be using the blank prepared by the National Board of Fire Underwriters or the National Fire Protection Association. Fifty-three per cent of the Oklahoma schools reported use of self-inspection blanks. The 16 - 30 teacher schools reported that 68 per cent of that group used the blanks. The 31 - 60 teacher schools used the blanks less frequently than any other group of Oklahoma schools, with only 42 per cent using them. Improvement of the practices of both Oklahoma schools and the schools reporting to Salmon could be made in the use of self-inspection blanks and in the use of underwriter approved blanks. Neither the Oklahoma schools nor the schools reporting to Salmon conform to the criterion.

The National Board of Fire Underwriters recommends that the monthly fire inspections of facilities be made by the custodian and a member of the faculty. The quarterly inspection should be made by these staff members and a member of the fire department.

Criterion 14:

School districts should arrange to have the regularly scheduled fire inspections carried out by one of these groups of personnel or a combination of these:

- a. Personnel assigned to the site as a regular base of operations, who have been trained to make fire inspections.
- b. Personnel from the school central office, who have been trained to make fire inspections.
- c. Fire department personnel, who are competent to make fire inspections.
- d. Representatives of the insurance industry who are competent to make fire inspections.

Table 42 shows the personnel reported as making the fire inspections in the schools. In Oklahoma schools 54 per cent of the districts are inspected for fire prevention by inspectors from governmental agencies. This includes both local fire departments and the Arson and Inspection Division of the Oklahoma State Bureau of Investigation. According to C. S. Vawter, the Arson and Inspection Division planned to inspect each Oklahoma public school and college building in the state every two years.<sup>1</sup> One complete inspection of the state school buildings was made and the program was discontinued because of insufficient funds. The schools surveyed by Salmon report use of governmental agencies in 23 per cent of the cases. Personnel from the district central office made the inspection in 49 per cent of the schools reporting to Salmon, but in only 20 per cent of the cases in Oklahoma. Insurance company personnel made the inspection in 13 per cent of Oklahoma schools and in 8 per cent of the schools in Salmon's nation-wide study. Various combinations of officials make the inspections in Oklahoma schools more frequently than in the schools reporting to Salmon. Both Oklahoma schools and the schools surveyed by Salmon use the officials recommended in the criterion for making the inspections in practically all cases.

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<sup>1</sup>Interview with C. S. Vawter, Arson and Inspection Division, Oklahoma State Bureau of Investigation, April 9, 1959.

TABLE 42

PERSONNEL REPORTED AS MAKING SCHOOL BUILDING  
FIRE PREVENTION INSPECTIONS

Personnel Making the Inspections	Size of District by Number of Teachers								Okla.		U.S. <sup>a</sup>	
	4-15		16-30		31-60		Over 60		No.	%	No.	%
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Governmental agencies	29	27	17	28	11	25	15	54	72	30	59	23
Insurance co.	19	17	8	13	4	9	-	-	31	13	23	8
Dist. central office	34	32	11	18	3	7	-	-	48	20	135	49
Local plant	7	7	6	10	5	12	-	-	18	8	24	9
Fire equip. co.	1	1	1	2	-	-	-	-	2	1	1	0
Comb. 1 and 2	3	3	3	4	4	9	3	11	13	5	1	0
Comb. 1 and 3	1	1	3	4	3	7	4	14	11	5	9	3
Comb. 1 and 4	-	-	-	-	2	5	4	14	6	3	-	-
Comb. 2 and 3	5	5	4	8	2	5	-	-	11	5	4	2
Comb. 2 and 4	2	2	1	2	-	-	-	-	3	1	-	-
Comb. 3 and 4	3	3	1	2	2	5	-	-	6	2	5	2
Other combinations	2	2	6	10	7	16	2	7	17	7	-	-
No response but indicated inspections were made	-	-	-	-	-	-	-	-	-	-	12	4
Total	106	100	61	100	43	100	28	100	238	100	273	99

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," p. 292.

There is only one point open to question and that is whether or not the persons making the inspections are trained and are competent to make the fire inspections. Before school personnel can identify fire hazards and can recognize correct fire prevention practices, they must be trained to do so. Inspections by untrained personnel may be little better than no inspections.

Criterion 15:

School districts should provide in-service training for the district personnel whose responsibility it is to make the regularly scheduled fire inspections.

TABLE 43

SCHOOL DISTRICTS PROVIDING IN-SERVICE TRAINING FOR DISTRICT PERSONNEL MAKING REGULARLY SCHEDULED FIRE INSPECTIONS

Practice	Oklahoma Districts		U.S. <sup>a</sup>	
	Number	Per cent	Number	Per cent
District provides in-service training for personnel making regularly scheduled fire prevention inspections	8	5	33	12
District does not provide such training	74	43	127	47
No response <sup>b</sup>	72	42	113	41
Total	154	100	273	100

<sup>a</sup>Salmon, "Fire Insurance Principles and Practices," pp, 287 and 294.

<sup>b</sup>Districts reported maintaining regularly scheduled fire prevention inspection programs, but did not respond to this question.

Table 43 shows the school districts providing in-service training for district personnel whose responsibility it is to make the fire inspections. From the data shown, few schools provide in-service training in fire preventive measures for school personnel. Only 5 per cent of the Oklahoma schools and 12 per cent of the schools surveyed by Salmon have in-service training programs for personnel whose responsibility it is to make the fire inspections. This situation should be corrected. Neither group of schools conforms to the criterion.

#### Insurance Records

Schools need to keep complete, up-to-date records for all phases of the school insurance program. These records are necessary for proper management of the insurance program. In case of loss, the presence of complete up-to-date records will facilitate settlement of the loss.

#### Criterion 16:

School districts should keep, in a fire resistant vault, preferably located away from the school site, adequate records pertaining to the school district insurance program, such as:

a. A record of the valuation of each building, the date constructed, cost of construction, date of appraisal, cost of non-insurable items, appreciation and depreciation, information about all additions and alterations and the date of each, the amount of insurance and the losses experienced at each building.

b. A complete inventory, kept up-to-date, of the contents of each building, showing the date of purchase and the price. High unit cost items should be identified and the cost given.



c. A complete schedule of insurance policies should be kept, showing the amount of coverage, premium rates, total premium, date premium is due, endorsements, effective and expiration dates, property covered by the policy, name and address of the company, and the name and address of the servicing agent or agency.

TABLE 44  
TYPES OF INSURANCE RECORDS REPORTED KEPT  
BY 266 OKLAHOMA SCHOOL DISTRICTS

Type of Records	Size of District by Number of Teachers								Total	
	4-15		16-30		31-60		Over 60			
	No.	%	No.	%	No.	%	No.	%	No.	%
Policies only	60	48	25	37	13	29	6	21	104	39
Policies, invoices and/or inventories of contents only	20	16	16	23	12	27	10	34	58	22
Various combinations of records	44	36	27	40	20	44	13	45	104	39
Total	124	100	68	100	45	100	29	100	266	100

Table 44 shows the types of records reported kept by Oklahoma schools. The smallest schools keep policies as the only record in 48 per cent of the districts; the 16 - 30 teacher schools keep policies only in 37 per cent of the cases; the 31 - 60 teacher schools keep policies only in 29

per cent of the schools, and 21 per cent of the largest schools keep policies only. Keeping only the policies is the most elementary type of insurance records. In a small district with a very few policies it may be possible to administer the insurance program without other records. Larger districts need other records in order to keep account of the insurance affairs. The data reveal that a total of 22 per cent of the districts maintain only policies and inventories and/or invoices only. Districts which do not maintain inventories of contents may have considerable difficulty in establishing the value of contents in case of a loss. The data show that 64 per cent of the smallest schools, 60 per cent of the 16 - 30 teacher schools, 56 per cent of the 31 - 60 teacher schools, and 55 per cent of the largest schools, or a total of 61 per cent of all schools, have what may be termed inadequate insurance records. These schools maintain only policies and inventories and/or invoices of contents. The remaining 39 per cent of the districts maintain insurance records with varying degrees of adequacy.

Table 45 shows the various types of records kept by the schools reporting that they kept combinations of records. A complete set of records should consist of policies, some recording system for policies, building information, and an itemized inventory of contents. Policies are kept by 66 per cent of the smallest districts, 67 per cent of the 16 - 30

TABLE 45

TYPES OF RECORDS KEPT IN VARIOUS COMBINATIONS  
BY 104 OKLAHOMA SCHOOL DISTRICTS

Types of Records Kept in Various Combinations	Size of District by Number of Teachers								Total	
	4-15		16-30		31-60		Over 60			
	No.	%	No.	%	No.	%	No.	%	No.	%
Policies	29	66	18	67	11	55	13	100	72	69
Ledger with policy information	17	39	13	48	-	-	8	61	46	44
Card file with policy infor- mation	7	16	8	30	5	25	5	38	25	24
Ledger with building information	4	9	2	7	4	20	5	38	15	14
Card file with building information	2	5	4	15	3	15	3	25	12	12
Original in- voices of equipment	14	32	4	15	2	10	1	8	21	20
Itemized annual inventory of contents	22	50	11	41	10	50	12	92	55	53
Itemized inventory of contents	4	9	1	4	1	5	4	30	10	10

teacher districts, 55 per cent of the 31 - 60 teacher schools, and 100 per cent of the largest schools. A question naturally arises as to what has happened to the policies of the remaining schools. Fifty-three per cent of all schools report keeping annual inventories of contents, while 10 per cent report keeping inventories that are not annual. A ledger with policy information is kept by 44 per cent of the schools while a card file for policy information is kept by 24 per cent. A ledger with building information is kept by 14 per cent and 12 per cent keep a card file with building information.

Table 46 shows the information contained in these records. The largest schools keep the most information with 11 items of information kept by all reporting schools. The amount of information contained in the insurance records becomes greater as the size of the district becomes larger. The amount of insurance on contents, kept by 69 per cent, date of premium, kept by 68 per cent, amount of insurance on each building, kept by 67 per cent, and the name and address of the servicing agent, kept by 66 per cent, were the items most frequently maintained by the schools. Cost of non-insurable items, kept by 6 per cent, and itemizing or high unit cost items kept by 8 per cent, were kept least frequently by the schools. Only 11 items of information were kept by at least 50 per cent of the schools.

TABLE 46

INFORMATION CONTAINED IN INSURANCE RECORDS OTHER THAN POLICIES, INVOICES  
AND INVENTORIES AS REPORTED BY 104 OKLAHOMA SCHOOLS

Information contained in school insurance records other than policies, invoices and inventories	Size of District by No. of Teachers									
	4-15 N = 44		16-30 N = 27		31-60 N = 20		Over 60 N = 13		Total N = 104	
	No.	%	No.	%	No.	%	No.	%	No.	%
Insurable values of buildings	22	50	19	71	11	55	13	100	65	63
Original costs of buildings	8	18	9	33	8	40	13	100	38	36
Date buildings were constructed	11	25	8	30	9	45	13	100	41	39
Appreciation of buildings	6	14	2	7	4	20	6	46	18	17
Depreciation of buildings	5	11	4	15	2	10	7	54	18	17
Amount of premium due	26	59	21	78	13	65	13	100	73	70
Date premium is due	25	57	20	74	13	65	13	100	71	68
Amount of insurance on contents	24	55	20	74	15	75	13	100	72	69
Endorsements on each policy	18	41	18	67	9	45	11	85	56	54
Contents in each building	13	30	8	30	9	45	11	85	41	39

TABLE 46--Continued

Information contained in school insurance records other than policies, invoices and inventories	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	N = 44		N = 27		N = 20		N = 13		N = 104	
	No.	%	No.	%	No.	%	No.	%	No.	%
Date of appraisal	11	25	10	35	9	45	8	62	38	37
Additions, alterations or major repairs to each building	10	23	8	30	6	30	13	100	37	36
Cost of non-insurable items in each building	1	2	1	4	-	-	4	31	6	6
Amount of losses on each building	6	14	4	15	1	5	9	69	20	19
Effective and expiration dates of policies	17	39	17	62	12	60	13	100	60	58
Amount of insurance on each building	24	55	18	67	13	65	13	100	70	67
Property covered by each policy	19	43	16	59	12	60	13	100	61	59
Name and address of servicing agent	23	52	18	67	12	60	13	100	69	66
Addresses of insurance companies	23	52	18	67	9	45	10	78	60	58
High unit cost items itemized	1	2	2	7	2	10	3	13	8	8
Property covered by each policy	19	43	19	71	9	45	12	92	59	57

Table 47 shows the locations in which school insurance records are kept. Only 9 per cent of the districts conform to the criterion in keeping the records in a fire-proof vault off the school site. Twenty-four per cent of the largest schools keep their insurance records in a fire-resistant vault or safe off the school site. The records are kept off the site in 7 per cent more cases, but not in fire-resistant places. The advantage in keeping insurance records off the school site is obvious. The 18 per cent of the schools keeping their records in fire-resistant vaults or safes on the school site are in much better position than the 13 per cent which keep the records on the site in non-fire resistant places. If all of the records are destroyed, the school may find it impossible to show the amount of insurance they have and a complete settlement may be impossible.

