



8-1-1935

Contractual and Administrative Principles in School Property Insurance

B. F. Stevens

[How does access to this work benefit you? Let us know!](#)

Follow this and additional works at: <https://commons.und.edu/theses>

Recommended Citation

Stevens, B. F., "Contractual and Administrative Principles in School Property Insurance" (1935). *Theses and Dissertations*. 4236.

<https://commons.und.edu/theses/4236>

This Thesis is brought to you for free and open access by the Theses, Dissertations, and Senior Projects at UND Scholarly Commons. It has been accepted for inclusion in Theses and Dissertations by an authorized administrator of UND Scholarly Commons. For more information, please contact und.common@library.und.edu.

CONTRACTUAL AND ADMINISTRATIVE PRINCIPLES
IN SCHOOL PROPERTY INSURANCE

695-
62

A Thesis
Presented for the Degree of
Master of Science in Education

LIBRARY
UNIVERSITY OF NORTH DAKOTA

by
B. F. Stevens
University of North Dakota
August, 1935

Bdg. 8 Jan '36 Hertzberg 1.00

This thesis, submitted by B. F. Stevens in partial fulfillment of the requirements for the Degree of Master of Science in Education, is hereby approved by the Committee on Instruction in charge of his work.

Frederick Weltin

Chairman

A. V. Overh.

E. T. Towne

J. V. Breitwieser

Director of the Graduate Division

ACKNOWLEDGEMENT

I am pleased to take this opportunity to express my appreciation to Dr. J. Frederick Weltzin for his kindly criticisms and suggestions that were inspirational to me in the preparation of this study.

It is also a pleasure to acknowledge the assistance of various insurance companies for the pamphlets, reports, and other materials that were so generously donated.

August 1935

B. F. S.

TABLE OF CONTENTS

Chapter	Page
LIST OF TABLES	vi
I. INTRODUCTION	1-3
Importance of the Study	1
Purpose of the Study	1
Other Studies	1
Statement of the Problem	2
Delimitation of the Study	2
Sources of Data	2
Method of Procedure	2
Order of Presentation	3
II. INSURANCE CONTRACTS	4-23
Definition of Contract	4
Time Limits of Policy	4
Insurer's Options	5
Special Provisions in Policy	6
Limitations of Contract Litigation	7
Duties of School Official	8
Standard Policies	8
Physical Hazards	9
Moral Hazards	9
Conditions in Standard Fire Policy	10
Effects of Fraud on Policy	10
Scope of Policy	11
Status of Warranties	12
Indemnity Provisions	13
Types of Losses	14
Unusual Risks	15
Extra Hazards	15
Uninsurable Property	17
Need for Uniform Policies on Same Property	18
Effect on Contract of Fire Continuing	
After Termination Hour	18
Need for Attached Riders	19
Specific Forms	20
Limiting Indemnity	20
Inserting of Special Clauses to Limit	
Liability	21
Granting of Special Privileges	22
Maintenance of Adequate Records	22

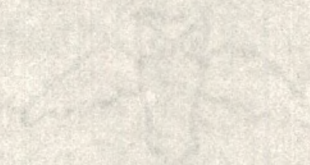
Chapter	Page
III. EXTENT OF LIABILITY OF THE INSURER	24-36
Delimitation of the Chapter	24
Co-Insurance	25
Example of Co-Insurance	25
Evaluating the Property	26
Extent of Loss	27
Removal of Property	28
An Increase in Hazard	28
Necessity for Knowing Correct Value	29
Comparison of Original Cost and Insurable Value	30
Value of Proper Appraisal	32
Cost of Appraisal	33
Official Supervision of Insurance Practices	33
Powers of Insurance Commissioners	34
Lack of Uniformity in States	35
IV. CONDITIONS AS TO NOTICE AND PROOF OF LOSS AFTER THE FIRE	37-56
General Scope of Chapter	37
Responsibility for Appraisals	37
High Cost of Frequent Appraisals	38
Origin of Fire	39
Distribution of Fire Causes	39
Proper Action for School Official in Reporting Fire	41
Furnishing Proper Evidence	42
Petty Losses	42
Preserving Damaged Property	43
Evaluating the Proof of Loss	44
Statement of Proof of Loss	45
More Extensive Proof of Loss	45
Partial or Total Loss	46
Inspection of Property	47
Ascertaining Small Community Losses	48
Negotiation of Insurer and Insured	49
Observations of Adjusters	50
Must Present Proper Evidence of Loss	51
Written or Photographed Evidence	52
Allowances for Deterioration of Property	53
Salvage Values Considered	54
School Property Inventories	54
Disposal of Salvaged Material	56
Reasonable Claims	56

Chapter	Page
V. ADJUSTMENTS OF LOSS AND RECOVERY	57-71
Prompt Adjustment of Losses	57
Difference of Opinion	57
Provision for Appraisals	58
Duties of Appraisers	58
Fundamental Principles of Adjustment	58
Court Settlements	59
Judicial Approval	60
Method of Adjustment When There Are	
Concurrent Policies	61
Difficulties Involved in Non-Concurrent	
Policies	62
An Example of Non-Concurrent Policies	63
Conflicting Interests	64
No Double Indemnity	64
Subrogation Clause	65
Protection of Insurer's Subrogation	
Rights	66
Option to Replace Property	67
Insurer's Right to Salvage Materials	67
Furnishing Required Information	68
Wide Distribution of Insurance	69
Rules in Use	70
VI. PREMIUM PAYMENTS	72-93
Definition of Premium	72
Premiums Defined by Courts	72
Dependence of Rates on Calculations	73
Dependence of Premiums Upon Classifica-	
tion of Risks	74
Factors Affecting Premium Rates	75
Dangers in Too Low Rates	75
Adequate Premiums for Better Coverage	76
Uniformity of Rates Demanded	77
Responsibility for Rate Making	79
No Definite Standard for Schools	80
Local Security Affecting Rates	81
High Premiums for Losses Incurred	82
Lower Premiums for Modern School	
Buildings	83
Irregularities in Premium Payments	84
Little Protest from School Officials	
for High Rates	84
Small Risk in Chicago Schools	86

Chapter	Page
VI. Continued	
Comparison of Premiums with Those of State Insurance	86
Slowness of Companies to Reduce Rates	87
The Plan in Minneapolis	88
Co-Operation for Public Welfare	89
Illustration of Saving in Premiums	90
Competition of Companies	90
Maintenance of Poor Records	90
Results of Wise Planning	91
Official Supervision	92
Minimum Rate Depending on Type	92
Dependence of Specific Rate Upon Type and Location	92
VII. CONCLUSION	94-106
Need for Information	94
Wise Administration and Reduction of Costs	94
Need for Definite Reports	95
Little Judicial Uniformity	95
Statutory Provision in California	96
Insurance During Construction of Building	96
Need for Legal Advice	97
Rating Schedule	98
Judicial and Legislative Errors	98
No Idea of Profit from Insurance	99
More Uniformity Within States	99
Liability of State if It Becomes the Insurer	100
Problem of Investing Funds	100
Inexperience of States	101
Paying Dividends	102
Increased Rates	102
Inexperienced State Officials	103
No Background of Experience	103
Need for Co-Operation of Government and Insurance Companies	104
Need for Wise Use of State Regulatory Power	105
Efficient Service from Old Line Com- panies	105
Future Improvements and Progress	106
Limits to Government Interference	106

Chapter	Page
APPENDIX A	107-112
APPENDIX B	113-115
BIBLIOGRAPHY	116-123

WHEATON BOND



LIST OF TABLES

Table	Page
1. Variations in Insurable and Appraised Values of Public School Property, Superior, Wisconsin, 1914 and 1920	31
2. Distribution of Fire Losses by Causes and Class of District, and Lightning and Windstorm Losses by Class of District, Six Years, January 1, 1915 to December 31, 1920, Public Schools, New York State	40

CHAPTER I

INTRODUCTION

Importance of the study. The unique business of providing public education for the children of our country is a business so vast that, in the matter of money invested in plant and equipment, it is exceeded by few enterprises in the United States. The responsibility for the care and insuring of this property, which is yearly increasing in value, is a problem that can be ignored by no progressive school official.

Purpose of this study. This manuscript is designed primarily to acquaint the school official with some of the more pertinent facts concerning the insuring of school property. It is believed that if this information can be assimilated from the legal and judicial point of view it will serve more adequately to prepare the way for the lay school official to avoid litigation in administering his trust to the general public.

Other studies. Two studies concerning school property insurance have been presented. W. T. Melchior of Columbia University made a study of insurance practices in New York State and compared those findings with certain practices in a few scattered cities throughout the country. S. G. Skaa-land of the University of Minnesota made a study of the insurance practices in Minnesota, placing considerable empha-

sis on appraisals. A few other brief presentations have been made but, to the author's knowledge, no study has emphasized the contractual and administrative complications herein depicted.

Statement of the problem. The problem of this thesis is to clarify some of the contractual principles and administrative duties in the insuring of public school property. It is the desire of the author to make available information that will be of value to the school official in the administration of school property insurance.

Delimitation of this study. This study does not intend to cover the entire school property insurance field but is limited primarily to the insurance practices of old line companies. It is not limited to a particular state but is definitely limited to a study of the following category: (a) Standard Policy (b) Extent of Liability of Insurer (c) Notice and Proof of Loss Subsequent to Fire (d) Adjusting the Loss and Recovery (e) Payment of Premiums.

Sources of data. The information compiled for this study has been derived from various sources, including bulletins, pamphlets, and communications from insurance companies. Much of the material has been gleaned from magazines and texts. Supreme court decisions have been cited and insurance officials have been interviewed.

Method of procedure. During my study of the course in

School Law, some years ago, under the direction of Dr. J. Frederick Weltzin, of the University of North Dakota, I became interested in school property insurance. This new interest led me to think seriously of choosing some phase of the subject for further study. Inasmuch as the course in School Law was conducted on a legal plane I have attempted to proceed with this study placing some emphasis on the judicial and legal aspects.

Order of presentation.