Oklahoma schools definitely need to provide safer places for keeping their insurance records. Only 9 per cent conform to this criterion. Table 48 shows the number of schools keeping duplicate records. Only 40 per cent keep duplicate records. Some of these schools indicated that the duplicate records were the policies kept by the agents. The advantage of duplicate insurance records, especially in the case of those schools not keeping the records in a fire-resistant place, is obvious.

TABLE 47

LOCATION OF INSURANCE RECORDS AS REPORTED  
BY 266 OKLAHOMA SCHOOL DISTRICTS

Location of Records	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Off the school site in fire-resistant vault or safe	7	6	7	10	2	4	7	24	23	9
On the school site in a fire-resistant vault or safe	24	19	9	13	11	25	4	14	48	18
Off the school site in a non-fire-resistant file or safe	1	1	3	4	-	-	2	7	6	2
On the school site in a non-fire-resistant safe or file	20	16	8	12	6	13	2	7	36	13
On the school site, fire-resistance of place not indicated	32	26	14	21	6	13	1	3	53	20



TABLE 47--Continued

Location of Records	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Off the school site, fire-resistance of place not indicated	7	6	3	4	1	2	1	3	12	5
In fire-resistant vault or safe, location not given	23	19	20	30	11	25	12	42	66	25
In non-fire-resistant vault or safe, location not given	4	3	3	4	4	9	-	-	11	4
Unknown <sup>a</sup>	6	5	1	2	4	9	-	-	11	4
Total	124	100	68	100	45	100	29	100	266	100

<sup>a</sup>These districts reported keeping insurance records but did not respond to this question.

TABLE 48

OKLAHOMA SCHOOLS REPORTED AS MAINTAINING  
DUPLICATE INSURANCE RECORDS

Are duplicate insurance records kept?	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	56	45	26	38	12	27	11	38	105	40
No	48	39	29	43	17	38	17	59	111	42
Unknown <sup>a</sup>	20	16	13	19	16	35	1	3	50	18
Total	124	100	68	100	45	100	29	100	266	100

<sup>a</sup>Districts reporting that they maintain insurance records, but not responding to this question.

Delegation of Responsibility for  
the Insurance Program

Delegation of the responsibility for the insurance program is the best method of being certain that someone will take care of the program. In this way it will be possible for the board to know who is or is not taking care of the duties and responsibilities.

Criterion 17:

School districts should delegate to some one person or group of persons the responsibility for handling the insurance affairs of the district.

TABLE 49

OFFICIALS DESIGNATED AS RESPONSIBLE FOR HANDLING  
INSURANCE AFFAIRS IN OKLAHOMA SCHOOL DISTRICTS

Officials responsible for handling school insurance affairs	Size of District by No. of Teachers									
	4-15		16-30		31-60		Over 60		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
No one formal- ly designated	16	13	4	6	3	6	2	6	25	9
Superintendent	78	62	45	67	28	63	10	32	161	60
Business manager	-	-	1	2	-	-	5	17	6	2
Clerk or secretary	4	3	1	2	3	6	3	10	11	4
Member(s) of board of education	4	3	3	4	1	2	2	6	10	4
Insurance agent or broker	2	2	3	4	-	-	-	-	5	2
Superintendent and secretary or clerk	3	2	2	3	3	6	2	6	10	4
Superintendent and members of board	6	5	4	6	3	6	-	-	13	5
Superintendent and insurance agent	10	8	3	4	-	-	2	6	15	6
Other combinations	2	2	1	2	5	11	5	11	11	4
Total	125	100	67	100	45	100	31	100	269	100

Table 49 shows the various officials delegated the responsibility for handling the insurance affairs of the district. No one is formally designated in 9 per cent of the districts. In 60 per cent of the districts the superintendent is designated. The business manager is designated in 2 per cent of the cases. It is probably to the advantage of the district to have one person responsible for the insurance affairs than to have a group of persons. Divided responsibility sometimes means that responsibility will not be assumed. If possible a district employee should be in charge of the insurance program or should be a member of the group responsible for the program.

#### Summary of the Chapter

Oklahoma schools fail to meet the criterion which requires reappraisal of property each two years. Twenty-six per cent reappraise buildings irregularly or less often than every five years. Contents are reappraised at least every two years by 32 per cent of the districts. Oklahoma schools reappraise buildings as often as every two years in 27 per cent of the districts as compared with 61 per cent of the districts reported in Salmon's national study. Forty-seven per cent of Oklahoma districts reappraise buildings every five years and 33 per cent reappraise contents at the same interval.

Oklahoma schools require itemized appraisals of

buildings in 74 per cent of the districts. They require itemized appraisals of contents in only 59 per cent of the districts.

Appraisal is made by insurance company personnel in some degree in 81 per cent of the districts in Oklahoma. The board of education is involved in the appraisal of property in 59 per cent of the districts. In 87 per cent of the districts the same officials make both the original appraisals and the reappraisals. The same officials appraise both buildings and contents in 84 per cent of the schools. When school personnel make the appraisal of buildings, they estimate appreciation and depreciation in 69 per cent of the districts. Only 13 per cent of the districts use tables to calculate appreciation and depreciation and 15 per cent insure for original cost. When original construction costs are not available, 54 per cent of the schools use appropriate construction cost tables to compute construction costs.

Oklahoma schools do not conform to the criterion on interval of appraisal, the criterion for determining insurable values, nor the criterion for itemized appraisals. Generally the largest schools conform to the criteria more closely than do the smaller schools.

Oklahoma schools do not use the blanket policy as recommended by the criterion. The data reveal that 78 per cent of Oklahoma schools have several policies covering the

property at each school site. Only 19 per cent use the blanket policy. Sixty-one per cent of the largest Oklahoma schools use the blanket policy. This compares with 86 per cent of the schools reporting use of the blanket policy to Salmon. Oklahoma schools are not taking advantage of the more complete protection offered by the extended coverage endorsement. The vandalism and malicious mischief endorsement is used in 28 per cent of the districts. The use of the vandalism and malicious mischief is more frequent in the larger Oklahoma schools than it is in the schools included in the Salmon survey.

Oklahoma schools are saving money through the use of term policies. The five-year term policy is used by 83 per cent of all Oklahoma schools and the three-year term policy is used by 7 per cent of the schools. Some plan by which premiums may be budgeted so that approximately the same amount is appropriated each year for premiums is used by 77 per cent of the districts.

Insurance premium rates have increased within the last five years in many districts, while rates have remained constant in others. The rates have decreased in few districts. This is in direct opposition with the findings of Salmon, who reports that there has been a general rate decrease over the nation. Most Oklahoma schools use the co-insurance clause, though the use of the 80 per cent clause is much more frequent than the 90 per cent clause recommended

by the criterion and frequently used throughout the nation. Salmon reports that 11 per cent of the schools over the nation have effected rate reductions through cooperation with other schools. No Oklahoma school reported any such attempt; instead, they reported that when they were able to reduce rates, they did so by using the same type of direct action, except cooperation with others, used by the schools reporting to Salmon. However, not many schools were able to report reductions in rates in Oklahoma. It appears that Oklahoma schools could do more to reduce rates, through direct action on the part of the school than is now being done.

In general the Oklahoma school insurance program does not generally conform to the criteria for placement of insurance. Only 54 per cent of the districts require agents to write in companies acceptable to the school board, 17 per cent have no criteria at all for determining the eligibility of the agents. Only 8 per cent of the Oklahoma schools take competitive bids for insurance. Satisfactory service is the criterion for selecting agents in 62 per cent of the districts and 40 per cent of the schools have no criteria for agent selection. Forty-six per cent of the districts have no criteria for determining the volume of business which each agent or broker receives, while 42 per cent award all agents the same amount of business. Previous satisfactory service is the criterion for the selection of

insurance companies in 37 per cent of the districts. Thirty-one per cent take the agent's recommendation. Only 3 per cent of the districts investigate to determine the financial strength of the insurance companies. The majority, 59 per cent, of Oklahoma schools insure exclusively with stock companies; 23 per cent insure exclusively with mutual insurance companies. Very little dissatisfaction is found with either stock or mutual companies. Only 4 per cent of those insuring exclusively with stock companies report unsatisfactory experience with mutuals. Practically all districts check policies for concurrency, but only 23 per cent have both school district officials and insurance agents or brokers check policies for concurrency. They do not conform to the criterion in requiring both the school official in charge of the insurance program and the insurance agent or broker to check the policies for concurrency. Some check is made for concurrency by either the school officials or the agent or broker, in most cases.

Oklahoma schools do not conform to the criterion in regard to competitive bidding. They conform to the criterion requiring satisfactory service and satisfactory settlement of losses in insurance companies, but fail almost completely to check the financial strength of the companies, leaving this to the agent, if it is done.

The Oklahoma schools do not conform to the criteria



relating to the various aspects of prevention inspections. Only 58 per cent report regularly scheduled fire inspections; however, 89 per cent of the largest schools report the inspections. The interval between the inspections is too great. The majority of the inspections are a year apart or irregular. Oklahoma schools have a greater degree of conformity to the criterion requiring the use of self-inspection blanks than do the schools reporting in the Salmon survey. The blanks used by the Oklahoma schools are not underwriter approved except in 6 per cent while the schools in Salmon's nation-wide survey reported 61 per cent using the underwriter approved blanks.

Oklahoma schools appear to keep substandard records for their insurance programs. Policies are the only records kept by 29 per cent of the schools. Of those reporting that they do keep records, 31 per cent do not keep the policies and an additional 22 per cent keep only policies and/or invoices of contents. A number of types of records are kept by the schools, but the information in them appears to be quite limited.

Oklahoma schools have conformed to the criterion requiring that the responsibility for handling the insurance program be delegated to some person or group of persons. The responsibility for the insurance program has been delegated in 91 per cent of the districts reporting.

## CHAPTER V

### THE FIRE INSURANCE PREMIUM-LOSS RATIO FOR OKLAHOMA PUBLIC SCHOOLS

One of the most important factors in determining insurance premium rates is the premium-loss ratio. The premium-loss ratio is found by dividing loss payments by premiums received. The premium charged for insurance includes: (1) payment of losses, (2) expenses of operating the business, and (3) profit, if any. Any variation in the loss payments or expense of business operation will have an effect on profits. When the loss payments and the business expense equal 100 per cent of the premium, the company is showing neither profit nor loss. However, a certain profit may have been included in the cost of business operation. If the sum of loss and expense factors is less than 100 per cent, the company is making a profit and if the sum is greater than 100 per cent, the company is showing a loss.

Interpretation of this situation would be easier if it were possible to determine exactly what the losses and expenses are. In the case of insurance companies, it is very difficult to determine the exact amount of these

expenses because of the methods of business operation. Factors which restrict an accurate interpretation of the situation include: (1) the premiums are collected as much as five years in advance, (2) the companies may not receive the premiums collected by the agents for as long as 90 days after the policies are written, (3) agents are paid a commission on the premiums as the premiums are collected, (4) the agents are often paid different rates of commission for new business and the renewal of old business, (5) losses may be classified as losses paid or losses incurred. Incurred losses include both those losses that are already paid and losses that have occurred but have not been settled and paid. These facts result in a situation in which the premium-loss and expense ratios indicate trends, but they do not give a completely accurate picture of the insurance industry.<sup>1</sup>

The fire insurance premium-loss ratio for all risks does not vary greatly from 50 per cent and the business expense ratio does not vary much from 47 per cent over the years.<sup>2</sup> However, it can be seen from Table 50 that the business expense ratio has been less than this during the ten-year period 1948-1957. Table 50 also shows that the

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<sup>1</sup>Best's Insurance Reports, Fire and Casualty (59th ed.; New York: Alfred M. Best Co., 1958), pp. x-xi.

<sup>2</sup>Linn and Joyner, op. cit., p. 20.

TABLE 50

LOSS AND EXPENSE RATIOS OF AMERICAN FIRE INSURANCE  
COMPANIES FOR TWO FIVE-YEAR PERIODS,  
1948-1952<sup>a</sup> AND 1953-1957<sup>b</sup>

Year	Premiums Written <sup>c</sup>	Loss Ratio <sup>d</sup>	Expense Ratio <sup>e</sup>	Combined Ratio
1948	\$1,062,044	51.3	42.2	93.5
1949	1,093,544	43.4	41.9	85.3
1950	1,195,804	42.9	42.4	85.3
1951	1,300,695	47.0	42.1	89.1
1952	1,288,997	46.7	43.2	89.9
	<u>\$5,905,084</u>	46.2	46.4	88.6
1953	\$1,306,224	48.5	43.9	92.4
1954	1,307,738	47.1	44.4	91.5
1955	1,317,031	49.3	45.0	94.3
1956	1,332,478	55.2	45.5	100.7
1957	1,335,719	55.2	45.8	101.0
	<u>\$6,599,190</u>	51.1	44.9	96.0

<sup>a</sup>Best's Insurance Reports, 54th ed., p. xi.

<sup>b</sup>Best's Insurance Reports, 59th ed., p. x.

<sup>c</sup>Total stock industry. Figures in thousands.

<sup>d</sup>Losses incurred to premiums earned.

<sup>e</sup>Expenses incurred to premiums written.

premium-loss ratio has not varied very much from 50 per cent during this period. The years 1949 and 1950 were extremely profitable for fire insurance companies due to the very low combined expense and loss ratio of only 85.3. This means that at least 14.7 per cent of the premiums were profit. The years 1956 and 1957 were years when the fire insurance

companies either made less profit than they expected or had losses when the combined ratio rose above 100 per cent.

The premium-loss ratio for public schools is not calculated separately by the data-gathering agencies of the insurance industry, but is included in the class labelled "educational institutions." This class includes all public and private schools, colleges and universities, buildings on the premises of school plants and museums. However, it has only been since 1947 that educational institutions have been classified separately. Therefore, the only way it has been possible to calculate the premium-loss ratio for public schools has been to obtain the data from the public schools themselves. Information about the premium-loss ratio for public schools has been gathered by investigators who have been interested in school business administration. Most of these investigators have been writers of dissertations and theses in the field of school business administration or members of the Association of School Business Officials of the United States and Canada.

One fact is obvious from all of the investigations of public school fire insurance--the fire insurance premium-loss ratio for public schools is well below the 50 per cent which seems to be the industry average. Table 51 gives a summary of five nation-wide studies which were made of the fire insurance premium-loss ratio for public schools. Three of these were conducted by the Association of School Business

TABLE 51

## FIRE INSURANCE PREMIUM-LOSS RATIOS FOR PUBLIC SCHOOLS

State	Three Surveys by the ASBO <sup>a</sup>			Salmon <sup>b</sup>	Viles <sup>c</sup>
	1921-30	1931-37	1938-45	1946-55	1948-53
Alabama	30.45	16.61	5.86	20.50	-
Arizona	34.23	.00	.00	43.07	38.0
Arkansas	25.74	74.40	-	.00	43.0
California	24.81	44.79	19.55	41.27	25.2
Colorado	14.08	1.35	13.78	1.06	45.6
Connecticut	14.60	4.20	-	11.91	31.2
Delaware	-	8.30	38.53	-	- <sup>e</sup>
Florida	-	-	.72	19.47	19.7
Georgia	-	65.76	96.21	3.16	28.0
Idaho	-	.00	2.83	20.35	29.5
Illinois	65.96	45.67	45.77	46.77	32.6
Indiana	7.20	18.34	31.26	25.92	19.3
Iowa	30.59	46.51	.35	8.49	28.9
Kansas	-	.00	8.27	43.38	45.6
Kentucky	.00	11.03	.00	32.88	45.5
Louisiana	78.48	13.54	42.46	84.65	54.7
Maine	90.44	1.57	.53	-	13.5
Maryland	-	184.90	3.77	10.16	34.2
Massachusetts	43.56	10.38	5.44	-	33.4
Michigan	17.76	3.13	5.86	20.01	26.0
Minnesota	5.49	12.49	14.49	29.13	16.5
Mississippi	-	-	-	-	45.0
Missouri	27.78	10.95	7.24	3.88	35.7 <sup>f</sup>
Montana	63.59	2.35	.00	.00	- <sup>f</sup>
Nebraska	1.59	8.86	37.82	54.24	30.0
Nevada	-	-	-	-	19.6
New Hampshire	-	.00	-	-	- <sup>e</sup>
New Jersey	4.97	1.95	14.60	25.50	24.8
New Mexico	.00	.00	.00	64.07	32.9
New York	33.92	38.88	10.67	24.01	47.2
North Carolina	15.05	144.39	8.99	.00	33.3 <sup>f</sup>
North Dakota	-	31.02	-	-	- <sup>d</sup>
Ohio	28.17	13.05	37.58	52.16	25.8
Oklahoma	2.34	24.73	.00	12.85	59.4

TABLE 51--Continued

State	Three Surveys by the ASBO <sup>a</sup>			Salmon <sup>b</sup>	Viles <sup>c</sup>
	1921-30	1931-37	1938-45	1946-55	1948-53
Oregon	170.81	120.08	106.76	24.24	27.0
Pennsylvania	20.68	5.63	76.13	42.47	46.6
Rhode Island	-	.00	-	-	43.2
South Carolina	-	-	-	-	<sup>d</sup>
South Dakota	16.99	1.74	-	-	53.1
Tennessee	7.64	2.89	-	-	56.3
Texas	19.21	15.09	13.37	29.30	55.6
Utah	-	5.50	7.85	49.52	11.0
Vermont	-	.00	-	-	12.5
Virginia	-	-	-	8.59	46.4
Washington	61.67	41.74	13.47	51.92	34.4
West Virginia	.34	5.02	5.08	.00	23.2
Wisconsin	-	.46	.89	11.67	26.3 <sup>f</sup>
Wyoming	.00	14.11	-	-	7.6
Canada	19.08	-	106.79	21.04	-
All States and Canada Total	28.70	26.90	31.90	29.53	35.3

<sup>a</sup>Association of Public School Business Officials, Insurance Committee Report on School Fire Insurance, 1938-45, pp. 39-49.

<sup>b</sup>Salmon, "Fire Insurance Principles and Practices," p. 261.

<sup>c</sup>Viles, School Property Insurance, p. 21.

<sup>d</sup>State operated program.

<sup>e</sup>Data for these states not available to State Department of Education Officials.

<sup>f</sup>Part of insurance carried in state operated program.

Officials,<sup>1</sup> one by Salmon<sup>2</sup> under the sponsorship of the Association of School Business Officials, and the fifth by Viles<sup>3</sup> for the United States Office of Education. The four investigations sponsored by the Association of School Business Officials contain data which were obtained directly from school districts. Viles obtained the data included in his study from the State Departments of Education of the various states. The State Departments of Education in turn obtained the information from the Insurance Commissioners of their respective states. This was information reported to the State Insurance Commissioners by the National Board of Fire Underwriters and the Mutual Insurance Advisory Association. These two groups report to the State Insurance Commissioners the premiums collected and the losses paid by the insurance companies that write insurance in the state and are members of the groups. It should be mentioned that Canadian Public School systems are included in three of the investigations.

One interesting item of information in the Viles study is that the premium-loss ratio for Oklahoma public

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<sup>1</sup>National Association of Public School Business Officials, Insurance Practices and Experience in City School Districts; An Investigation of Insurance Practices. Association of School Business Officials of the United States and Canada, Insurance Committee Report on School Fire Insurance, 1938-45.

<sup>2</sup>Salmon, "Fire Insurance Procedures and Principles."

<sup>3</sup>Viles, School Property Insurance.



schools is the highest of all listed. The question arose as to whether this was a typical situation or was a period of unusually high fire losses. In an attempt to answer this question, data furnished by the Oklahoma State Insurance Board were used for the five-year period, 1953-1957, which immediately followed the five-year period included in the Viles study. This information along with that obtained by Viles is presented in Table 52.

The information in Table 52 shows that the fire insurance premium-loss ratio for Oklahoma was still above the 50 per cent level. It had fallen 5.2 per cent, but it would likely have proved to be one of the highest in the nation, if another nation-wide investigation were made for the 1953-1957 period. It would appear that the fire loss in Oklahoma educational institutions has been extremely high when compared with the national mean fire loss ratio for public schools, which has not varied much from 30 per cent in the last 35 years, according to the studies reported in Table 51.

A possible reason for the continued high losses in the brick and frame buildings might be that these types of construction were used extensively in the oldest of the existing buildings. Many of these brick buildings are of multiple story construction. This would generally cause a greater fire loss in a given fire than if the buildings were of one-story construction. Many of these older buildings have wiring that is inadequate by modern standards. Many of

TABLE 52

SUMMARY OF FIRE INSURANCE COSTS, LOSSES, AND LOSS RATIOS BY TYPES OF CONSTRUCTION  
AND LOCATION FOR THE EDUCATIONAL INSTITUTIONS OF OKLAHOMA  
1948-1952 AND 1953-1957

Construction and Location	1948-1952 <sup>a</sup>			1953-1957 <sup>b</sup>		
	Premiums	Losses	Ratio	Premiums	Losses	Ratio
Frame, protected	\$ 203,884	\$ 109,793	53.9	\$ 224,944	\$ 266,042	119.3
Frame, unprotected	470,747	190,208	40.8	437,609	143,189	32.7
Brick, protected	824,507	574,766	69.7	1,297,183	660,083	50.9
Brick, unprotected	772,267	535,019	69.3	1,137,354	661,675	58.2
Fire-resistive, protected	249,558	73,658	29.5	470,239	228,685	48.6
Fire-resistive, unprotected	23,488	940	4.0	52,761	721	1.4
Total--all construction types and locations	\$2,587,804	\$1,536,234	59.4	\$3,620,090	\$1,960,395	54.2

<sup>a</sup>Viles, School Property Insurance, pp. 9-21.

<sup>b</sup>Premiums written and losses paid, as reported to the Oklahoma State Insurance Board for the five-year period, 1953-1957, by the National Board of Fire Underwriters, the Mutual Insurance Advisory Association, and the National Association of Independent Insurers for companies that belong to these groups and are doing business in Oklahoma.

the heating systems are old and in need of replacement.

Since the premium-loss ratio for Oklahoma schools appears to be much higher than any national mean premium-loss ratio for public schools, it was decided to determine, if possible, whether losses to educational institutions other than public schools might adversely affect the premium-loss ratio. The only official sources of information concerning premiums paid and losses received by schools are as follows: (1) Premiums paid for all insurance is reported in the superintendents' Annual Financial Report for Independent and Dependent School Districts, which is made to the Finance Division of the State Board of Education, and (2) the loss payments received by the school districts are reported as an item of miscellaneous revenue or as a special cash operating fund in the School District Estimate of Needs and Financial Statement for the Fiscal Year, filed with the County Excise Board and the State Auditor. Both of these reports are notarized as to the correctness of the information. Table 53 summarizes premiums and losses reported from these sources for the five fiscal years from July 1, 1953, to June 30, 1958.

When the 1953-1957 data from Table 52 and the data from Table 53 are compared, several differences may be seen. The data from Table 52 show that the insurance companies reported that they received \$3,620,090 in premiums for fire insurance alone, while the schools reported that they spent

TABLE 53

INSURANCE PREMIUMS PAID AND PAYMENTS FOR LOSSES  
AS REPORTED BY SCHOOL DISTRICTS,  
FISCAL YEARS 1953-1958, INCLUSIVE

Year	Premiums Paid <sup>a</sup>	Loss Payments <sup>b</sup>	Ratio
1953-54	\$ 890,273	\$ 272,519	30.6
1954-55	955,526	313,131	32.8
1955-56	997,083	212,281	21.3
1956-57	1,382,002	601,359	43.5
1957-58	1,243,272	238,126	19.2
Total	\$5,468,156	\$1,637,316	29.9

<sup>a</sup>As reported in the school district Annual Financial Report for Independent and Dependent Districts to the State Board of Education.

<sup>b</sup>As reported to County Excise Boards and the State Auditor in the School District Estimate of Needs and Financial Statement of Fiscal Year. Exhibits "A," "B," "C," and "F" for fiscal years 1953-1956, inclusive, and Exhibits "A" and "C" for the fiscal years 1956-1958, inclusive.