- (1) Introduction
- (2) Insurance Contracts
- (3) Extent of Liability of Insurer
- (4) Conditions as to Notice and Proof of Loss After the Fire
- (5) Adjustments of Loss and Recovery
- (6) Premium Payments
- (7) Conclusion

CHAPTER II

INSURANCE CONTRACTS

Definition of contract. An insurance policy is on its face a contract to indemnify the insured because of fire to an amount appertaining to the property specified and owned by the insured, in this case, the school system or the community. Only the actual immediate damage caused by the fire is so covered, and the company is not liable for losses incurred while paying teachers and others for interruption of services. No person can have an interest in the insurance nor be a claimant against the company. In the contract the property is definitely described, the written description forming a part of the property.¹ Nowadays, contracts are not so cunningly worded and over-stringent as to prepare pretexts by which the payment of losses claimed may be voided, a practice which has been made attractive to some through low prices. But contracts are not valid without a valuable consideration, which has to be ample to cover a company's aggregate of losses, together with a definite profit to their stockholders.²

Time limits of policy. The beginning, duration and ending of the period for which the contract is to run is clearly

¹ Bissell, Richard M., Yale Lectures on Insurance, Fire and Miscellaneous, Yale University Press, 1904, pp. 37, 65.

² Handbook of Property Insurance, Insurance Company of North America, Philadelphia, Penn., 1930, p. 57.

stated, and usually ends at noon, though the definition of noon, whether astronomical or horological, has not been definitely settled by the courts. The contract is made and the rate of premium fixed according to the hazard of location, and this location is defined unless altered by new agreement. The standard policy form³ has been adopted from year to year by various states devised by departments of insurance in consultation with insurance officials, and the New York form is the most satisfactory fire insurance policy in general use, being mandatory in nine other states, and is widely used throughout the United States except when individual states forbid.

Insurer's options. The company is entitled to certain options, either to pay to the assured the duly ascertained value of the property damaged, thus acquiring ownership of it, or to repair, rebuild or replace the property with other of like kind and quality after due proof of loss or damage. The business of wrecking and selling damaged material and thus aiding the company to pay claims and avoid litigation, is frequently resorted to. The option to replace is seldom used, since insurance companies are not experienced builders, and litigants can prove to the satisfaction of juries that the building replaced was not of the same kind and quality as the old one.

³ Ibid. p. 30.

Special provisions in policy. Various clauses take care of alterations in conditions and also liabilities on account of fires caused by riot, war and the like. A clause⁴ frees the company from liability when the assured has failed to use reasonable measures to save the property, but it is rarely effective, inasmuch as the burden of proof then rests upon the company, and it is almost impossible to prove that the assured or the municipality has not used effective means to save the property. Furthermore, either party to the contract may terminate it, in which five days are given to secure other insurance, and the company is permitted to retain more than the proportional fractional part of the original premium. The latter concession is required because the company consumes at the outset a considerable part of the premium in handling records. On the other hand, if the company chooses to cancel, these charges are lost. If fire occurs, the assured must give the company due notice of its occurrence and also render a complete statement under oath giving description of the property and amount of claimed damages. These provisions and requirements call for complete proof and statements by the claimant, which the company then proceeds to verify. Another paragraph⁵ provides for the distribution of loss among the various companies insuring the property

⁴ Pamphlet, Safeguarding Against Fire, National Board of Fire Underwriters, New York City, 1929, pp. 20-22.

⁵ Ibid. p. 30.

pro rata, and this paragraph permits special agreements between assured and the companies as to how policies shall apply. In common law, there are several of these agreements made valid. Naturally no profit can be made from a fire by a municipality. Wilful and vexatious delays in making claims are guarded against.

Another clause⁶ provides that the amount of insurance shall attach in each of two or more locations, according to the value of each building, unless the entire community or school district is covered by a blanket clause. They are floating policies when property is located at a number of different locations and concurrent when they agree exactly as to their wording and as to the kind of property covered, and perpetual when their duration is without limit except by cancellation.

Limitations of contract litigation. Although the conditions of the contract are apparently stringent, the assured is in the vast majority of cases in receipt of full justice, and a very liberal amount of the sum is paid. In fact, litigation in regard to the fire insurance contract itself does not occur in over half of one per cent of the policies.⁷ In most of these cases at court, approximately 90 per cent, there is but partial damage to the property, and an honest difference

⁶ Pamphlet, School Fires, National Fire Protective Association, Boston, Mass., 1930, p. 60.

⁷ Pamphlet, School Fires, National Fire Protective Association, p. 14.

of opinion exists, and such litigation makes more of an impression than the bulk of negotiated cases or transactions.

Duties of school official. It is necessary that this contract be in legal form and that all its features be clearly understood, this task being part of an administrator's duty. The school official in charge or the board determines the insurance to be carried, allocates the insurance to the various private agencies and develops a method of payment. The extent of insurance carried is named in the contract. In some parts of the country,⁸ as in Oklahoma, Texas and Arkansas, fires have occurred frequently and the percentage value clause is at times replaced by the "three quarters loss clause". The company is liable for its proportion only of three-fourths the cash value of school property on each item insured at the time of the fire not exceeding the amount insured on each item.

Standard policies. The following states⁹ have adopted the New York Standard Policy form: New York, Connecticut, Maine, Nebraska, New Jersey, North Carolina, North Dakota, Pennsylvania, Rhode Island and South Dakota. A number of states¹⁰ including Michigan, Wisconsin, Massachusetts, Minnesota, Idaho, New Hampshire, and Louisiana have adopted policies of their own differing in minor details from the

⁸Fleming, Alfred T., "Facts About Fire", North America Gazette, Vol. 1, Nov. 1930, P. 14.

⁹Cooley's Briefs on Insurance, Second Edition, Vol. 1, pp. 789-790.

¹⁰Ibid. pp. 789-790.

New York form. Most of the states, not mentioned, where no standard policy is required, are using a policy very similar to the New York form.¹¹ Owing to the almost universal use of the New York Standard Policy it will be referred to throughout this manuscript.

Physical hazards. School building fires are frequent, and it is reported that an average of five¹² school buildings each day are burned in the United States involving a loss of several million dollars annually. According to W. E. Mallalieu, General Manager, National Board of Fire Underwriters in his report, during 1936 the loss amounted to more than ten million dollars as a result of 2545 fires.¹³ This physical hazard is assumed by the insurer and thus lessens the responsibility of the insured.

Moral hazards. The contract calls for a proper description of the insured property with no misrepresentation about its care; for an increase in the hazard or chance of fire either by the act or within the knowledge of the insured would tend to invalidate the policy. Double insurance, over-insurance or other insurance is on a par with neglect to care for the property during and after a fire-loss. Misrepresentation about the condition and value of the destroyed

¹¹ Ibid. pp. 789-790.

¹² Pamphlet, School Fires, National Fire Protective Association, p. 2.

¹³ Mallalieu, W. E., Manager's Report, National Board of Fire Underwriters, New York City.

or damaged property is another subject of litigation.¹⁴ It is estimated that the proportion of losses attributed to such misrepresentation and abuse of insurance privilege is from ten to thirty-five per cent of every dollar paid by fire insurance companies.

Conditions in Standard Fire Policy. The standard fire policy as a whole deals with conditions prior to, during and after the occurrence of a conflagration. The contract needs to be definite and clear in regard to the past, present and future events and conditions that surround the insured property. The complete status of the property, such as sound value, hazards, location, etc., must be known at the time that the policy is written prior to a fire. When a loss occurs the conditions surrounding that loss must be determined as clearly as the known facts will permit. The procedure involved in making the proper adjustments after the loss completes the tri-part plan of the contract. Full compliance of school officials with all policy stipulations is, of course, a requirement.

Effects of fraud on policy. Misrepresentation or fraud or false swearing by the insurer amount to concealment, and there are fifteen other voidable conditions,¹⁵ such as fraud, misstatement of interest, other than unconditional interest,

¹⁴ The Weekly Underwriter, New York City, 1927, p. 249.

¹⁵ Pamphlet, Insurance Policies, National Board of Fire Underwriters, New York City, 1930, pp. 15-16.

other insurance, operation overtime, increase of controllable hazards, extraordinary alterations or repairs, leased ground, mortgage, generation of illuminating gas, presence of extra-hazardous articles and vacancy or unoccupancy. The entire policy would be voided by any one of these acts unless specifically entered in the contract and due payment made for extra risks assumed. Of course, school boards and superintendents are not subject to the temptations of private owners of property, but they are liable to misconceptions and errors of judgment, all of which is the subject of litigation. Good faith is indispensable, and therefore the insuring body ought to be in full possession of the facts for the sake of clearing any doubts in advance. A "material fact"¹⁶ is one which if known to the company would have resulted in imposing higher premiums, and concealment of such knowledge would void the policy.

Scope of policy. In some cases where several different items of property are covered by the same policy, and one premium is paid, the policy is single and inseparable,¹⁷ and the doctrine prevails of the "indivisibility of the policy as affecting the result of violation of a condition thereof". For example, if a blanket policy covers three school buildings and there is a violation of some phase of

¹⁶ Connecticut Fire Insurance Company v. Colorado Mining and Mill Company, 116, p. 154.

¹⁷ Plath v. Minnesota Farmer's Mutual Fire Insurance Association, 23 Minn. 479.

the contract in one of the buildings the entire policy might be invalidated as a result. The courts in a few states have declared in favor of the indivisibility of contracts, while others have held that the policy is divisible if each property is valued separately although one premium covers the entire policy.¹⁸ It appears that other courts have taken into account the nature of the risk and the purpose of the contract in departing from any strict interpretation of the whole contract.

Status of warranties. A warranty is a guarantee on the part of the insured that all material facts are as represented and that no concealment has been made that would enlarge the risk. If the warranty is incorporated in the face of the policy it is considered legal and binding.¹⁹ If the warranty is not attached to or is not a part of the policy²⁰ it can not be held binding on the insured thus making the policy invalid in case of damage to property. Some insurance companies have a tendency to regard the warranty as a part of the contract, whether it is attached or not, with the demand that all terms be strictly complied with or the insurer will assume no liability. It is to the advantage of the insurance company to have all statements construed as "warranties" and

¹⁸ Merrell v. Agricultural Insurance Company, 73 N. Y. 452.

¹⁹ Common Wealth's Insurance Company v. Monninger, 18 Ind. 352.

²⁰ Lebanon Mutual Insurance Company v. Losch, 109 Pa. 100.

thus be relieved of the duty and burden of proving the material character of any misstatements or inquiring rigorously into the facts. In many states, however, any misrepresentation or untrue statement if made without fraud does not void the liability of insurer unless this is materially important in the risk.