\$5,468,165 for premiums for all kinds of insurance. This represents a difference of \$1,848,075 which could include premiums for extended coverage, windstorm and hail, and all other types of coverage, probably including school busses. When the amounts of losses are compared, a rather startling fact is revealed. The insurance companies reported that they paid a total of \$1,960,395 for fire losses alone, while

the schools reported that they received only \$1,637,316 in payment for all kinds of losses covered by insurance. This amounts to a difference of \$323,079 or approximately one-sixth of the fire loss payments only, as reported by the insurance companies. This would result in a premium-loss ratio of only 45.2 instead of the 54.2 as reported by the insurance companies. This is calculated by dividing the \$1,637,316, which the schools report as having received for losses covered by all insurance, by the \$3,620,090 reported by the insurance companies as premiums for fire insurance alone. Many of the loss payments were identified in the exhibits of the School District Estimate of Needs and Financial Statement for the Fiscal Year as "storm loss," "hail damage," or in some other manner to show that the loss was not caused by fire. In some cases the loss payments were identified as "fire loss" or "fire damage." No attempt was made to separate these types of losses since most of the funds were identified as "insurance recovery," "insurance loss payments," "special insurance fund," or in some other manner which left the type of loss unknown. It is certain that the schools received payment for losses under the extended coverage endorsement and the windstorm and hail endorsements, as well as, perhaps, other types of coverage which they may have purchased. It is highly unlikely that the insurance companies made any significant payment of losses by means of repairs, paying the repairmen directly, instead of making a cash settlement

directly to the school district.

Several questions present themselves as a result of this information or the lack of it:

1. During this five-year period, was over \$323,079 in loss payments made to educational institutions other than public schools?

2. Was the loss paid in the first half of 1953, which is not covered in Table 53, over \$323,079 greater than the losses paid in the first half of 1958, which is not covered in Table 52?

3. Are the public schools of Oklahoma failing to properly account for money received for losses covered by insurance?

4. Are the insurance companies failing to properly account for the money they pay for losses?

It is felt that the answer to these pertinent questions are beyond the scope of this investigation. Better methods of reporting insurance premiums paid and losses paid are needed in order to find the answers. Due to the poor accounting methods practiced by Oklahoma public schools it is impossible to accurately determine the premium-loss ratio for public school district property in Oklahoma. It is also impossible to accurately determine the premium-loss ratio for public schools as long as insurance companies and their data-gathering groups are not required to report public school insurance as a separate class.

The data included in this study reveal that the fire premium-loss ratio for all schools over the nation is 35.3 for the five-year period 1948-1953, as shown in Table 51. The fire premium-loss ratio for Oklahoma as revealed in Table 52 is 54.2. A close estimate of the actual premium-loss ratio for public schools might be obtained by dividing the total amount of loss payments reported received by the public schools, \$1,637,316, by the amount of premiums reported paid to the insurance companies, \$3,620,090. The resulting premium-loss ratio is 45.2 per cent. This ratio is much more in line with the 35.3 per cent national premium-loss ratio. The 45.2 per cent is approximately 28 per cent over the national ratio and indicates the need for prevention of losses through fire-protection measures.

## CHAPTER VI

### CONCLUSIONS AND RECOMMENDATIONS

This study has been concerned with the status of the school district property insurance program in Oklahoma. The present program of insuring school district property has been viewed through the responses to the questionnaires returned from 272 high school districts in the state of Oklahoma. The replies from the Oklahoma public schools have been compared with the criteria that have been established for school property insurance programs and with the practices of 378 public schools distributed through 38 states in the United States and five Canadian provinces.<sup>1</sup> The fire insurance premium-loss ratio has been determined for Oklahoma public schools by use of information reported to the Oklahoma State Insurance Board and information reported to the State Board of Education and the State Auditor. This information has been compiled and evaluated in order to find the solution to the problem:

How do the practices of Oklahoma school boards in the insuring of public school district physical property

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<sup>1</sup>Salmon, "Fire Insurance Principles and Practices."



compare with established criteria and how might present practices be modified to provide greater protection and economy?

Answers were sought to the following sub-problems:

1. What present practices contribute toward a sound property insurance program for Oklahoma public schools?
2. What present practices contribute toward an unsound program for insuring the district property of Oklahoma public schools?
3. In what ways must present practices be modified in order to make the present school district property insurance program provide more protection than they do at the present?
  - a. Which practices must be modified in the insuring of district physical properties?
  - b. Which practices must be modified in order to lessen the risks to which the properties are exposed?
4. In what ways may present practices be modified in order to take advantage of existing economies?
5. In what ways may present practices be modified in order to effect greater economies than those now existing?
6. Are school district physical property fire insurance rates realistic when compared to the premium-loss ratio?

### Findings and Conclusions

In order to answer the preceding questions findings and conclusions are presented.

#### Sound Practices

1. Many of the Oklahoma school districts are aware of the risk of vandalism and malicious mischief damages. They are protecting themselves against loss from this hazard

by use of the vandalism and malicious mischief endorsement.

2. Oklahoma school districts are saving money on insurance through use of term policies, particularly the five-year term policy.

3. The great majority of school districts have made budgeting for insurance premiums much easier by use of some premium payment plan which allows approximately the same appropriation for insurance each year.

4. Practically all Oklahoma schools are taking advantage of the reduction in rates through the use of coinsurance.

5. Most Oklahoma school districts are making some effort to see that insurance policies are concurrent, but they do not require that both the servicing agent and a school district official check for concurrency.

6. Oklahoma schools use the recommended officials for making fire inspections. There is one point open to question and that is whether or not these persons are competent to make fire inspections.

7. Oklahoma schools are conforming to good insurance practices in delegating the responsibility for the school district insurance program to some one person or a group of persons in practically all districts.

8. The majority of Oklahoma schools follow good practice in requiring itemized appraisals of both buildings

and contents.

#### Unsound Practice

1. The determination of insurable values does not appear to be made on an accurate, business-like basis in most Oklahoma school districts.

2. Appraisals of property values are made too infrequently to maintain up-to-date appraisals in more than half of the Oklahoma school districts.

3. In general, Oklahoma school districts are forcing themselves to spend money unnecessarily for insurance premiums on non-insurable items in buildings. They do not deduct the non-insurable items from the building costs, thus forcing themselves to purchase more insurance to meet coinsurance requirements or forcing themselves into a lower coinsurance percentage and thus having to pay a higher rate for the insurance.

4. The practice of a majority of Oklahoma school districts in estimating appreciation and depreciation of property values is one factor in placing the determination of property values on an unbusiness-like basis and needs to be changed.

5. Oklahoma schools need a source where they can easily obtain construction cost, appreciation, and depreciation tables that are appropriate for use in Oklahoma.

6. Insurance companies have generally accepted the

appraisals of school district property in making settlements with coinsurance penalties, even though the appraisal may have been made inaccurately in many districts.

7. Oklahoma school districts could simplify administration of the insurance program, in many cases, by reducing the number of policies on the property.

8. A large majority of the school districts are conforming to good practice in the use of the extended coverage endorsement. There is some question as to what is indicated by a number of districts insuring under both the extended coverage endorsement and the windstorm and hail endorsement.

9. There is a definite need for action on the part of individual school districts to reduce insurance rates or to prevent an increase in rates.

10. The action that has been taken by schools to reduce insurance rates appears to be limited in scope and effectiveness.

11. Many Oklahoma school districts are overinsuring property when the amount of insurance is compared with the coinsurance requirement. This results in payment of higher premium rates and/or the payment of premiums for insurance which cannot be collected.

12. A number of Oklahoma school districts are using the coinsurance clause to secure reduced rates, but are not purchasing the required amount of insurance. Failure to purchase the required amount of insurance is exposing

districts to serious financial loss, in the event of a large partial loss, if the insurance companies apply the coinsurance formula for the settlement of the loss.

13. Reported instances of extreme over-insurance of 100 and 118 per cent of the appraised value and under-insurance of 72, 55, and 51 per cent of the appraised value indicate either lack of attention to the insurance program or lack of knowledge about the insurance program on the part of those responsible for the insurance program.

14. Most Oklahoma school districts purchase their insurance from local agents, but they pay little attention to their selection other than the fact that they are well established in the community.

15. Oklahoma schools do not purchase their property insurance on an objective basis, but appear to purchase on the bases of satisfactory service and the maintenance of good public relations with the insurance agents. In a sense, they are purchasing good will rather than service with school insurance premiums.

16. The insuring of school property with insurance companies without making any investigation of the companies' financial strength or by merely relying on agents to select financially sound companies, as is done by almost all Oklahoma school districts, is poor business and exposes the district to needless risk.

17. Many Oklahoma school authorities either have no reason for the selection of the type of insurance company they insure with or they yield to local pressure rather than deciding which type of company to insure with on the merits of the type of company.

18. The majority of Oklahoma school districts report regularly scheduled fire-prevention inspections, but the interval between the inspections is longer than that recommended.

19. Greater utilization of underwriter approved self-inspection blanks for fire inspections could be implemented.

20. From the negligible amount of in-service training reported to be given to school district personnel responsible for making fire inspections, it appears likely that there are few districts with personnel on the staff trained and competent to make fire inspections.

21. In most Oklahoma school districts the type of insurance records and the information they contain needs to be increased materially before the records could be declared adequate.

22. Oklahoma schools definitely need to provide safer places for keeping their insurance records.

23. The above average fire insurance premium-loss ratio for Oklahoma public schools indicates that they must take effective steps to lower fire losses before they can

expect much consideration from insurance companies in the matter of lowering fire insurance rates.

#### General Conclusions

1. It seems that the property insurance affairs of many Oklahoma school districts are poorly managed. This is probably due to a combination of the following factors:

(a) there is a lack of information about insurance on the part of school business administrators, (b) there is no readily accessible source of technical insurance information outside of the insurance industry, (c) school business administrators have insufficient time to properly attend to all phases of school business administration, and (d) school authorities appear to seek to maintain the good will of local insurance agents regardless of possible consequences to the district. School authorities have relinquished to the insurance industry a large degree of control of the management of school property insurance affairs.

2. A factor contributing to the high fire insurance premium-loss ratio in Oklahoma schools is lack of frequent, properly conducted fire prevention inspections by competent, trained personnel.

3. In general, the practices of the larger Oklahoma school districts conform more closely to the criteria for an adequate school property insurance program than do the practices of the smaller school districts. Factors which probably

contribute to closer conformity in larger districts include: (a) school administrators in larger districts have more time available to attend to school business, (b) larger school districts have more administrative and clerical assistance available, (c) the sheer volume of insurance business in larger districts demands more attention, and (d) members of the boards of education in larger districts participate less in the administration of district business.

4. It was concluded that the following were among the most important reasons why such a small number of questionnaires were returned by principals of districts which maintained only elementary schools: (a) the primary duty of most principals of elementary districts is teaching rather than administration and they do not have time to attend to more than the most pressing school business affairs, (b) principals of elementary school districts who teach more than one-half time are not required to hold administrators certificates and as a result may not be trained to be school administrators, (c) many of the principals are uninformed about insurance principles, and (d) many of the principals of elementary districts become aware of school insurance only at the time when premiums are paid or when claims are filed for losses. The foregoing conclusions are based upon conversations with principals of elementary school districts, discussions with insurance agents who service elementary



districts, and the experience of the writer.

### Recommendations

The following recommendations, based on the findings and conclusions reached in this study, are made to the designated agencies for the improvement of school district property insurance programs. Implementation of these recommendations should provide an adequate and economical program for insuring school property.

#### The Local School District

1. School districts should use competent commercial appraisal firms to establish insurable values or use other persons competent to make appraisals to establish insurable values.
2. School districts should determine appreciation and depreciation by some business-like method, such as the use of appropriate appreciation and depreciation tables or formulas.
3. School districts should reappraise property at least every two years.
4. School districts should maintain up-to-date inventories of both buildings and contents.
5. School districts should deduct non-insurable items from the cost of buildings when determining insurable value.

6. School districts should reduce the number of policies to a minimum number in order to increase the ease of administering the insurance program and reduce the opportunity for non-concurrency of policies.

7. Those districts insuring under the windstorm and hail endorsement should replace it with the extended coverage endorsement with its broader protection. Those districts insuring under both windstorm and hail and extended coverage endorsements should carefully examine their policies to see that the same property is not insured under both endorsements.

8. If possible, school districts should insure under the vandalism and malicious mischief endorsement when local conditions are such that there is a possibility of damage from such action because the damage caused by vandalism and malicious mischief is often very large.

9. The few school districts not using the five-year term policy should try to find some way to insure their property under this policy term for a greater saving on premiums.