Indemnity provisions. Indemnity for direct loss and damage by fire is provided for in the contract. Questions arise as to the direct liability for a loss, especially in cases where sparks or flames from distant fires were the proximate cause. N. W. Bament declares, "The proximate cause is the efficient cause, the one that necessarily sets the other causes in operation. The causes that are merely incidental or instruments of a superior or controlling agency are not the proximate causes, and the responsible one, though they may be nearer in time to the result. It is only when the causes are independent of each other that the nearest is of course to be charged with the disaster."³¹ The risk under the contract takes note of the connecting cause of fire loss and not always proximity in place or time to a casualty of this type. For example, indirect losses may be due to a previous fire on adjoining property, as for instance a wall that fell and that was left standing for some days after a fire, as determined by a state court.

³¹ Reed, J. L., The Fire Insurance Contract, Insurance Society of New York, pp. 261-262.

Types of losses. However, loss that is caused by heat, steam or smoke and soot escaping from an adjacent fire is not covered ordinarily in the contract. A hostile fire²² is one which has accidentally escaped from its proper limits and causes ignition of school property of any sort, including damage by burning, scorching, water and smoke and chemicals. Fire resulting from lightning is covered, but only to direct loss by the fire itself. Likewise property which is damaged by water used in putting out a fire, even from an adjacent building or falling of a wall on such account, is covered under the contract. Inasmuch as the fire insurance contract is one that is limited to a certain figure and to specific conditions which accompany loss, the rule is that the company is held liable for any losses which occur as a consequence of fire unless the policy specially excludes a certain cause. There are definite restrictions so as to protect the company, unless a written agreement is attached. These conditions are stipulated in detail, but they are unusual in occurrence, though they do occur and have to be accounted for by a far-seeing insurer. These incidentals²³ are invasion, insurrection, riot, civil war or commotion, or military or usurped power, or by order of any civil authority.....or neglect of insured to use all reasonable means to save and

²² Booklet, School Fires, National Fire Protective Association, Boston, Mass., 1931, p. 20.

²³ New York Standard Fire Policy.

preserve the property at and after a fire". The terms of the agreement,²⁴ as a rule, call for no other contract of insurance, regardless of validity, on the property in question. If the hazard is increased by any means within the control of the insured or if workers are employed in repairing the building or constructional changes are made occupying a given time the company should be informed.

Unusual risks.²⁵ The language of the contract has been utilized in part. We note other restrictions of importance such as the use of illuminating gas or the storing and using of certain chemicals and explosive materials and petroleum products. Reference is made to periods of non-occupancy over a ten day period. These are unusual risks that have to be contracted at an increased premium.

Extra hazards. A loss that is caused "by order of civil authority" has reference to condemnation proceedings under the police power of the state.²⁶ There are times when it may be necessary to set fire to property in order to dislodge robbers or civil authorities may order a building blown up to save adjacent property. Property may be stolen either before or after the fire and this is not covered in the standard policy. Theft involves moral hazard, but the

²⁴ New York Standard Fire Policy.

²⁵ Ibid.

²⁶ Bissell, Richard M., Yale Lectures on Insurance, p. 66.

courts²⁷ have not strictly upheld this interpretation of the contract. Some states²⁸ prohibit a fire insurance company from covering theft risks. The insured may neglect to take proper means at the fire or after the occurrence, which can be made the basis for denial of liability, as otherwise the public officials concerned would not take complete and proper means to save the property by risking life and limb, but rather have the insurer bear the loss.

All these provisions may seem idle and unduly meticulous, and yet such is the nature of chances taken as tabulated over long periods by actuarial departments²⁹ that a certain percentage of such hazards do occur to cause loss unless provided for. These extra hazards are not covered by the standard policy. For example, night operation of schools as well as non-occupancy during vacation periods brings an increase of hazard, beyond question. Special endorsements of policies, as for example, a lightning clause, make clear the companies' liability. The loss or damage to other property³⁰ caused by concussion from an explosion in the property covered by the policy, whether explosion precedes or follows fire, makes

²⁷ Whitehuret v. Layetteville Mutual Insurance Company, 51 N. C. 352.
²⁸ Witherell v. Maine Insurance Company, 49 Me. 200.

²⁸ Davis, John R., Pamphlet, Hartford Fire Insurance Company, 1930, p. 7.

²⁹ Proceedings of the National Board of Fire Underwriters, Annual Report, 1930.

³⁰ Richard, George, A Treatise on the Laws of Insurance, p. 60.

a company not liable for loss. Furthermore, if the building or a portion of it falls, except as occasioned by fire, the risk assumed is voided inasmuch as the buildings or portions of structure then become debris.

Uninsurable property. Certain property on the buildings or in the rooms is uninsurable, such as currency, manuscripts, mechanical drawings, dies or patterns, as mentioned in lines 7 to 11 in the standard policy.³¹ While these may have great value inherently, depending on circumstances, sentimental, personal reasons, there is difficulty in determining their value for insurance purposes. Agreements on this point have to be made in advance as to their value on the "valued policy" plan. "Other³² insurance" unless permitted, voids the standard policy, as in instances where one policy covers both a building and its contents, and another the contents only, or only the building. Notification has to be given of such additional insurance, this being done to avoid over-insurance. However, there is included by agreement "Other insurance permitted without notice until required" or similar phrase, as an endorsement in advance on all policy forms without ascertaining actual values, in which case the insurance companies themselves ascertain the amount of risk they are ready to assume in lieu of the safe and clear standard policy.

³¹ New York Standard Fire Policy.

³² New York Standard Fire Policy.

Need for uniform policies on same property. All agents of private insurance concerns are agreed on issuing only uniform policies on the same property. An endorsement under each agent's name reads: "It is important that the written portions of all policies covering the same property read exactly alike. If they do not they should be made uniform at once."³³ Trouble and litigation arise and the courts are then called on to settle loss adjustments. To avoid disputes, the phrase, "whether valid or not and whether collectible or not", is inserted fixing the liability of each company on the pro rata basis. This includes all policies on the property although invalid on the account of some violation.

Effect on contract of fire continuing after termination hour. After all, there are a few common sense principles in insurance, but the fact is that complications ensue through lack of definition of the risks at times. Contracts have to be written for a definite length of time, time being the essence of the contract. However, the courts³⁴ have determined that loss by fire starting before the expiration of the policy and continuing after the period of termination, or beyond the noon limit is collectible in toto. At the expiration of the term the policy naturally expires, or it may be cancelled by the authorities and the pro rata refund made by

³³ Proceedings of the National Board of Fire Underwriters, Annual Report, 1930.

³⁴ Rochester German Insurance Company v. Peaslee-Gaulbert Company, 89 S. W. 3.

the insurance company after due notice, a period of five days being allowed. The insurer also reserves the right to cancel the contract in order to guard against excess liability in case conditions surrounding the property risk develop.

Need for attached riders. Of course, it is impossible in advance to conceive all the facts and conditions which may arise in the course of time, as new risks are continually arising, such incredible risks as the fall on the roof of an airplane engine or gasoline tank. Hence, it is desirable to add various descriptive forms and riders³⁵ expressing in detail the amount, rate and conditions as circumstances alter them. As the policy states,

"The extent of the application of insurance under this policy and of the contribution to be made by this company in case of loss or damage, and any other agreement not inconsistent with or a waiver of any of the conditions or provisions of this policy, may be provided for by agreement in writing added hereto."³⁶

These endorsements³⁷ as written on or attached to the contract take precedence over printed policy provisions covering the same details. A number of endorsements are made by means of forms and clauses that modify the contract, these being attachments or riders descriptive in their nature, whereas

³⁵ Moore, F. C., Fire Insurance and How to Build, p. 5.

³⁶ New York Standard Fire Policy, Lines 72-77.

³⁷ Medicott, W. B., "Fire Insurance Policy Forms and Clauses", from a Series of Lectures on Fire Insurance, Insurance Library Association, Boston, Mass., 1912, p. 227.

other "clauses are attachments or riders that are permissive or restrictive in their application". Agents may inaccurately describe school property in confusing terms. Hence the need of using standard forms and clauses so as to avoid dissatisfaction over exact contractual coverage.

Specific forms.³⁸ A special "school building form" or "public building form" or "college or university form" or "public library form" is used for this special class of business, and the specific amounts of insurance in force on each item of property is listed. To these forms, the courts have gradually given liberal construction permitting each community the right after a fire to ratify the insurance placed under the commission clause and make subsequent claim for loss. These special rider forms give a basis for classifying policies according to the nature of the coverage, as for example at one or several locations. A specific policy covers school property definitely located, while a general policy covers a variety of school buildings in a community, the amount of insurance in each case being specified, and a blanket policy covers different kinds of property or property in different places. In an open policy, the units and amounts of property are changing.

Limiting indemnity. There are certain rural school districts where few or no fire-fighting facilities exist. Hence

³⁸ Ibid. p. 196-197.

the proportion of total losses is much larger than in the cities. The practice³⁹ of the companies is to require in all such policies a clause limiting the indemnity that may be recovered to three quarters of the cash value of the property, or the same proportion of the loss, the object of this limitation being to prevent over-insurance and requiring the insured to sustain a portion of the accrued loss; "and in case of other insurance, whether policies are concurrent or not, then for only its pro rate proportion of such three-fourths value," as the value clause reads. The three-fourths loss clause stipulates that "this company shall not be liable for an amount greater than its proportion of three-fourths of such loss; in both events, the other one-fourth to be borne by the insured."

Inserting of special clauses to limit liability.⁴⁰ In all schools, large amounts of coal are stored, and this calls for the "spontaneous combustion clause" in contracts insuring structures containing the same, under which claims may not be made for such spontaneous loss, in consideration of which a much lower rate is charged, otherwise the risk of the company would be increased. The "dynamo clause" exempts the company from loss or damage to dynamos, lamps, switches, motors and other electrical appliances. The "automatic alarm

³⁹ Brown, Harold H., *The Adjustment of Building Losses*, pp. 32-33.

⁴⁰ Ibid. pp. 36, 38.

system" clause is illustrative of the effects of improved fire protective appliances, such as the sprinkler system, where such are maintained, and due reduction in premium is granted in return for a warranty to keep the equipment in working condition. Electrical appliances have to pass certain standards of the insurance underwriters.

Granting of special privileges. Special privileges may be granted and the policy modified or given an entirely different coverage by special agreement between both contractual parties if payment is made to conform to the added risks where unusual protection is needed. Such extended liability has to be approved in advance, necessarily.

Maintenance of adequate records. School officials have much property to insure and so it is well to keep strict account of the contracts and limitations imposed. Such a register becomes a ready reference index to many technical details, such as the number of policy, name of company, name of agent, date of issuance, date of expiration, amount of policy, premium, name of property, kind of insurance and various clauses and exceptions taken, and further remarks, all of which are embodied in the contracts or policies issued.⁴¹

Early in the history of school property insurance, the various insurance companies issued various policy forms, and

⁴¹ Barden, R. P., Modern Insurance Problems, 1925, pp. 29-30.

hence there were different provisions in their policies, variations which made court decisions necessary in adjusting the heavy losses. In each case it was necessary to interpret the contract, a condition which produced much dissatisfaction. In the long run, the state legislatures themselves began to frame laws in the insurance field, and courts were required to interpret this legislation.⁴² The various items embodied in the standard fire insurance policy have been determined by judicial decision. The hundreds of conditions encountered in practice, the special hazards which are practically unforeseeable but are all classified, are met by means of endorsements. But the insurance company has been paid to reimburse a fire loss, and if as a result of the fire school property is damaged by smoke or water or other agent, such loss rests on the company to pay, and the burden of proof for not paying rests on the legal assistants of the insurer. In consideration of the payment of an additional premium, an insurance company will write a policy agreeing to pay to the insured any losses whatsoever incurred by fire, but it stands to reason that such a contract must be equitable and based on fire insurance hazards and experience.

⁴²

Gephart, W. F., Principles of Insurance, Macmillan Company, 1917, p. 25.

CHAPTER III
EXTENT OF LIABILITY OF THE INSURER

Delimitation of this chapter. The nature of the insurance contract depends on the type of carrier, which in some instances is the community or the state itself. Many of the larger cities carry their own fire risks and proceed on the theory that in case of loss, this will be usually small and covered at less expense by direct appropriation, cities such as Philadelphia, Pennsylvania, Boston, Massachusetts, San Francisco, California, and Chicago, Illinois,¹ and hence these cities are wholly liable for any losses incurred. Such practice does not come within the purview of this study, inasmuch as there is no insurance organization taking care of the risk of fire, however unlikely it is that the losses will be large. However, in the case of San Francisco, a disastrous conflagration following an earthquake might wipe out millions of dollars of property in schools.

The general practice is to carry flat insurance on school buildings with commercial corporations. The insurance company pays the entire amount for which a building is insured, if it is completely consumed by fire. If it is damaged to a limited extent, then the insurance company will pay the amount of damages accruing, however small.

¹ Smith, Harvey A., Economy in Public School Fire Insurance, Bureau of Publications, Columbia University, 1930, p. 99.

Co-insurance. Numerous decisions of State Supreme Courts have been handed down in the matter of co-insurance. By this plan, the school system has a loss paid which is in proportion to the amount of insurance borne to the amount which the company requires it to carry. In most instances, the companies require an insurance of 80 per cent of value. Whatever amount is bought, it is provided that the school system shall receive pay for losses in the proportion for which it is willing to insure its property and pay its share of the premiums. This practice comes under the name of the "co-insurance clause"² and also average clause, or reduced-rate-average clause and the percentage-value clause.

Example of co-insurance. For school property valued at \$100,000.00 the school officials would be required to carry \$80,000.00 of insurance under the 80% co-insurance clause. In the event that this is done and there is no appreciable change in the value of the property between the time that the insurance is taken out and the time of a fire loss, the entire amount of the loss up to \$80,000.00 could be collected as soon as the adjusters have determined that the co-insurance clause has been complied with. Suppose, however, that the value of the property has increased to \$125,000.00 and the school officials have failed to adjust the coverage accordingly and there is a fire loss of \$80,000.00 sustained. The

² Baldwin, Garry G., "Why an Appraisal of School Property", The American School Board Journal, Vol. 90, p. 30.

school district would become a co-insurer to the extent of the ratio between the \$100,000.00 and the new valuation, \$125,000.00. This ratio of 1/5 or 20% is deducted from the \$80,000.00 leaving \$64,000.00 to be paid to the school district. Thus, we note that a direct loss of \$16,000.00 is due to the incompetence of the school administrator.

Evaluating the property. The school officials are bound to fix the value of school property to be covered by the old-line insurance companies, and also the percentage of valuation of property insurance.³ It is difficult to state categorically this percentage, for it depends on the size of the community and the general fire hazard that there prevails. There are other factors that are to be weighed, such as instruction in fire-fighting and prevention and the like details which have to be taken into account, as well as the size of the community. If the latter be small, or saddled with a large indebtedness, it is apparent the school ought to be insured at practically full value. Furthermore, the insurance company will also consider the nature of the material entering into the construction, whether close to fire stations and fire plugs, or of fire-resisting construction, or frame buildings. As these old-line companies, as one of their officials has stated, "are not in business for

³Brown, Donald R., "Property Appraisals", Pamphlet, Committee on Publicity and Education, 1933, p. 10.

their health"⁴ they have to make reasonable computations and not take too great risks. As a general proposition, to insure at full value is unwise, inasmuch as most fires are of minor nature and furthermore there are portions of the building that are non-inflammable and intact after conflagration. To make claim for the entire amount of building costs is therefore opening up a source of litigation, inasmuch as foundations, excavations and underground piping, together with certain steel construction, is still intact.

Extent of loss. Except where the policy is such that the amount of recovery is definitely fixed by the terms of the policy, in case of a total loss under a fire insurance policy, any competent evidence is admissible on an issue as to the extent or amount of the loss which the plaintiff is entitled to receive, which tends to prove the fact.⁵

In the standard fire insurance policy, the direct losses are computed on the basis of cash value of property at time of conflagration. This form of policy is termed a "non-valued"⁶ policy, but in some states the law does not permit this form but requires that policies should be valued upon an advance determination.

⁴ Thomas, John R., Member Committee on Public Relations, National Board of Fire Underwriters.

⁵ National Union Fire Insurance Company v. Washington County School District, 131 Ark. 547, 199 So. 924.

⁶ Sumner, Kurth, "Facts About Fire Insurance", North America Gazette, Oct. 1931, p. 4.

Removal of property. On the policy there is named the place and location, so as to limit coverage, inasmuch as the rate depends on location as well as type of property. However, if a fire has made it necessary to remove the property to another place, there is protection given for five days to the new location.⁷ The company agrees to pay for any fire loss or damage incidental to smoke or water or other agent, but there are limitations in connection with the obligation assumed by the insurance company, such as a change in conditions. It is assumed that normal conditions will surround the property at the time, these conditions being known to the company.

An increase in hazard should increase the hazard assumed by the insurer inasmuch as it can then be stated that the insured has violated the original contract.⁸ If for example, a school changes from steam heat by means of coal consumption to a fuel oil hot-air system, the insurance company will make new terms of coverage and alter the rate. If a property is insured in several companies to the extent of over its value, there is a moral hazard involved.⁹ However, there is no prohibition against a policy being pledged by the

⁷ Huebner, S. S., Property Insurance, D. Appleton and Company, 1932, p. 109.

⁸ Pamphlet, Fire Hazards, National Fire Protective Association, Chicago, Ill., 1932, p. 10.

⁹ Huebner, S. S., Property Insurance, p. 135.

insured as collateral for a bond issue. Furthermore, the insurer is not liable if the insured has concealed or misrepresented in writing or by other advice any material fact or circumstance concerning the insurance transaction.

Loss due solely to explosion or lightning are casualties not conceded, unless a fire ensues subsequent to such hazard. The presence of illuminating gas, its generation, as well as explosives and chemicals on hand, many barrels of fuel oil, and the like, are to be specially contracted for in coverage, as for example for chemical laboratories of schools.¹⁰

Necessity for knowing correct value. The extent of coverage depends on the insurable value of the school property, inasmuch as no indemnity for damage is collectible from any insurance company above the actual cost value of the buildings and equipment.¹¹ Hence the necessity of knowing this property value to within at least a hundred dollars, plus or minus. Of course, depreciation is always at work, and present replacement costs have to be considered as well. An accurate appraisal should be made, and the cost of reproducing the structure reckoned at the time of appraisal and then diminished by the depreciation since originally built. Depreciation is difficult to calculate, but is a

¹⁰ Pamphlet, Fire Hazards, National Fire Protective Association, p. 12.

¹¹ Zartman, L. W., and Price, W. H., Yale Readings in Insurance, Yale University Press, p. 120.

matter of time and use from the beginning, this element varying with different appraisals, but being from two to three percent per year.¹² Present day costs of building material and labor figure in reduction expense data. Consideration has to be given to the condition of the building, its fitness for school use and its adaptability to school needs. This calculation calls for engineering skill and knowledge, thorough information as to school standards and an appreciation of service value of the structures to be insured.

Comparison of original cost and insurable value. There is much difference in computation to be found in the reports of school property values, inasmuch as the clear distinctions are not always made between cost value, depreciation, replacement and insurable value. The following table¹³ demonstrates a number of variations in the official records of school property values, between the insurable and appraised values of public school property in the city of Superior, Wisconsin, in 1914 and 1920.

¹² Engelhardt and Engelhardt, Public School Business Administration, p. 383.

¹³ Engelhardt and Engelhardt, "Quotation", from School Survey, Superior, Wis., p. 395.

Table 1

Variations in Insurable and Appraised Values of Public
School Property, Superior, Wisconsin
1914 and 1920

Building	Original Cost	Cost of Reprod'n 1914	Present Ins- urable Value 1914	Cost of Reprod'n 1920	Present Ins- urable Value 1920
Blaine	\$75,200	\$106,800	\$86,400	\$195,000	\$150,000
Bryant	41,600	57,000	47,300	105,000	81,000
Carpenter	105,000	119,000	108,800	215,000	185,000
Central	261,000	261,000	255,000	265,000	430,000
Cooper	87,900	112,200	94,500	205,000	163,000
Dewey	60,600	79,100	63,700	145,000	112,000
Ericsson	100,400	121,700	102,600	220,000	174,000
Franklin	13,300	15,000	13,500	135,000	129,000
Howe	57,100	75,000	61,400	135,000	108,000
Lincoln	42,250	54,900	45,500	100,000	78,000

The above variations are enormous, as for instance when comparing the original cost of the Franklin School, some \$13,300 with the insurable value in 1920, almost ten times as large. When such wide discrepancies occur, there is sometimes litigation and then an appeal to a superior court. Naturally if the lay school board members make the appraisal, this will have a different effect from one made by trained realty experts. An appraisal if freshly made is evidently more valid than one which has been stale for a number of years. All these points are taken into consideration by courts and appellants, inasmuch as litigation is involved concerning solely the amount of claims, the insurance com-

pany always placing its case in favor of a lower estimate and the insured seeking the maximum recovery for loss and damage.