10. School districts which do not have their premium payments planned so that approximately equal payments are due each year should arrange the premiums so that approximately equal payments are made each year.

11. School districts should take action to remove as many penalty-causing hazards as they can through minor alterations, installing underwriter approved fire protection

equipment, and better housekeeping practices. After such improvements they should call for a new inspection by the rating bureau to determine if rates can be reduced.

12. School districts not using the coinsurance clause should investigate the possibility of lower rates through its use.

13. Schools using coinsurance must be certain that they purchase insurance up to the amount specified in the coinsurance agreement. If they do not maintain the required amount of insurance the district will be penalized in the event of loss.

14. Schools using coinsurance should use the highest coinsurance percentage that they can obtain with the amount of insurance that they wish to purchase in order to obtain lower rates.

15. If schools cannot afford to purchase enough insurance to satisfy the coinsurance requirements, they should not attempt to use the coinsurance clause.

16. School districts should attempt to place insurance through competitive bidding. They may be able to obtain their insurance at a lower cost than formerly.

17. School districts should set up objective plans for selecting the agent or agents who are to handle the school insurance business and for the determination of the volume of business for each agent or broker.

18. School districts should not award insurance

business to all agents in the community in order to purchase good will. There is no valid reason for allowing agents who provide no services to share in the profits of the school business.

19. School district authorities should make investigations into the financial strength of insurance companies themselves and not leave this to the discretion of the agent. However, if a choice must be made between a company with great financial strength with poor agency service and a company with adequate, but not great, financial strength and excellent agency service, the latter would probably be the better choice.

20. School districts should investigate the premiums and services provided by both stock and mutual companies. They should make their own decisions as to which type company will provide the best services and protection for the district. They should not yield to local pressure in making this decision. They should remember that there are both safe and unsafe mutual and stock companies and that each company should be judged on its own merits.

21. School districts should require that a member of the district staff and the servicing agent check policies for concurrency.

22. School districts should require regularly scheduled fire inspections of all facilities on a monthly

and quarterly basis. The monthly inspections should be made by the custodian and a faculty member stationed at the building inspected. The quarterly inspections should be made by these persons and a member of the local fire department. If arrangements cannot be made for use of the fire department personnel, the district central office staff should assist the local inspection team.

23. School districts should provide in-service training for personnel whose responsibility it is to make fire inspections. Inspections by untrained personnel may be little better than no inspection. School authorities wishing to initiate training programs for personnel should contact their local fire department for assistance in formulating such a course. In case the local fire department is unable to give assistance or additional information is needed, the school administration should secure publications from the National Board of Fire Underwriters, the National Fire Protection Association and local insurance agents. One very valuable booklet is School Fire Safety.<sup>1</sup> This bulletin is probably the best single source of information on school fire safety that is available.

24. School districts should require the use of a self-inspection blank for each fire inspection. The one

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<sup>1</sup>N. E. Viles, School Fire Safety, U. S. Office of Education, Federal Security Agency, Bulletin 1951, No. 13 (Washington, D. C.: U. S. Government Printing Office, 1951).

published by the National Board of Fire Underwriters or an adaptation of this to fit the special needs of the district should be used. The use of this inspection blank will tend to force the inspectors to check all places. The board should require that all inspection blanks be filed in the district central office.

25. School districts should maintain complete insurance records. The following types of records should be considered a complete set of records: (1) Policies, (2) Up-to-date inventories or contents, (3) Ledger or card file with building information, and (4) Ledger or card file with policy information. Among the information included in these records, in addition to that contained in the policies should be (1) valuation of each building, (2) the date constructed, (3) the cost of construction, (4) date of appraisal, (5) cost of non-insurable items, (6) appreciation and depreciation, (7) information about all alterations, repairs, and remodeling, (8) the amount of insurance and losses experienced at each building. The information concerning contents should include an up-to-date inventory of all contents, showing the date purchased and the cost of each item. High unit cost items such as pianos and motion picture projectors should be identified and the cost given. The policy information should include: (1) a complete schedule of policies, (2) premium rates, (3) total premium, (4) date premium is due, (5) effective and expiration dates, (6) property covered by the

policy, and (7) name and address of the company and the servicing agent.

26. School districts should delegate the responsibility for handling school insurance affairs to some one person, preferably one person on the school staff. Divided responsibility is often never assumed, but left to others. The district will have better control of the program if a staff member is responsible for the program.

27. School districts should maintain control of its insurance program at all times and not turn control over to others.

28. The possibility of Oklahoma schools joining on an area or state-wide basis to seek reduction of insurance rates should be thoroughly investigated.

#### The State Board of Education

1. The Finance Division should require annual reports from each school district showing the amount spent for each property insurance coverage, fire, extended coverage, windstorm and hail, vandalism and malicious mischief, and others. An immediate report should be required for each loss settlement within 10 days of receipt of payment for the loss. In this manner an absolutely accurate premium-loss ratio could be determined for public school property in the state.

2. The School Plant Services Division should obtain

and make readily available to the schools of the state up-to-date construction cost tables and tables of appreciation and depreciation of buildings and for contents suitable for use in Oklahoma.

3. The School Plant Services Division, with the assistance of the Arson and Inspection Division of the Oklahoma State Bureau of Investigation, should initiate and conduct a continuing series of classes throughout the state for training school district personnel in the methods and techniques of making fire prevention inspections.

#### The State Legislature

1. The legislature should appropriate sufficient funds for the Arson and Inspection Division of the Oklahoma State Bureau of Investigation to continue the biennial fire inspections of public school and college buildings.

2. The legislature should consider the feasibility of enacting legislation providing for an insurance program for the public schools of the state of Oklahoma with the following provisions:

- a. That the insurance program be under the direction and control of the State Board of Education, which shall have authority to employ any qualified personnel that are needed for the direction and administration of the program.
- b. That participation in the insurance program



be mandatory for all public school districts in the state.

- c. That all buildings owned by school districts, all buildings leased by school districts where the lease requires that the district insure the buildings, and the contents of those buildings be insured in the insurance program against loss by fire and the perils included in the extended coverage endorsement.
- d. That the State Board of Education be authorized to borrow \$2,000,000 from the State School Land Commission to establish a reserve fund from which payments of losses are to be made.
- e. That the \$2,000,000 borrowed from the School Land Commission be repaid in payments of \$500,000 each as the assets of the program increase above the \$2,000,000 loaned.
- f. That the premiums charged for the first three years of the operation of the insurance program shall be at the current commercial rates that are in effect for each risk; thereafter, the assessment charged each school district shall be made according to the following formula:

$$\frac{\text{District Commercial Premium}}{\text{Total State Commercial Premium}} = \frac{\text{District Assessment Premium}}{\text{Total Cost of the Program}}$$

The "District Commercial Rate Premium" is the premium that the school district would pay if the same property were insured with commercial insurance companies. The "Total State Commercial Rate Premium" is the total of the "District Commercial Rate Premiums" for all districts in the state. The "District Assessment Premium" is the amount of money due the state insurance program from the district. The "Total Cost of the Program" is the sum of the losses paid and incurred by the insurance program during the fiscal year plus the expenses of operating the fund for the fiscal year.

- g. That each school district be charged an additional assessment consisting of 25 per cent of the "District Assessment Premium" to repay the loan and to build up the reserve fund.
- h. That the reserve fund shall be built up to a total of 5 per cent of the insured value of the property, after which the 25 per cent assessment would cease.
- i. That new property added under the insurance

program shall be charged the additional 25 per cent of the premium for at least three years, after which the assessments would be on the same basis as property that had been in the fund at the beginning.

- j. That the administrator of the insurance program shall file with each school district an estimated assessment of premium for the district by July 10 of each year.
- k. That assessments be paid in two installments, one-half payable February 15 and the second half payable June 30 of each year.
- l. That school districts failing to pay assessments be denied state funds and accreditation until the assessments are paid. In case the district is disorganized, the insurance program shall have first claim on the assets of the district for the amount due the insurance program.
- m. That in case there is a disagreement as to the settlement of the loss with a district, upon the written demand of either party, the district or the insurance program, each party shall select an appraiser and these will select a third appraiser who will act as the umpire. The settlement agreed upon by any

two of these appraisers shall be binding upon both parties, not to exceed the amount of insurance on the property.

- n. That all property be insured for 90 per cent of the sound value.
- o. That all property insured under the insurance program shall be appraised biennially by the appraisers employed by the insurance program.
- p. That the insurance program be empowered to purchase catastrophe insurance.

#### Further Study

The study has revealed a need for research in each of the following areas of school insurance:

1. An analysis of property insurance rates for Oklahoma public schools as revealed by an analysis of inspection bureau rating sheets;
2. The evaluation of practices in the insuring of school district transportation equipment;
3. The evaluation of practices in the insuring of pupils in Oklahoma public schools;
4. The development of criteria for making fire prevention inspections resulting in the preparation of a handbook and self-inspection blanks suitable for use in making fire inspections in public schools;
5. An evaluation of the practices of school districts in the insurance of property and personnel during

the construction of buildings;

6. An evaluation of the practices of the insurance of equipment used in the extra-curricular activities of Oklahoma public schools;

7. An evaluation of the need for casualty-accident or liability insurance by school districts in Oklahoma.

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APPENDIX

STATE BOARD OF EDUCATION  
Finance Division  
Oklahoma City, Oklahoma  
R. H. Emans, Director

January 8, 1959

Mr. Paul L. Brent  
Box 4704 W.C.  
Norman, Oklahoma

Dear Mr. Brent:

I have examined the "School District Property Insurance Questionnaire" which you have prepared in connection with the study which you are making of school district property insurance in the public schools of Oklahoma, under the supervision of the College of Education, University of Oklahoma.

It is my opinion that this is a very worth-while study since very little information is now available concerning school district practices in regard to property insurance. I hope you will be able to secure returns from all the school districts of the State, because the information when compiled will be of great value to the State Department of Education, Legislators, School Administrators and others interested in a better property insurance program.

If you feel that it will be of any help in securing this information, you may quote this letter.

Yours truly,

R. H. Emans  
Director of Finance  
State Board of Education

RHE:gr

Box 4704 WC  
Norman, Oklahoma  
January 16, 1959

Dear Superintendent:

I am making a study of the practices of Oklahoma public school districts in the insuring of district property under the fire insurance policy and the extended coverage endorsement. I intend to develop recommendations by which school districts in the state might improve their property insurance programs. These improvements should result in more adequate coverage at lower premium costs.

I have talked to a large number of school administrators about making a study of school property insurance practices and they thought that such a study would be valuable to the administrators of the state. One of the persons who felt that such a study would be of considerable value to the school districts of Oklahoma was Mr. R. H. Emans, Director of Finance for the State Board of Education. I am enclosing a copy of Mr. Emans' letter to me, in which he states that he thinks that the study will be valuable to the State Department of Education, the State Legislature, school administrators and others interested in a better school property insurance program. This study has been endorsed and recommended by the Committee on Budgeting, Accounting, Reporting and Business Management of the Oklahoma Commission on Educational Administration, of which committee Dr. Al Harris, Superintendent of Schools of Clinton, is chairman. When completed, the results of the study will comprise a doctoral dissertation at the University of Oklahoma.

While it will take some time to answer this questionnaire, I believe that it will be worth while to complete it for the reason that it will be a quick review of your school district property insurance program. All of the school administrators who have helped in the development of this questionnaire have stated that they felt that any school administrator would benefit himself in answering it.

Will you please fill in the enclosed questionnaire as accurately and completely as possible and return it as promptly as possible? If you do not handle the property insurance affairs in your district, would you please pass this questionnaire on to the proper person, asking him to fill it out and return it to me?



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I wish to thank you in advance for your prompt attention to this request.

Yours truly,

Paul L. Brent

SCHOOL DISTRICT PROPERTY INSURANCE QUESTIONNAIRE

The purpose of this questionnaire is to find out the present practices of school districts in the insuring of district property under the fire policy and the extended coverage endorsement to the fire insurance policy. Will you please answer the following questions as completely and accurately as possible so that we may be able to determine the insurance practices of the school districts of the state?

1. Do you insure school buildings and/or their contents with: (Check any that apply)

	Buildings		Contents	
	Yes	No	Yes	No
a. Insurance companies	_____	_____	_____	_____
b. A self-insurance fund	_____	_____	_____	_____
c. No insurance of any kind	_____	_____	_____	_____
d. Other (Describe) _____				

2. How often do you appraise or reappraise the value of your school property? (Check, if yes)

	Buildings	Contents
a. Once a year	_____	_____
b. Each 18 months	_____	_____
c. Each 2 years	_____	_____
d. Each 3 years	_____	_____
e. Each 5 years	_____	_____
f. Less often than each years	_____	_____

3. Is your original appraisal an itemized appraisal? (Check appropriate answer)

	Yes	No
a. For each building	_____	_____
b. For the contents of each building	_____	_____

4. How do you determine the insurable value of the property of your district? (Check, if yes)

a. Appraisal by:

1. Commercial appraisal firm	_____
2. Insurance company appraisers	_____
3. Insurance agent	_____
4. Regular employee of the district who has recognized skill and experience in property appraising	_____
His position _____	_____
5. Superintendent	_____
6. Superintendent and board member(s)	_____
7. Superintendent and insurance agent	_____

8. Architect \_\_\_\_\_  
 9. Building contractor \_\_\_\_\_  
 10. Other officials or combination of officials \_\_\_\_\_  
 Describe \_\_\_\_\_

- b. Have the insurance companies accepted these appraisals? Yes \_\_\_\_\_ No \_\_\_\_\_
- c. Have the insurance companies settled any losses without coinsurance penalties on the basis of these appraisals? Yes \_\_\_\_\_ No \_\_\_\_\_ No experience \_\_\_\_\_
- d. Did the same officials appraise both the buildings and the contents? Yes \_\_\_\_\_ No \_\_\_\_\_ If no, please answer the following:  
 1. What officials appraised the buildings? \_\_\_\_\_  
 2. What officials appraised the contents? \_\_\_\_\_
- e. Do the same officials make the periodic reappraisals after the original appraisal? Yes \_\_\_\_\_ No \_\_\_\_\_ If no, please answer the following:  
 1. What officials reappraise the buildings? \_\_\_\_\_  
 2. What officials reappraise the contents? \_\_\_\_\_
5. If you employ a commercial firm of appraisers, please answer the following:  
 a. Name of firm \_\_\_\_\_ Address \_\_\_\_\_  
 b. The total cost of the appraisal \$ \_\_\_\_\_  
 or rate of cost \_\_\_\_\_ per \$ \_\_\_\_\_
6. If the insurable values of the district property were determined by district employees please answer the following: (Check any that apply)
- a. Do you insure for the original cost without regard for appreciation (increase in value) or depreciation (decrease in value)?
- |              | Yes   | No    |
|--------------|-------|-------|
| 1. Buildings | _____ | _____ |
| 2. Contents  | _____ | _____ |
- b. Did you deduct any of the following from the original construction costs to determine the insurable value? (Check any that you deducted)
1. Architects' fees \_\_\_\_\_  
 2. Costs of concrete or stone foundations below the level of the basement or the level of the ground, if there is no basement \_\_\_\_\_  
 3. Costs of excavation \_\_\_\_\_  
 4. Underground pipes or plumbing \_\_\_\_\_

- 5. Work outside the building lines \_\_\_\_\_
- 6. Other (Describe) \_\_\_\_\_

- c. If the original construction costs were not available, did you compute the values from the type of construction and area of the building? Yes \_\_\_\_\_ No \_\_\_\_\_
  - 1. Did you use construction cost tables that are applicable to that type of construction and locality? Yes \_\_\_\_\_ No \_\_\_\_\_

- d. If you applied appreciation and depreciation to find the insurable value of your buildings, how did you determine the appreciation and depreciation?
  - 1. By simple estimate \_\_\_\_\_ By what official? \_\_\_\_\_
  - 2. By appreciation and depreciation tables \_\_\_\_\_  
What tables? \_\_\_\_\_
  - 3. If you used some other method, please explain \_\_\_\_\_

- 7. What is the 100% appraised value of your:
  - If not known, give estimate. Buildings \$ \_\_\_\_\_ Contents \$ \_\_\_\_\_
  - Buildings \$ \_\_\_\_\_ Contents \$ \_\_\_\_\_

- 8. What type of insurance policies do you have on your school property? (Check, if yes)
  - a. Separate policy for each building and the contents of each building \_\_\_\_\_
  - b. Several policies on each building and the contents of each building \_\_\_\_\_
  - c. Separate policy for the buildings and contents on each site \_\_\_\_\_
  - d. Separate policy for each building and its contents \_\_\_\_\_
  - e. District-wide blanket policy(ies) on all buildings and contents \_\_\_\_\_
  - f. Other (Describe) \_\_\_\_\_

- 9. Do you insure your school buildings and/or their contents for: (Check any that apply)
 

	Buildings		Contents	
	Yes	No	Yes	No
a. Fire	_____	_____	_____	_____
b. Extended coverage	_____	_____	_____	_____
c. Windstorm, no extended coverage	_____	_____	_____	_____
d. Is vandalism and malicious mischief included in the extended coverage	_____	_____	_____	_____

10. For what term do you write your policies? (Check more than one, if applicable)

- a. 1 - year \_\_\_\_\_ c. 5 - year \_\_\_\_\_  
 b. 3 - year \_\_\_\_\_ d. Other (Describe) \_\_\_\_\_

11. What type of premium plan do you use? (Check any that apply)

- a. Premium paid in advance, with no arrangement so that approximately equal amounts of premium fall due each year \_\_\_\_\_  
 b. Advance payment with 1/5 of the policies expiring each year \_\_\_\_\_  
 c. Advance payment with 1/3 of the policies expiring each year \_\_\_\_\_  
 d. Installment plan with 1/5 of the premium payable each year plus interest \_\_\_\_\_  
 e. Installment plan with 1/3 of the premium payable each year plus interest \_\_\_\_\_  
 f. 78% optional renewal plan--3-year\_\_\_ 5-year\_\_\_  
 g. Other (Describe) \_\_\_\_\_

12. Do you use the coinsurance clause with the insurance on your: (Check any that apply)

COINSURANCE - A clause in an insurance policy in which the purchaser agrees to buy insurance up to a certain percentage of the value of the property in return for lower rates.

	Buildings		Contents	
	Yes	No	Yes	No
a. Fire insurance	_____	_____	_____	_____
b. Extended coverage	_____	_____	_____	_____

13. If you insure under the coinsurance clause, what percent coinsurance do you use? (Check any that apply)

	Buildings	Contents
a. 100%	_____	_____
b. 90%	_____	_____
c. 80%	_____	_____
d. 70%	_____	_____
e. 60%	_____	_____
f. 50%	_____	_____
g. Other _____	_____	_____

14. What has happened to the fire insurance rates in your district since January 1, 1953?
- They have gone up \_\_\_\_ How much? \_\_\_\_% (Estimate)
  - They have gone down \_\_\_\_ How much? \_\_\_\_% (Estimate)
  - They have remained the same \_\_\_\_
15. If the rates have changed, to what do you attribute the cause? (Check, if yes)
- Action on your part to lessen the risk, such as elimination of hazards, installing fire extinguishers, better housekeeping, etc. \_\_\_\_\_
  - Change in the type of construction used in new buildings, causing a change in hazards due to type of construction \_\_\_\_\_
  - Increase or decrease in coverage \_\_\_\_\_
  - A change from specific insurance to coinsurance or vice versa \_\_\_\_\_
  - Change in the rating classification of part of city school is located in \_\_\_\_\_
  - Other (Describe) \_\_\_\_\_
16. How do you distribute the insurance business to agents and/or brokers? (Check if yes)
- All business is given to one agent or broker \_\_\_\_\_
  - Business is distributed among several agents and/or brokers \_\_\_\_\_
  - Other (Describe) \_\_\_\_\_
  - Which of the following criteria do you use in determining the eligibility of agents and/or brokers to participate in the school insurance business? (Check any that apply)
    - Membership in an agents' association \_\_\_\_\_
    - Writes in companies acceptable to board of education \_\_\_\_\_
    - Must be a resident of the community (a) Number of years required \_\_\_\_\_
    - Must maintain an office separate from the home \_\_\_\_\_
    - Must deal exclusively in insurance \_\_\_\_\_
    - Must have been in the insurance business a certain number of years (a) Number of years required \_\_\_\_\_
    - No criteria used \_\_\_\_\_
    - Other (Describe) \_\_\_\_\_

e. Which of the following criteria do you use in selecting which of the eligible agents and/or brokers are to receive the school insurance business?  
(Check any that apply)

- 1. Previous satisfactory service \_\_\_\_\_
- 2. On the basis of personal acquaintance or friendship \_\_\_\_\_
- 3. No plan at all \_\_\_\_\_
- 4. Pressure \_\_\_\_\_
- 5. Political expediency \_\_\_\_\_
- 6. Reasons of good public relations \_\_\_\_\_
- 7. Recommendation of board of education \_\_\_\_\_
- 8. Competitive bidding \_\_\_\_\_
- 9. Membership in an agents' association \_\_\_\_\_
- 10. Other (Describe) \_\_\_\_\_

f. What criteria do you use to determine the volume of business for each agent or broker?  
(Check as many as are applicable)

- 1. Volume of business of the agency \_\_\_\_\_
- 2. Local taxes paid by the agency \_\_\_\_\_
- 3. Number of full time employees \_\_\_\_\_
- 4. Each receives the same amount \_\_\_\_\_
- 5. No criteria used \_\_\_\_\_
- 6. Other (Describe) \_\_\_\_\_

g. Do the agents return any part of the premium to the school district in the form of cash or services to the school district? Yes \_\_\_ No \_\_\_

h. If your district has a plan for the placement of insurance that seems to be satisfactory to you, would you please take the time to give a full description of the plan, so that it may be passed on to others? May we publish this plan, giving credit to your district? Yes \_\_\_ No \_\_\_

17. How do you select the insurance companies with whom you wish to insure your property?  
(Check more than one, if applicable)

- a. Agent's or broker's recommendation \_\_\_\_\_
- b. Quality of service offered by the company \_\_\_\_\_
- c. Previous satisfactory service \_\_\_\_\_
- d. Lowest rates \_\_\_\_\_
- e. General management characteristics of the company (Ratio of reserves to premiums) \_\_\_\_\_
- f. Financial rating \_\_\_\_\_  
Where did you get this rating? \_\_\_\_\_
- g. What is the minimum rating that you will accept? \_\_\_\_\_

- h. Best's rating \_\_\_\_\_ What is the minimum Best's rating that you will accept? \_\_\_\_\_  
 i. Other (Describe) \_\_\_\_\_

18. What percent of your insurance is with the following types of companies?

- a. Stock companies \_\_\_\_\_%    b. Mutual companies \_\_\_\_\_%  
 c. Other \_\_\_\_\_%

19. What is the reason for the selection of the types of companies, indicated in question 18?

---

20. In your experience how have insurance companies settled losses for you? (Check any that are yes)

	Highly satisfac- torily	Satisfac- torily	Unsatis- factorily	No experience
a. Stock	_____	_____	_____	_____
b. Mutual	_____	_____	_____	_____
c. Other	_____	_____	_____	_____

21. Are all new policies checked for concurrency, that is, to make sure that all policies covering the same property are exactly the same in form and endorsement as the existing policies which cover the same property?  
 Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, what official or officials perform this duty?  
 (Check any that do)

- a. Business manager \_\_\_\_\_  
 b. Superintendent \_\_\_\_\_  
 c. Insurance agent or broker \_\_\_\_\_  
 d. Superintendent's secretary or clerk, if not a member of the board \_\_\_\_\_  
 e. Member of the board of education \_\_\_\_\_  
 f. Other (Describe) \_\_\_\_\_

22. Does your district maintain a regularly scheduled fire inspection program for each building?

Yes \_\_\_\_\_ No \_\_\_\_\_

- a. If yes, do you use a self-inspection blank or check list while making the inspection? Yes \_\_\_\_\_ No \_\_\_\_\_  
 b. Is the self-inspection blank or check list approved by an underwriters group? Yes \_\_\_\_\_ No \_\_\_\_\_