Value of proper appraisal. The confidence one can place upon those who undertake the task of appraisal determines its value, and this question is subject to judicial decision in case of conflict. However, it is well to make a thorough inspection of the school plant before fixing the figures, as thus future difficulties will be avoided. In New York State, Melchior¹⁴ found that "in 66 per cent of school districts, the school board alone appraised the buildings," which is to say that one out of three was made by realty men. Evidently little attention is given to the matter of fixing the coverage amount to be insured even in New York State, and similar conditions seem to prevail in other states. In Minnesota, Skaaland¹⁵ reported a rather less percentage of school board appraisals, namely, 50%, while 28 per cent of the districts reported no appraisal. Only in the larger districts with sizeable populations were most of the appraisals made by architects, appraisal firms and contractors, or those skilled in the science of appraisal. This important point has often been ruled upon in the court

¹⁴ Melchior, W. T., *Insuring Public School Property*, p. 174.

¹⁵ Skaaland, S. G., *Insuring School Property in Minnesota*, University of Minnesota Library, Minneapolis, Minn., p. 72.

decisions, and therefore it is well if litigation is to be avoided for school boards to be certain of their coverage.

Cost of appraisal. The cost of appraisal is an item to be considered, but it is more than intended primarily to the determination of sound values, and it is no doubt related to good management, inasmuch as fire hazards are reduced by frequent checking, and a means is provided for surveying maintenance needs. The principal of each school learns the condition of the plant and is predisposed by these surveys to have better care taken against fire risks. The frequency of appraisals varies from once a year, once every five years, or at the expiration of insurance policy.

In Minnesota, excluding the two large cities, Skaaland¹⁶ reports the median rate of insurance to sound value to be 80.1 per cent and the average ratio for all school systems under survey to be 80 per cent. The amount of insurance carried depended little on the type of construction, whether fireproof or not. Skaaland gives figures that seem to show that school officials give little consideration to the rule of less insurance to value for fireproof structures.

Official supervision of insurance practices. The states authorize examination of the companies, inspection of their books and securities, oral questioning of their officers and agents doing business within the state. The Connecticut

¹⁶ Ibid. pp. 37, 89.

Commissioner of Insurance, for example, "at least once in every five years shall visit each fire insurance company incorporated by this State, thoroughly examine its financial condition, and ascertain whether it has complied with all the provisions of law."¹⁷ Each company has to maintain the required reserve for unexpired risks, and it is within the discretionary authority of the official to prevent the launching of companies which are on an unsound basis, and indeed to control the company in all its acts from its beginning. To these ends, numerous laws regulative of insurance companies have been passed in the different states, laws designed to promote the public welfare. On the economic validity of these laws, the courts are at times asked to pass as to their expediency, for officials of companies take the attitude that such regulation is often overextended.

Powers of Insurance Commissioners.¹⁸ In some states, the commissioner or superintendent of insurance is invested with a quasi-judicial function having considerable range of discretion, in addition to which he may offer advice. He requires annual statements and reports, recommends legislation, licences agents and brokers, requires annual statements and reports, and cooperates with school officials for the mutual benefit of companies and insurance departments.

¹⁷ Pamphlet, Section 4086, General Statutes, Revised, of Connecticut, 1918.

¹⁸ Huebner, S. S., Property Insurance, pp. 311-313.

Lack of uniformity in states. Unfortunately there is lack of uniformity and agreement between state legislatures, which pass rules and prescriptions that are at variance with each other, although these fire insurance companies have a national and sometimes international character. In some states the time varies within which losses must be paid, and on the other hand companies are forbidden in some states to pay claims in less than the time specified. The aggregate effect of various measures has been to make necessary court adjudication which hampers insurance business and operation to a considerable extent, as well as necessarily protects the public from being gouged or mulcted. This cost is passed on to the consumer in higher premium rates, but as long as legal requirements have to be enforced, and business is still conducted for the most part with private fire insurance concerns, so long will legislative restriction be necessary, and the maze of special court decisions be required to clear some sort of orderly procedure out of variant customs and rules. However, Robert L. Luce,¹⁹ an authority on the subject, takes a different viewpoint in an address to the Insurance Department of the Chamber of Commerce of the United

¹⁹ Luce, Robert L., "Government Control of Fire Insurance Through Legislation", Address to Insurance Department of the United States Chamber of Commerce, 1923, pp. 5-6.

States at its eleventh annual meeting:

"State regulation, originally instituted for the purpose of assuring to the public the solvency of the insurers and the validity of their contracts, and latterly extended to protect the public against the possibility of discrimination and excessive rates, has become an obsession in many quarters and seeks to interfere in almost every detail of the private management of this highly specialized business."

But as this private business is invested with a public interest and is supported by premium payments, especially in the case of public school property, the courts of the states are interested in acting as guardians of the law, written for the protection of the public.

CHAPTER IV
CONDITIONS AS TO NOTICE AND PROOF
OF LOSS AFTER THE FIRE

General scope of chapter. Necessarily, the fire has left definite evidence of loss and damage which are quite visible and in case a claim is made, are far from negligible. The very fact of insurance having been taken out is based on the possibility of proving a definite valuation of the entire property. The question in point at this time is to define the amount of damage done in terms of valuation or money adequate for repair and restoration, on which question frequent disputes arise, making necessary a court decision.

Responsibility for appraisals. The question of appraisal of property damage is usually left to the school authorities, for no local persons are more competent or capable in this respect. Appraisal firms and those skilled in the science of appraisal usually are not called to evaluate property loss, unless the discrepancy between the estimate of school authorities and of the insurer is so wide that a third party is called in. In a letter from Council Law Division, State Department of Education, New York, it is stated that:

"In cities of the third class, school authorities, together with insurance companies and appraisal firms, do the appraising in about 50% of the cases....."

This, in the light of the second clause of the standard policy, in the light of all the writers on the subject, and in the light of uniform business practices, is unsound and needs attention."¹

High cost of frequent appraisals. It is naturally expensive and difficult for the insuring company to be forced to inspect carefully each insured risk, for the saving thus effected would not be larger than the saving of losses which would result from a closer adjustment to hazards.² No matter how thoroughly a representative of a single company can go about inspecting the properties, he is not going to perform much in the improvement of appraisals and reduction of hazards. The cost of appraisal is related primarily to the determination of sound value, but frequent appraisals are not entirely justified, being too costly, but on the other hand, the effect on management in helping guard against conflagration is of value. Records are preserved or lists of items, or inventory of property value, and such lists are to be checked off for goods or parts of property wholly or partly damaged and destroyed.³

¹ Strayer, Engelhardt and Others, "Quotation", Problems in Educational Administration, Bureau of Publications, Columbia University, 1925, p. 228.

² Zimmerman, L. W., Property Appraisals, p. 101.

³ Ibid. pp. 161-162.

The principal in charge of each school knows his whole plant under his care, and checks in his report the specific items that have been damaged or destroyed.

Origin of fire. The origin of the fire is sought, as this is an important element in making the claim and offering proof of loss. In a recent survey⁴ of property insurance, it was discovered that approximately 85% of school fires were preventable. Prevention is of course cheaper than fire insurance, but a fire is a direct loss and has to be paid for in any event, unless deliberate incendiaryism is to blame, as in the case of labor strikes, etc. The various clauses of the policy cover fires arising from lightning, furnaces and ash heaps, storage of coal or fuel oil, and the cause has therefore to be definitely accounted for.

Distribution of fire causes. Melchior⁵ gives the following tabulation concerning the distribution of fire losses by causes and class of district, as well as lightning and windstorm losses, January 1, 1915 to December 31, 1920, in the New York State Public Schools, a table which is typical of fires in other states.

In approximately one-fourth of all fires whose causes are ascertainable, heating plants and defective chimneys and flues seem to be the point of origin for approximately

⁴Bloomfield, W. R., "School Fires", Quarterly Magazine of the National Fire Protective Association, 1931, pp. 37-38.

⁵Melchior, W. T., Insuring Public School Property, Bureau of Publications, Columbia University, 1925, p. 121.

the largest group, and most fires, according to the underwriters, have been reported as of "unknown origin" and still are due to poor heating plants and defective chimneys or to defects in electrical wiring.

A portion of the table referred to is set forth herewith:

Table 2
Public Schools, New York State
LOSS RECORD---CAUSES

Distribution of Fire Losses by Causes and Class of District
and Lightning and Windstorm Losses by Class of District
Six Years, January 1, 1915 to December 31, 1920

Cause	2nd Class Cities	3rd Class Cities	Villages over 4500	Union 4 Yr.	Union 3,2,1 Yr.	Total Cases
Fires						
Defective chimneys and flues		2		2	6	10
Stoves, fur- naces, boil- ers, pipes		2	1	1	10	14
Ash heap	1				1	2
Incendiary		1	1	2	4	8
Unknown	1	2	6	6	20	29
Electricity		2		1		3
Rubbish					1	1
Exposure				1	6	7
Matches and smoking					2	2
Miscellaneous						
Known causes	1	1		2	3	7
No causes reported				1	7	8
Totals	3	10	8	16	60	91

The data in the table cited is supplemented by Melchior by another table showing the distribution of origin of fire losses by place fire started and by class of district during the same period, and it is shown that fires originate in chimneys, roofs, attics, near stoves, furnaces, boilers, pipes; in basement, laboratory and special rooms, waste-baskets, interior and exterior woodsheds. The heating plant and electrical-wiring system constitute, it is shown, the most frequent causes of fire, and hence they should be installed by experts in those lines, and kept in proper repair and conditions of use.

Proper action for school official in reporting fire.