- c. Who prepared the form? \_\_\_\_\_
23. How often are the buildings inspected? (Check, if yes)
- |                      |       |                       |       |
|----------------------|-------|-----------------------|-------|
| a. Each week         | _____ | f. Each six months    | _____ |
| b. Each month        | _____ | g. Once a year        | _____ |
| c. Each two months   | _____ | h. Irregularly, at no | _____ |
| d. Each three months | _____ | set interval          | _____ |
| e. Each four months  | _____ | i. Seldom, if ever    | _____ |
|                      |       | j. Other              | _____ |
24. Who does the inspecting during the regularly scheduled fire inspections? (Check any that are applicable)
- |  |       |
|--|-------|
| a. Fire department personnel                 | _____ |
| b. Insurance company personnel               | _____ |
| c. Personnel from the school central office  | _____ |
| d. Personnel based at the building inspected | _____ |
| e. Other (Describe)                          | _____ |
25. If school personnel inspect the buildings, do you provide an in-service training program for them?  
Yes\_\_\_ No\_\_\_ Does not apply\_\_\_
26. What is the amount of insurance on your buildings and contents in effect on January 1, 1959?
- |                                     | Buildings | Contents |
|-------------------------------------|-----------|----------|
| a. Fire                             | \$ _____  | \$ _____ |
| b. Extended coverage                | _____     | _____    |
| c. Vandalism and malicious mischief | _____     | _____    |
27. What records do you keep in connection with your school property insurance program?
- |   |       |
|---|-------|
| a. Types of records   |       |
| 1. Policies   | _____ |
| 2. Ledger, with policy information  | _____ |
| 3. Card file with policy information  | _____ |
| 4. Ledger with building information   | _____ |
| 5. Card file with building information  | _____ |
| 6. Original invoices of contents  | _____ |
| 7. Itemized annual inventory of contents  | _____ |
| 8. Itemized inventory of contents   | _____ |
| 9. Other (List)   | _____ |
| b. Information contained in the insurance records:<br>(Check as many as are applicable) |       |
| 1. Insurable values of buildings  | _____ |

- 2. Original costs of buildings \_\_\_\_\_
- 3. Date buildings were constructed \_\_\_\_\_
- 4. Appreciation of buildings \_\_\_\_\_
- 5. Depreciation of buildings \_\_\_\_\_
- 6. Amount of premium due \_\_\_\_\_
- 7. Date premium is due \_\_\_\_\_
- 8. Amount of insurance on contents \_\_\_\_\_
- 9. Endorsements on each policy \_\_\_\_\_
- 10. Contents in each building \_\_\_\_\_
- 11. Date of appraisal \_\_\_\_\_
- 12. Additions, alterations or major repairs to  
each building \_\_\_\_\_
- 13. Cost of non-insurable items in each building \_\_\_\_\_
- 14. Amount of losses in each building \_\_\_\_\_
- 15. Effective and expiration dates of policies \_\_\_\_\_
- 16. Amount of insurance on each building \_\_\_\_\_
- 17. Property covered by each policy \_\_\_\_\_
- 18. Name and address of servicing agent \_\_\_\_\_
- 19. Addresses of insurance companies \_\_\_\_\_
- 20. High unit cost items itemized \_\_\_\_\_
- 21. Property covered by each policy \_\_\_\_\_
- 22. Other (List) \_\_\_\_\_

c. Where are the insurance records kept? (Check, if yes)

- 1. On the school site \_\_\_\_\_
- 2. Off the school site \_\_\_\_\_
- 3. In a non-fire-resistant file or safe \_\_\_\_\_
- 4. In a fire-resistant safe or vault \_\_\_\_\_

d. Are duplicate records kept? Yes\_\_\_ No\_\_\_

28. What official is responsible for handling the school insurance affairs? (Check, if yes)

- a. No one is formally designated \_\_\_\_\_
- b. The superintendent \_\_\_\_\_
- c. The business manager \_\_\_\_\_
- d. A clerk or secretary \_\_\_\_\_
- e. A member of the board of education \_\_\_\_\_
- f. Insurance agent or broker \_\_\_\_\_
- g. Other (Describe) \_\_\_\_\_

If you would like to have a summary of the results of this questionnaire, please fill in the blanks below:

Name \_\_\_\_\_ Address \_\_\_\_\_

Please return the completed questionnaire to:

Paul L. Brent  
Box 4704 WC  
Norman, Oklahoma

NUMBER AND PER CENT OF SCHOOLS RETURNING  
QUESTIONNAIRE BY COUNTIES

County	Number of Schools in County	Number of Schools Returning Questionnaire	Per Cent of Questionnaires Returned
Adair	4	2	50
Alfalpa	9	5	56
Atoka	5	3	60
Beaver	6	5	83
Beckham	7	5	71
Blaine	7	3	43
Bryan	12	5	42
Caddo	16	10	63
Canadian	6	2	33
Carter	13	6	46
Cherokee	2	1	50
Choctaw	6	3	50
Cimmaron	4	1	25
Cleveland	4	2	50
Coal	4	1	25
Comanche	8	8	100
Cotton	3	3	100
Craig	7	1	14
Creek	13	6	46
Custer	8	4	50
Delaware	5	2	40
Dewey	7	2	29
Ellis	4	1	25
Garfield	12	4	33
Garvin	9	7	78
Grady	11	9	82
Grant	8	3	38
Greer	5	2	40
Harmon	5	1	20
Harper	4	1	25
Haskell	4	2	50
Hughes	9	3	33
Jackson	9	2	22
Jefferson	5	3	60
Johnston	10	5	50
Kay	6	3	50
Kingfisher	9	3	33
Kiowa	9	7	78
Latimer	4	3	75
Leflore	15	6	40
Lincoln	10	6	60

NUMBER AND PER CENT OF SCHOOLS RETURNING  
QUESTIONNAIRE BY COUNTIES  
(Continued)

County	Number of Schools in County	Number of Schools Returning Questionnaire	Per Cent of Questionnaires Returned
Logan	6	2	33
Love	5	1	20
Major	5	3	60
Marshall	2	1	50
Mayes	6	3	50
McClain	6	4	67
McCurtain	10	3	30
McIntosh	8	3	38
Murray	4	3	75
Muskogee	12	4	33
Noble	7	3	43
Nowata	6	4	67
Okfuskee	9	7	78
Oklahoma	12	6	50
Okmulgee	11	1	9
Osage	15	8	53
Ottawa	7	2	29
Pawnee	6	1	17
Payne	6	5	83
Pittsburg	12	3	25
Pontotoc	9	5	56
Pottawatomie	14	2	14
Pushmataha	6	2	33
Roger Mills	4	2	50
Rogers	8	2	25
Seminole	13	5	38
Sequoyah	7	3	43
Stephens	9	4	44
Texas	9	2	22
Tillman	7	3	43
Tulsa	12	8	67
Wagoner	6	2	33
Washington	5	2	40
Washita	10	6	60
Woods	5	2	40
Woodward	5	4	80
Total	590	272	46.1

## INSPECTION BLANK FOR SCHOOLS

Prepared by  
 THE NATIONAL BOARD OF FIRE UNDERWRITERS  
 New York Chicago San Francisco

Approved and Adopted by  
 The National Association of Public School Business Officials

Endorsed by the  
 International Association of Fire Chiefs

If precautions are taken to minimize the danger of fire and to provide for safety in case fire occurs, real progress will be made in safeguarding life and protecting property. Intelligent thought and care in practice can eliminate practically all fires within schools.

## INSTRUCTIONS

Inspection to be made each month by the custodian and a member of the faculty at which inspection only Items 1 to 21 need be reported. At the quarterly inspection, a member of the fire department should accompany the above inspectors, and the complete blank should be filled out. The report of each inspection (monthly and quarterly) is to be filed with the Board of Education or School Commissioners.

Questions are so worded that a negative answer will indicate an unsatisfactory condition.

Date \_\_\_\_\_

Name of School \_\_\_\_\_ City \_\_\_\_\_

Class: Elementary \_\_\_\_\_ Junior High \_\_\_\_\_ Senior High \_\_\_\_\_

Capacity of School \_\_\_\_\_ Number now enrolled \_\_\_\_\_

1. Are all exterior exit doors equipped with panic locks? \_\_\_\_\_ Are these locks tested each week to insure ease of operation? \_\_\_\_\_ Do these lock securely so that additional locks, bolts or chains are not necessary? \_\_\_\_\_ Are such additional locks open whenever building is in use? \_\_\_\_\_
2. Are all outside fire escapes free from obstructions and in good working order? \_\_\_\_\_ Are they used for fire drills? \_\_\_\_\_

3. Is all heating equipment, including flues, pipes and steam lines:--
  - (a) in good serviceable condition and well maintained? \_\_\_\_\_
  - (b) properly insulated and separated from all combustible material by a safe distance? \_\_\_\_\_
4. Is coal pile inspected periodically for evidence of heating? \_\_\_\_\_
5. Are ashes placed in metal containers used for that purpose only? \_\_\_\_\_
6. Is remote control provided whereby oil supply line may be shut off in emergency? \_\_\_\_\_
7. Is outside shut-off valve on gas supply line provided? \_\_\_\_\_ Is it readily accessible? \_\_\_\_\_
8. Has automatic heating equipment been serviced by a qualified service man within the past year? \_\_\_\_\_
9. Are the following locations free of accumulations of waste paper, rubbish, old furniture, stage scenery, etc.?
 

attic? _____	basement? _____	furnace room? _____	stage? _____
dressing rooms in connection with stage? _____			
other locations? _____ (explain "No" answers under Remarks.)			
10. Is the space beneath stairs free from accumulations or storage of any materials? \_\_\_\_\_
11. If hazardous material or preparation is used for cleaning or polishing floors: Is the quantity limited as much as practicable? \_\_\_\_\_ Is it safely stored? \_\_\_\_\_
12. Are approved metal cans, with self-closing covers or lids, used for the storage of all oily waste, polishing cloths, etc.? \_\_\_\_\_
13. Are approved safety cans with vapor-tight covers used for all kerosene, gasoline, etc., on the premises? \_\_\_\_\_ Is it essential that such hazardous materials be kept on the premises? \_\_\_\_\_
14. Are premises free from electrical wiring or equipment which is defective? \_\_\_\_\_
15. Are only approved extension or portable cords used? \_\_\_\_\_

16. Are all fuses on lighting or small appliance circuits of 15 amperes or less capacity? \_\_\_\_\_
17. Are electric pressing irons equipped with automatic heat control or signal and provided with metal stand? \_\_\_\_\_
18. Are sufficient proper type fire extinguishers provided on each floor so that not over 100 feet travel is required to reach the nearest unit? \_\_\_\_\_  
In manual training shops and on stage, 50 feet? \_\_\_\_\_
19. Have fire extinguishers been inspected or recharged within a year? \_\_\_\_\_  
Is date of inspection or recharge shown on tag attached to extinguisher? \_\_\_\_\_
20. Is building equipped with standpipe and hose having nozzle attached? \_\_\_\_\_  
Is hose in good serviceable condition? \_\_\_\_\_
21. Are large woolen blankets readily available in kitchens and science laboratories for use in case clothing is ignited? \_\_\_\_\_

REMARKS (Note any changes since last inspection)

The following items to be included in each quarterly inspection:--

22. Building construction: Walls \_\_\_\_\_ Floors \_\_\_\_\_  
Roof \_\_\_\_\_ No. stories \_\_\_\_\_ No. classrooms \_\_\_\_\_
23. State sections of buildings equipped with automatic sprinklers. \_\_\_\_\_  
\_\_\_\_\_
24. Are there at least two means of egress from each floor of the building? \_\_\_\_\_  
Are these so located that the distance measured along the line of travel does not exceed:--  
From the door of any classroom, 100 feet? \_\_\_\_\_  
From any point in auditorium, assembly hall or gymnasium, 100 feet? \_\_\_\_\_
25. Are all windows free from heavy screens or bars? \_\_\_\_\_
26. Do all exit doors open in direction of exit travel? \_\_\_\_\_
27. Are all interior stairways enclosed? \_\_\_\_\_  
Are doors to these enclosures of automatic or self-closing type? \_\_\_\_\_

If automatic closing type, are they closed as routine part of fire exit drill? \_\_\_\_\_

- 28. Are windows within 10 feet of fire escapes glazed with wire glass? \_\_\_\_\_
- 29. Are manual training, domestic science, other laboratories and the cafeteria so located that a fire in one will not cut off any exit from the building? \_\_\_\_\_
- 30. Is a smoke-tight projection booth, built of noncombustible materials, and vented to the outside, provided for the motion picture machine? \_\_\_\_\_
- 31. Are heating plant and fuel supply rooms cut off from the main corridors and other parts of the building by fire-resistant walls, floor and ceiling assemblies and doors? \_\_\_\_\_
- 32. Do all ventilating ducts terminate outside of building? \_\_\_\_\_
- 33. State type of construction of any temporary buildings in school yard \_\_\_\_\_
- 34. Is nearest temporary building at least 50 feet from main building? \_\_\_\_\_
- 35. State frequency of fire drills. \_\_\_\_\_  
State average time of exit. \_\_\_\_\_
- 36. Are provisions made for sounding alarm of fire from any floor of building? \_\_\_\_\_  
Is sounding device accessible? \_\_\_\_\_ Plainly marked? \_\_\_\_\_
- 37. Give location of nearest city fire alarm box \_\_\_\_\_  
Give distance from the premises \_\_\_\_\_

Inspector \_\_\_\_\_ Title \_\_\_\_\_

Inspector \_\_\_\_\_ Title \_\_\_\_\_

Fire Chief and/or Building Inspector \_\_\_\_\_

ATTACH COPY OF ANY "REMARKS" DEALING  
WITH INSPECTION FINDINGS.



## OKLAHOMA STATE BUREAU OF INVESTIGATION

Box 3366, State Capitol Station, Oklahoma City, Oklahoma

Arson and Inspection Division

## SCHOOL BUILDINGS

Rural - Town \_\_\_\_\_ County \_\_\_\_\_ Date \_\_\_\_\_

School \_\_\_\_\_ Supt. \_\_\_\_\_ Address \_\_\_\_\_

Board Member \_\_\_\_\_ Address \_\_\_\_\_

Height of Building \_\_\_\_\_ Construction \_\_\_\_\_ General Condition \_\_\_\_\_

Walls \_\_\_\_\_ Floors \_\_\_\_\_ Ceilings \_\_\_\_\_

Exit doors \_\_\_\_\_ In or Out \_\_\_\_\_ Panic Bars \_\_\_\_\_ Exit Lights \_\_\_\_\_

Classroom doors \_\_\_\_\_ Condition of Home Economics Room \_\_\_\_\_

Fire escapes \_\_\_\_\_ Location \_\_\_\_\_ Kind \_\_\_\_\_

By doors or windows \_\_\_\_\_ Any obstructions \_\_\_\_\_

Heating system \_\_\_\_\_ Kind \_\_\_\_\_ Condition \_\_\_\_\_ Vented \_\_\_\_\_

Hot water tank \_\_\_\_\_ Vented \_\_\_\_\_ Location \_\_\_\_\_

Stoves \_\_\_\_\_ Kind \_\_\_\_\_ Connections \_\_\_\_\_ Vented \_\_\_\_\_

Condition of basement \_\_\_\_\_ Basement exits \_\_\_\_\_

Condition of wiring \_\_\_\_\_ Kind \_\_\_\_\_ Fuse size \_\_\_\_\_

Condition of electric iron \_\_\_\_\_ Extension cords \_\_\_\_\_

Rubbish \_\_\_\_\_

Fire extinguishers \_\_\_\_\_ Type \_\_\_\_\_ Condition \_\_\_\_\_

Doors locked during school hours \_\_\_\_\_

Condition of Playground \_\_\_\_\_

Fire drills \_\_\_\_\_ How often \_\_\_\_\_ Special alarms \_\_\_\_\_

Regular Janitor Service \_\_\_\_\_

Condition Janitor's room \_\_\_\_\_

Condition Supply Room \_\_\_\_\_ Any flammable material \_\_\_\_\_  
Doors off \_\_\_\_\_  
Gymnasium - - - Exits \_\_\_\_\_ Exits Lights \_\_\_\_\_ Main floor \_\_\_\_\_  
Doors off \_\_\_\_\_  
Auditorium - - Exits \_\_\_\_\_ Exits Lights \_\_\_\_\_ Main floor \_\_\_\_\_

REQUIREMENTS:

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Please notify this office when requirements are completed.

\_\_\_\_\_  
Agent

THE ATTORNEY GENERAL OF OKLAHOMA  
OKLAHOMA CITY, OKLA.

January 19, 1933

Honorable John Vaughan, Superintendent,  
Department of Public Instruction,  
B u i l d i n g

Dear Sir:

Attention: Mr. Kerr.

In your letter of September 17, 1932, you state:

"A few years ago your office rendered an opinion to the effect that a school board may not insure school property with any mutual company where the amount of premium depends upon assessments which can not be determined in advance. We have a letter from Mr. L. H. Cates, County Superintendent of Tulsa County, inquiring if this applies to any case wherein the premium is based upon assessments in a mutual company, but the policy also contains a statement to the effect that the premium to be paid shall not exceed a stated maximum sum.

"We shall appreciate an opinion from you in order that we may answer Mr. Cates correctly."

Answer to your inquiry has been delayed in order to give Messrs. Hagan & Gavin, Attorneys of Tulsa, Oklahoma, and others interested with them, an opportunity to submit briefs upon the matter covered by your letter and the various questions arising in connection therewith.

The opinion to which you refer was rendered Honorable W. W. Powell, County Attorney of Pryor, Oklahoma, under date of October 27, 1926. Under date of June 9, 1931, the Attorney General rendered an opinion to the State Insurance Board holding that School Boards might insure with mutual companies doing business in this State and authorized to issue policies requiring only a fixed cash premium and containing an express provision against any contingent liability to the assured. The specific question set forth in your letter was not discussed in either of our former opinions, and Messrs. Hagan & Gavin, together with Mr. Eugene Quay of Chicago, have submitted briefs in support of their contention that a municipal corporation may legally take out insurance in a mutual company where the maximum premium is stated in or readily

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computable from the provisions of the policy. Said briefs are devoted principally to a discussion of the applicability of Sections 15 and 17, of Article 10, of the Constitution, which provide:

"The credit of the State shall not be given, pledged, or loaned to an individual, company, corporation, or association, municipality, or political subdivision of the State; nor shall the State become an owner or stockholder in, nor make donation by gift, subscription to stock, by tax or otherwise, to any company, association, or corporation.

"The Legislature shall not authorize any county or subdivision thereof, city, town, or incorporated district, to become a stockholder in any company, association, or corporation, or to obtain or appreciate money for, or levy any tax for, or to loan its credit to any corporation, association, or individual."

One of the leading cases on the question as to whether municipal corporations may legally insure in a mutual company where the policy provides for a limited maximum contingent liability is that of *Downing et al v. School District of the City of Erie, et al*, 297 Pa. 347, 147 Atl. 239, wherein that court held:

"Act April 27, 1925, P. L. 305 (Pa. St. Supp. 1928, P. 1586e), authorizing directors of school districts to insure buildings with mutual fire insurance companies, held not in violation of Const. art. 9, P. 7, as loan of credit to insurance company, in that the premium advanced and the covenant for maximum premium in accordance with Act May 17, 1921, P. L. 682, P. 806 (Pa. St. Supp. 1928, P. 12490b - 806), constitutes real premium and district did not, except as to stated and limited amount, assume responsibility for losses of others."

In the body of the opinion the court said:

"Taking of insurance in a mutual company with limited liability is not within the inhibition, for the district does not become strictly a stockholder, nor is it loaning its credit. It agrees to pay a fixed sum, and can be called upon for the total only in case of some unusual catastrophe causing great loss. Until this contingency arises it is required to advance but a small portion of the maximum, and is, in effect, loaned

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credit as to a possible future demand by the company for the balance which may become payable. By the terms of the policy the district did not assume responsibility for losses of others insured, except as to a named and limited amount."

In the case of Johnson v. School District No. 1 of Multnomah County et al, 270 Pac. 764, the Supreme Court of Oregon held:

"Under Or. L. P. 6408, school district, by becoming holder of nonassessable policy in mutual insurance company authorized to do business in state, under section 6420, did not thereby become stockholder in the association, or loan its credit to it, in violation of Const. art. 11, P. 9."

The same conclusion was reached in French v. Millville, 66 N. J. Law 392, 49 Atl. 465, where the constitutional provision of that state was that no municipal corporation shall directly or indirectly be the owner of any stocks or bonds of any association or corporation. Although there was a contingent liability under the policy the court said:

"The scheme of mutual insurance in such associations does not fasten upon the members any liability which municipal corporations may not, with reasonable safety, assume, for the limit of obligation is always fixed at the time the insurance is obtained, and is rarely enforced beyond what would be charged for insurance on the nonmutual plan."

In McQuillin on Municipal Corporations, P. 2171, it is said (citing in support thereof French v. Millville, supra):

"The fact that a municipality takes out insurance on its property by becoming a member of a mutual insurance company does not make it the owner of stock in a private company, so as to violate the constitutional prohibition; and giving premium notes for payment of assessments to meet losses incurred by a mutual insurance company of which the municipality is a member does not constitute a loaning of credit to the company."

Dillon, in his text on Municipal Corporations (5th Ed.) P. 976, concurs with McQuillin in the following language:

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"As an incident to the power to erect and maintain a city hall, school houses, and other public buildings, the municipality has the right to contract for indemnity for loss by fire by insuring these buildings; and, having the power to insure, it may insure them in a corporation organized on the mutual plan under the laws of the state in which the city is located. Giving premium notes for losses incurred by such company on other insurance is neither a loan of the credit of the city, nor the owning of stock or bonds of the company in violation of constitutional provisions."

In Cooley's Briefs on Insurance (2d Ed.) vol. 1, p. 104, it is said:

"As a municipal corporation is empowered to erect and maintain certain public buildings, it also has the power, incidental thereto, to contract for indemnity against loss by the burning of such buildings. This right may be exercised by insuring in a mutual, as well as in a stock company. The scheme of mutual insurance does not fasten on the members any liability which a municipal corporation may not with reasonable safety assume."

We have found no decision by any court holding that when the policy provides for a limited contingent liability that municipalities are prohibited by constitutional provisions similar to our Sections 15 and 17 of Article 10 from taking out insurance in mutual companies. In the case of School District No. 8 v. Twin Falls County Mutual Insurance Company, 30 Idaho 100, 164 Pac. 1174, that unlimited liability was in violation of a similar constitutional provision. This case, of course, is not in point because here the contingent liability is limited.

It is, therefore, the opinion of the Attorney General that municipal corporations including school districts may insure their property with a mutual insurance company, where the policy provides in addition to a cash premium a maximum or limited contingent liability. There is also some question as to whether the terms of the policy for a limited contingent liability constitute a present indebtedness and render the contract violative of Section 26, Article 10. We have found no case passing squarely on this point. In the Idaho case mentioned above the court said:

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"By the terms of section 3 of article 8 of the Constitution a school district is prohibited from incurring any indebtedness or any liability in any manner or for any purpose exceeding in any year the income or revenue provided for it for such year, without the assent of two-thirds of the qualified electors thereof voting at an election to be held for that purpose. The language of this section is very broad and prohibits the incurring of any indebtedness or any liability in any manner or for any purpose contrary to its provisions. It may be that a postponed contingent liability is not an indebtedness within the meaning of the section of the Constitution until the contingency has occurred, but it is a liability which may become an indebtedness upon the happening of the contingency. Liabilities which are assumed by virtue of membership in a county mutual fire insurance company are not within the control of the member or limited in amount, and the contingency may occur at any time. The assumption of such liability by a school district is contrary to the provisions of section 3 of article 8 of the Constitution."

However, careful examination of the opinion will reveal that it is grounded on the proposition that a school district could not insure in a mutual company where the policy provided for unlimited contingent liability because of the constitutional provisions of that state similar to our Sections 15 and 17 of Article 10.

In the case of *Rogers v. Oklahoma City*, 45 Okla. 269, 145 Pac. 357, it is held:

"A contract to furnish meals for the prisoners confined in the city jail during the incumbency of the then city marshal at ten cents per meal, payable after the meals are furnished, according to the city ordinances, although the period covered by the contract extends beyond the fiscal year in which the contract is signed, does not constitute a present indebtedness, and is not repugnant to section 26, art. 10, Const., nor in violation of section 765, Comp. Laws 1909."

In the case of *Gentis et al v. Hunt, Trustee*, 121 Okla. 71, it is held:

"Where the defendant school board, during one fiscal year, enters into contracts which undertake to

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create a liability against funds of the subsequent fiscal year for services then to be performed, held, in a suit against the school district to recover thereunder for services performed during such subsequent year and after the estimate made and approved for such purpose was diverted and exhausted during that fiscal year, that said contracts were entered into in contravention of the intention and plain purpose of section 26, art. 10, of the Constitution, and therefore do not create a legal liability against the district."

We believe that the provision in the policy for a future contingent liability is different from the teacher's contract in the Hunt case and is more analogous to the contract for feeding the prisoners in the Rogers case. We, therefore, conclude that the provision for such contingent liability does not render the contract of insurance void. The question as to whether the municipality would be liable for an assessment on the contingent liability when made would depend upon whether or not there was an appropriation made and provided for that purpose.

Very truly yours,

FOR THE ATTORNEY GENERAL

Robert D. Crowe  
Assistant Attorney General

RDC:IH  
op-st

Copies 8/10/53 by LFG