The first steps required of the proper school official who has the policy in hand is, as is defined in the standard policy, lines 136-158,⁶ to give immediate written notice of loss, although verbal notice is sufficient. Further damage must be prevented if possible. Damaged and undamaged material must be separated and put in the best possible order. A complete inventory is to be made showing cost and amount claimed on each item. Within sixty days⁷ after the fire, satisfactory proof of loss has to be furnished, and failure to do so within this time limit is fatal to recovery, unless this requirement has been waived.

⁶ New York Standard Fire Policy.

⁷ Reed, Prentice B., The Adjustment of Fire Losses, McGraw-Hill Book Company, p. 235.

Furnishing proper evidence. If court reviews and litigation are to be prevented, it is needful that the insured furnish and exhibit when required, plans, specifications and other data as enumerated, and to submit under examination under oath⁸ the various books and records at the proper time and location. As a rule, the policyholder gives notice to the insurance agent or broker, and another to the field man in charge. Should the loss be a severe one, the principal or school authority in charge is to give the number of policy, the probable percentage of loss, the names and amounts of other companies on this risk, so that the companies may consult as to the proper proportion of indemnity borne by each.⁹

Petty losses.¹⁰ It is to the credit of insurance companies that small losses are often left in the hands of the local agent, who agrees with the insured as to the amount, and after making up proof of loss, pays to the local treasurer the amount of claim, which he charges to his monthly account, and then submits the proper papers to his company. Sometimes the companies forward to the agents for delivery to the insured a draft in payment of claim. If the loss be

⁸ New York Standard Fire Policy.

⁹ Richards, L. B., Adjusting Fire Losses, pp. 87-88.

¹⁰ Erbele, Martin, Insurance Agent, Forbes, N. D., Personal Interview, 1930.

large, the field man may represent the company or he may refer the settlement to an independent adjuster or to one of the adjustment bureaus which make a point of court adjudications and are experienced in legal matters in this field. The subject of adjustment of loss after recovery will be considered in the next section. The courts in many states require "immediate notice"¹¹ of loss or reasonable promptness under the circumstances. The significance of what constitutes a reasonable time for the filing of proof of loss, as indicated in the New York Standard Fire Policy, has usually been declared by the courts as within sixty days after the fire.¹² In Indiana the policies required the proof of loss to be made within five days¹³ of fire, but this clause was superceded by a law passed by the Indiana legislature making it illegal for any insurance company to require proof of loss within five days after loss to the insured property.¹⁴

Preserving damaged property. It is the duty of the

¹¹Downs v. German Alliance Insurance Company, 67 A. 146.

¹²Bank of South Jacksonville v. Hartford Fire Insurance Company, 1 F. (2nd) 43.

Folds v. Fireman's Fund Insurance Company, 110 S. E. 925.

¹³Copy, Indiana Policy, Found in Insurance Problems, Book by J. B. Whitely, 1885, pp. 30-33.

¹⁴Richards, George, Laws of Insurance, Banks and Brothers, Law Publishers, p. 574.

school authorities, local firemen and police to preserve the damaged property¹⁵ from further loss and theft. After all, the contract calls only for recovery of fire loss and not loss due to negligence or carelessness of the school authorities or custodians. The latter are supposed to make reasonable efforts to prevent further damage to the school property, even if it means mending a breach in the roof, sorting out wet stock, oiling the machinery, etc., as the latter may in due course become a part of the claim attributed to fire loss.

Evaluating the proof of loss. In order to offer adequate proof of loss, the insured is required to make a complete inventory of the destroyed, damaged and undamaged school property. The school principal or other person in charge will give the quantity and cost of each item and the amount claimed thereon in the form of a report both for statistical purposes and for proper claim.¹⁶ In case an agent first pays the loss himself,¹⁷ a receipt for payment is signed by all interested parties. The sound value and the loss are agreed upon after the adjustment proceeds to deter-

¹⁵ Reed, Prentiss B., *The Adjustment of Fire Losses*, McGraw Hill Book Company, p. 234.

¹⁶ Daniels, Frank E., *Fire Loss Settlements*, Home Insurance Company, New York, p. 91.

¹⁷ Erbele, Martin, Insurance Agent, Forbes, N. D., Personal Interview.

mine these details, and also allowance is made for any part of the loss borne by the insured under co-insurance. The agent then makes out the proof of loss, which must be submitted in writing to the company within sixty days, and signed and sworn to by the insured.

Statement of proof of loss.¹⁸ Proof of loss statement states the time and origin of the fire, as explained in the tables and data given, gives the cash value of each item, the amount of loss on each, the interest, title, and occupancy at time of fire. Further information is given by the insured as to the complete list of the insurance contracts covering the property, whether valid or not, information which enables the company to determine its obligation and avoid false claims, as well as to draw upon other sources of knowledge in regard to the facts material to its rights.

More extensive proof of loss. Should the whole loss aggregate a hundred dollars or less, a short form¹⁹ of proof of loss is used, and otherwise the long form. After the insured or the school officer representing the school system signs the proof of loss, check in payment of loss is usually made payable to all mentioned in the policy, including bondholders or trustees. Further proof of loss

¹⁸ Reed, Prentiss B., Adjustment of Fire Losses, p. 357.

¹⁹ Ibid. p. 358.

may be required, other than the word of the school board, principal or manager. The verified plans and specifications of the building, fixtures and machinery destroyed and damaged are then exhibited to the person designated by the insurance company. The latter may submit to examination under oath any person named by the company. The agent has the privilege of examining books of account and other records at a reasonable time and place and to make extracts and copies of them for evidence. The latter gives the insurance concern an opportunity to satisfy itself as to the facts and circumstances attendant on the fire. The decisions of various state courts²⁰ have approved these rules and regulations, as well as any inquiries into a fire which are useful for the purpose of determining claims for loss. All this makes possible a prompt settlement without the employment of an outside adjuster, for the agent is usually conscientious and the school official is for the most part an honest and reasonable claimant.

Partial or total loss. If the building is totally burned and a wreck, the school sustains a financial loss equal to the insurable value of the structure, especially if it is not out of date and is in good shape for school

²⁰ Fidelity-Phenix Fire Insurance Company v. Sadau, 167 S. W. 334.

National Union Fire Insurance Company v. Burkholder, 83 S. E. 404.

use.²¹ The cost of rebuilding is ascertained, from which the depreciation is deducted.²² An accurate estimate of loss will be difficult if the building is obsolete, as many school structures are, for want of appropriations. Should the structure be merely fire-damaged but not gutted, the loss is measured by the cost of restoration of woodwork and other replacements and necessary repairs. If however, a substantial part of the school building has to be renewed, the property will become more valuable than before the fire, and proper deduction from payment will be made.

Inspection of property. The adjuster inspects the property and makes efforts to protect the building from further damage, especially if roof or windows are broken, when these must be covered up. But at times temporary repairs are inferior to permanent fixtures. The heating and plumbing system should be rectified, and water drained to prevent swelling of woodwork.²³ This duty of protecting the property rests on the municipality or village or school district, as the duty is so imposed by the policy.²⁴ The adjuster

²¹ Pamphlet, "School Fires", National Fire Protective Association, p. 2.

²² Engelhardt and Engelhardt, Public School Business Administration, p. 394.

²³ Griswold, J., The Fire Underwriters Textbook, National Board of Fire Underwriters, p. 32.

²⁴ New York Standard Fire Policy, Lines 17-19.

notes the probable cost of reconstruction. An effort is made to secure the original records regarding cost of construction from which items may be eliminated that are in good present order. The site too has to be considered as to costs of excavation. The various separate costs of foundations, plaster, glass, mill-work, paint, lighting, plumbing and heating, the contractors profits and architects fee, are to be duly appraised.²⁵ The school superintendent can furnish the complete details that are available, that this description may be checked against the debris, so as to help establish cost of reconstruction.

If the policies have a clause therein regarding average or co-insurance status, then the sound value and the total damage have to be determined by negotiation, according to the adjuster's method of procedure. The insured and the adjuster usually secure estimates made by contractors or builders, make comparisons and then agree.

Ascertaining small community losses. In smaller communities where it is easier to compute damage to property loss and cost of repairs with some accuracy, many losses are computed with no aid from a builder in estimating the loss. In the simpler types of buildings the insured and the adjuster may adequately calculate the loss. If the

²⁵Dargan, J. T., "Settling Fire Losses", Lecture
Published by The Home Insurance Company of New York.

relations between the insurance company and the public are satisfactory, competent builders will offer bids for repairs on construction, the insured then agreeing to abide by the decision of the lowest responsible bidder. A single builder may also be chosen jointly by the insured and the insurer with the expressed understanding that his estimate shall be final.²⁶ This method may also prove to be unsatisfactory because of the inability to verify his findings. Then too, the adjuster and the insured may agree to have the property repaired on the cost minus depreciation basis. This plan is mathematically impossible of verification to an exact figure inasmuch as the factors of economic value are variable but it is merely necessary at this time to prove, by means of the builder, appraiser, architect or other competent to reckon the cost of replacement, as has often been stipulated in disputed cases.

Negotiation of insurer and insured. The rules or conditions under which proof of loss is made call for inspection of the scene of loss and conference with the insured, or principal in charge, followed by an examination of the list of policies. The date, hour and exact cause of fire as stated by the insured and the adjuster's theory of origin

²⁶

Reed, Prentiss B., Adjustment of Fire Losses,
p. 51.

are compared.²⁷ Work is necessary at once to conserve the damaged property from exposure.²⁸ Discussion then ensues as to amount of loss through estimating, inventorying and checking, and then the adjustment is negotiated by agreement on value and loss. The limitation clauses are applied and duly apportioned to the loss. Final papers are then prepared, and execution duly prepared of proof of loss. Sometimes fires are caused by sparks from a locomotive, or from a third party, and this is dealt with in sections dealing with subrogation.

Observations of adjusters. Inasmuch as school fires originate largely in the furnace area,²⁹ the inspection will reveal charred woodwork immediately above a smoke pipe connecting a furnace with a chimney, which indicates lack of clearance between pipe and woodwork. The power of observation of the adjuster is sharpened by long experience in searching for evidences as to the origin of the fire. Weather conditions should be favorable, since snow and rain interfere with competent observation.

²⁷ Peers, Joseph L., "Safeguarding the Schools Against Fire", Pamphlet, National Board of Fire Underwriters, Chicago, p. 10.

²⁸ New York Standard Fire Insurance Policy.

²⁹ Peers, Joseph L., "Safeguarding the Schools Against Fire", Pamphlet, National Board of Fire Underwriters, Chicago, p. 13.

In countless instances, courts have issued pronouncements on the laws of evidence and have examined witnesses as to the accuracy of their observations, giving due credit to those trained in using their eyes and other senses. After all, proof is a matter of ocular observation, mainly, of the power of attention, coupled with judgment and reason, and a reputation for honesty. A relation of confidence and cooperation between the insured and the adjuster will lead to reasonable conclusions and the avoidance of court procedure at a later date. This calls for diplomacy on the part of the school official in charge in dealing with agents and brokers in the community.

Must present proper evidence of loss. The policy³⁰ requires the insured to state his knowledge and belief as to the time and origin of the fire, and the exact statement of the insured is used as evidence of proof of loss by some means, whether accidental or incendiary. Fires often originate close to defective heating devices or on shingle roofs from falling sparks in the small school districts, or inside the school, due to handling of inflammable materials, overheated furnaces, and the like. Careful investigation will often determine on a plausible theory as to how and where the fire originated, this evidence being sifted by elimina-

³⁰ New York Standard Fire Insurance Policy and Blank for Filing Notice of Proof of Loss.

tion until a definite conclusion is attainable, and if not, then the fire is determined as "of unknown origin."³¹ If the fire is of incendiary origin, as for example may be the case where striking school boys witlessly ignite a match, the adjuster's task is to prove guilt and state the cause as to inside or outside incendiarism. Fires may be located on premises, communicated or extended fires, communicated fires being the result of exposure.³² Losses may also be caused by smoke, water or falling debris.³³ The responsibility of the insured should be established, and in case of an outside cause indicating negligence, preparation is made for subrogation proceedings.

Written or photographed evidence. After all, most proofs are exhibited in writing,³⁴ inasmuch as it is difficult or impossible for a court to move to the scene of a fire, and photographs are also serviceable. The adjuster collects and records all available information, and will be able at the conclusion of an adjustment to prepare the proof

³¹ Pamphlet, "School Fires", National Fire Protective Association, 1927, p. 2.

³² Willey, C. L., Insurance Laws, p. 173.

³³ Huebner, S. S., Property Insurance, D. Appleton and Company, 1918, pp. 98-99.

³⁴ Erbele, Martin, Insurance Agent, Forbes, N. D., Personal Interview, 1931.

or proofs of loss and also the final report. Certain printed reports or questionnaires are furnished for convenience, as this makes possible a complete summary of every pertinent fact and condition. This written or photographed evidence is more reliable than hearsay and avoids intrusting such matters to a slippery memory. This reduces embarrassment and delay in courts in the endeavor to duplicate information that has been once collected but been forgotten in precise detail.

Allowances for deterioration of property. Unusual conditions have to be given consideration, such as the added cost of setting plate glass in order to cover breakage. Under some circumstances,³⁵ the land on which a school stands would be more valuable without the school property and the site can be sold for commercial purposes and a more suitable site secured later. These are matters of trade and compromise. If a property is mainly of wood, it is evident that much of the substructure has deteriorated. Wood structure which has become wet becomes warped badly and has to be replaced. The rusting of steel and ironwork is another of the processes of decay. Metal frames and pillars may rust or crack or crystallize in sections. Even brickwork suffers from the action of time, all of which has to be reckoned in

³⁵ Pamphlet No. 2, Committee on Publicity and Education, Chicago, Illinois.

proof of loss as depreciation.³⁶ Smoke and dust also add to the depreciation, which may show up after the fire.

Salvage values considered. Furthermore, the books, chairs and desks and other property contained have also depreciated. If the charges are based on an arbitrary writing down of value, they may be greater or less than the actual depreciation, and care should be taken in the accounting method.³⁷ All this has to be calculated in the salvage value of the building and contents. This proof of loss should be incorporated in the statement which the adjuster attaches. The builder in his employ estimates the cost of rebuilding. If the loss has been settled by record of repairs actually made, accounts should be prepared and rendered to the insured. Sometimes the loss is settled on the basis of a construction account, the adjuster's statement of loss, and his report should show the cost data in detail for examination by all parties concerned.³⁸

School property inventories. It is stated in the policy,³⁹ that the damaged and undamaged property is to be

³⁶ Reed, Prentiss B., Adjustment of Fire Losses, p. 49.

³⁷ Steeb, George V., Special Agents' and Adjusters' Handbook, the Spectator Company, New York City, p. 20.

³⁸ Ibid. p. 23.

³⁹ New York Standard Fire Policy, Lines 129-133.

put in order with a complete inventory of what has been destroyed, damaged, and undamaged property, and the quantity and cost of each article listed with the amount of claim. A correct list will show the total cost of the articles minus depreciation through use or age. If such property after a fire is "out of sight" it is of course lost in toto, for fire, water and debris may do considerable damage.⁴⁰ Differences of opinion as to the value of extant property are settled by discussion, unless the case is referred to the appraiser. It is needful that the articles have been destroyed by fire before the actual value of property is determined, and the insured has to prove this loss, or forego the claim. Evidence⁴¹ has to be produced to substantiate a claim. Whatever can be done to condition the miscellaneous articles damaged by water and smoke, should be resorted to, and wood furniture should be wiped as dry as possible, metal furnishings wiped and oiled to prevent rusting, and various instruments sent to the repairers. The work of saving intact property can be done at times on the premises and things stored in a temporary place and covered with tarpaulins or tar paper.⁴²

⁴⁰ Zimmerman, L. W., Property Appraisals, pp. 234-235.

⁴¹ Ibid. p. 240.

⁴² Ibid. p. 243.

Disposal of salvaged material. Such salvage actions at the appraised value is in cases to the schools' advantage, principally in cases involving heavy loss of books and store-room property that appraisers might pronounce practically worthless. In instances,⁴³ the merchandise is sold and the net proceeds paid directly to the insured, and claim is then made under the policies for the balance; and in other cases, the insured is paid the sound value by the company and the latter recoups from the salvage sale.

Reasonable claims. The books and records kept by the municipality as to values are produced for examination, together with all invoices and other vouchers connected with school properties. It is not customary for school officials to be guilty of fraud in overstating the value of or damage to property. In case of doubtful claims for loss, the adjuster has to decide whether to compromise or to litigate, and must bear in mind the difficulties and uncertainties of litigation. However, school officials have a reputation for reliability and integrity, and have no personal interest at stake in enlarging the loss claim.

⁴³ Wakefield, D. E., Handbook of Fire Insurance Adjustments, p. 2.

CHAPTER V
ADJUSTMENTS OF LOSS AND RECOVERY

Prompt adjustment of losses. While insurance companies are prompt in adjusting losses, occasions may arise at a subsequent date when it is necessary to adjust the loss after recovery of the insurance.¹ Protest may be made by the school system that loss is larger than amount recovered, or the insurer may claim that an overcharge has been paid and the settlement or agreement has not been wholly equitable. Business reasons impel an insurance company to make loss settlements promptly, otherwise it would suffer in competition with other insurance concerns, but it has to keep its losses down.

Difference of opinion. There is a divergence of views that frequently has to come up for court settlement. The value of buildings and stock of goods may have been exaggerated, or perhaps inadequate and incomplete records of loss may have been kept by the school authorities, thereby reducing the extent of their claim. In such instance, the amount of loss and damage becomes a matter of dispute,² and it is desirable for the parties to use the machinery for reappraisal that is provided for in the insurance policies for effecting a new settlement.

¹ Daniels, Frank E., *Fire Loss Settlement*, Home Insurance Company, New York, pp. 151-152.

² Ibid. p. 60.

Provision for appraisals. It has been held by the courts³ that these appraisal provisions are valid and enforceable parts of the contract, and they have provided, in some instances, for the selection of two appraisers and an umpire, one on the side of the insured, one the insurance company, and the other chosen by the two or by a state official to decide such questions as are matters of disagreement between the two other appraisers.

Duties of appraisers. The text of the standard policy⁴ provides for such appraisal in language that is summarized in the previous paragraph, but from which we may quote:

"The appraisers shall first select a competent and disinterested umpire; (and if they fail to agree on such choice within fifteen days) such umpire shall be selected by a judge of a court of record in the State in which the property insured is located..... An award in writing, so itemized, of any two when filed with this company shall determine the amount of sound value and loss or damage."

The expense of appraisal and of selection of the umpire is to be borne by both parties equally. An appraisal agreement is usually entered into, according to a form in use in the New York Standard Policy.

Fundamental principles of adjustment set forth. In this form of agreement as to appraisal, the principles of

³Reed, Prentiss B., Adjustment of Fire Losses, McGraw-Hill Book Company, p. 240.

⁴New York Standard Fire Insurance Policy, Lines 162-173.

sound estimation of property values is set forth clearly, this giving the fundamental principles of adjustment.

"Such loss and damage shall be ascertained according to the actual cash value of said property at the time of occurrence of said fire, with proper deductions for depreciation however caused, and shall in no event exceed what it would cost to repair or replace the same with material of like kind and quality within a reasonable time after such loss or damage, without allowances for any increased cost of repair or reconstruction by reason of any ordinance or law regulating construction or repair, and without compensation for loss resulting from interruption (of session) but such appraisal does not in any respect waive any of the provisions or conditions of said policy or policies of insurance, or any forfeiture thereof, or the proof of such loss and damage required by the policy or policies of insurance thereon."⁵

After noting the costs of appraisal and umpire, the space below is left for signatures of insurance company officials and insured.

Court settlements. The courts are often resorted to for satisfactory settlements in the appraising of fire loss. If either party to the contract fails to agree in the settlement the right to arbitrate the matter, as included in the policy, is usually upheld by the courts.⁶ If the arbitrators exceed their authority their appraisal will not be binding,

⁵ Reed, Prentiss B., Blank for Appraisal Agreement, p. 353.

⁶ Murphy v. Northern British and Mercantile Company, 61 Mo. App. 323. Herdon v. Imperial Fire Insurance Company, 107 N. C. 183, 12 S. E. 126.

and if they agree they need not call in an umpire to decide the case.⁷ It is provided in the policy⁸ that

"no suit or action on this policy for the recovery of any claim shall be sustainable in any court of law or equity unless all the requirements of this policy shall have been complied with, nor unless commenced within twelve months next after fire."

The requirements are notice of loss, filing proof of loss and submitting to appraisal and examination under oath. The insured, before bringing suit in court, is required to comply with the appraisal clause so as to ascertain the total loss.

Judicial approval. There is general approval of the appraisal clause for settling out of court, as this reduces the amount of adjudication.⁹ In former years, lawyers and judges opposed this provision as lessening their professional powers as "tending to oust the courts of their general jurisdiction" through the outside arbitration of such disputes. In Pennsylvania and Nebraska,¹⁰ however, it is held by the courts that the agreement to appraise may be revoked, in spite of the right of either contracting party to demand arbitration. Thus the action to settle a case out of court

⁷ Enright v. Montank Fire Insurance Company, 15 N. Y. Sup. 893.

⁸ New York Standard Policy, Lines 192-196.

⁹ Report of Illinois Fire Commission, 1911, p. 31.

¹⁰ Insurance Yearbook, 1915, p. 23.

results in revocation. As early as 1893, in fourteen states¹¹ a valued policy clause was in force and in case of total loss the courts did not enforce appraisals. There being nothing to appraise, the policy becomes exclusive evidence of the proper amount to be paid in damages. Indeed, in other respects, there is a lack of uniformity, and the insurance laws of various states differ, as for example with regard to the time limit for bringing suit,¹² inasmuch as delay may increase the difficulty of adjudicating the rights of the contracting parties.

Method of adjustment when there are concurrent policies.

In many instances a question may arise as to the actual net amount to be paid to the insured. Differences of opinion may arise with respect to a possible co-insurance clause or other provisions which modify the policy provisions, such as the three-fourths value clause, or perhaps several policies are already in force on the same property.¹³ In such instances it becomes necessary to apportion the loss among the various companies. Consideration has to be given to evidences of fraud, arson or incendiarism or to bonded

¹¹ Richards, George, Laws of Insurance, Banks and Brothers, Law Publishers, pp. 573-574.

¹² Ibid. pp. 572-573.

¹³ Conway, Robert M., "School Fires," National Fire and Protective Association, 1933, p. 10.

indebtedness. The right of subrogation¹⁴ is considered a settled principle of the insurance business. The proportion to be paid by the several insuring companies is settled by the simple principle of proportion, provided the policies are on identical lines. "This company," the policy reads,¹⁵ "shall not be liable for a greater proportion of any loss or damage than the amount hereby insured shall bear to the whole insurance covering the property, whether valid or not or whether collectible or not."

Difficulties involved in non-concurrent policies. Court decisions¹⁶ are necessary to settle problems of great difficulty when non-concurrency of policies exist, such as policies covering one specific item of property or whether a blanket policy covering all items in one amount. A policy may be applicable to both building and contents or to contents alone or in the location of various buildings insured. Questions of this sort have to be settled in court as to the proper distribution of loss claim, and also the effect of the co-insurance clause in one of the policies in apportioning settlement funds, or whether the contribution of the general and specific insurance to pay loss on various

¹⁴ Connecticut Fire Insurance Company v. Erie Railway Company, 73 N. Y. 399. Liverpool and G. W. Steam Company v. Phoenix Insurance Company, 139 U. S. 397.

¹⁵ New York Standard Policy.

¹⁶ Richards, George, Laws of Insurance, p. 184.

items be in the ratio of value, the ratio or loss or the order of description of the various items.

An example of non-concurrent policies. Three companies may have issued policies on a certain school community, one having blanket insurance on building and steam plant, etc., another a specific total on the building alone, and another company having a like amount on the power house and adjacent school building, a large high school, all three companies issuing, for example, policies totaling \$100,000. The sound value of the building is \$60,000 and of the power plant \$25,000, with a loss of \$50,000. If it be assumed that the contribution of both the blanket insurance of company a and the specific policies of companies b and c shall be in the same ratio as the value of each item bears to the value of all the property insured, then both building and steam and power plant are taxed in proportion among the companies on both specific and general policies, and the insured receives full indemnity up to the insurable value of the property, although the apportionment among the companies is uneven. The total due is however paid through an inter-settlement by the companies in proportion to the amount of liability each has assumed. No method of apportionment is exactly correct, and when a settlement has to be made by a court, the rule in the particular case is applied which will equitably

pay the total indemnity.¹⁷ If complete elimination of any difficulty of this sort is to be assured, then non-concurrent policies should be avoided by school insurers.

Conflicting interests. A conflict of interest between two or more companies may arise as to the correct application of insurance or the apportionment of loss or an attempt to substitute policies, especially in the case of non-concurrent policies. In such instances, underwriters endeavor to arbitrate these controversies and keep the insured out of litigation. Of course the complete statement of facts is what is desired by adjusters of the fire insurance companies in the National Board, which makes an endeavor to encourage arbitration to save expense and also to acquire a fund of experience which will settle all the evils involved in such instances.

No double indemnity. In lines 197 to 200 of the standard form,¹⁸ the policy reads: "This company may require from the insured an assignment of all right of recovery against any party for loss or damage to the extent that payment therefore is made by this company." The insurance company therefore succeeds to the place of the insured as to any rights of recovery¹⁹ against any party, under its com-

¹⁷ Steeb, George V., Special Agents and Adjusters' Handbook, The Spectator Company, New York City, p. 31.

¹⁸ New York Standard Fire Policy.

¹⁹ Insurance Company of North America v. Fidelity Company, 123 Pa. 523.

mon law rights. The insurer, of course, has the right of subrogation or substitution of one person in place of another, or of one school property for the other, but in accord with the contract of indemnity, this right is reserved to the company in the policy so as to make sure the company has paid on the insured property and to the particular community or district, otherwise the insured would be doubly indemnified, as in the case of bondholders and other insured creditors. This would tend to undermine the basis of insurance in economic measure. Underwriters retain interest in subrogation rights on account of the possibilities of reimbursement of losses paid out. The companies, in turn, are entitled to recover from any third party only what sum is equivalent to what has been paid to the insured.²⁰

Subrogation clause. A provision for subrogation is incorporated in the policy.²¹ The person causing loss is known as the wrongdoer, and it is the owner's right to proceed against such, and the company becomes subrogated to the rights of the insured when payment is made to the school for the loss. The company then may collect from the wrongdoer not more than the amount paid to the insured. There is a provision in the 1886 edition of the New York standard policy by which the company is subrogated whenever there is

²⁰ Phoenix Insurance Company v. Erie and W. Tr. Company, 117 U. S. 313.

²¹ New York Standard Policy.

neglect of some wrongdoer or direct action, though negligence is more explicitly set forth in the 1918 edition.²² The adjuster's duty is to establish and preserve the right of recovery that may be acquired by the company, and also when this is justified, to attempt collection from the wrongdoer; then suit becomes necessary.

Protection of insurer's subrogation rights. Litigation has also resulted over fires arising from refuse burners, stationary boilers, failure to quench ashes in camp fires following excursions, etc., all of which points to the responsibility of some third party for the insured's loss. The principal or superintendent is not to make any settlement with the supposed wrongdoer that would tend to disturb reimbursement of the company. The release of a wrongdoer without consent from the company would justify the company in refusing the legitimate payment of damages, inasmuch as such release would defraud the company of its own rights. The adjuster's business²³ then is to collect all the available evidence in making claim promptly before concealment is resorted to. A summary of all the evidence should go to the company with a clearly described report, and the wrongdoer should then be called to account. The adjuster then arranges with the school authorities to participate in the

²² Ibid. Lines 197-200.

²³ Reed, Prentiss B., Adjustment of Fire Losses, pp. 27-29.

adjustment, and if acceptance is the case, this contract may be amicable in settlement or go to a jury otherwise. Subrogation cases are usually handled by attorneys on a percentage basis.

Option to replace property. The adjuster may exercise the company's option²⁴ to repair or replace the damaged school structure and contents. Fireproof construction may involve the replacement of damaged steel members, and the cost of operation will vary with the amount of riveting and shearing to be done. Hence it is better for the school officials to have the work done on a time and material basis. Injured pipes, conduits and wiring have to be taken out of shafts. There are reliable contractors who can undertake to replace at less than the original cost. After the work has been completed by the contractor, the property is to be inspected by the insured, the repairs and replacements accepted and a certificate of satisfaction given termed "satisfaction price."²⁵

Insurer's right to salvage materials. Salvage operations follow from the option embodied in the policy²⁶ to take various contained school property at the agreed or appraised value, these being books, instruments, classroom

²⁴ New York Standard Policy, Lines 176-182.

²⁵ Wolff, Louis H., "Fire Insurance Loss Adjusting in Twelve Lessons", Agents Service, Lesson 2.

²⁶ New York Standard Policy, Lines 176-178.

apparatus and the like, which option can be exercised to the insurer's advantage. The various contained properties are checked out and an inventory made as the articles are taken out of the premises, such as desks and chairs, etc., and the properties sold "on account of the loss."²⁷ In other instances, the insured is paid the sound value of these articles slightly damaged by fire and salable, and the proceeds go the company's way, or "selling for account of the company."²⁸ The work of salvaging what is worth recovering is done by the Underwriters Salvage Company,²⁹ which is a corporation owned by the insurance companies and operating to save what is redeemable, which serves to help pay the schools for what has been damaged and thus lowers the premium rate in general. While the company could repair or replace whatever is damaged or destroyed wholly or in part, this right is seldom exercised, unless the adjuster secures the approval of the main office, inasmuch as a refusal on the part of the insured would invalidate the repair bill.

Furnishing required information. The company may examine the insured or the school official in charge as to the known facts and the price paid for the property and

²⁷ Reed, Prentiss B., Adjustment of Fire Losses, McGraw-Hill Book Company, p. 243.

²⁸ Ibid. p. 243.

²⁹ Ibid. p. 243.

examine the records, and also look at the condition of property at the time of loss and also the origin of the fire. The answers furnish leads which can be compared with other evidence as to the extent of the loss and the propriety of the given amount fixed for the loss. Rarely does a case arise when the insured is pressing a fraudulent or exorbitant charge or claim, for in such cases the statements are made under oath and checked against whatever contradictory evidence is to be had, for a policy is voided in case of false testimony,³⁰ which tends to keep the evidence clear, though the presumption is that the school official or board is of such a character by virtue of public office that there is scant motive for dishonesty and perjury, for the profits of dishonor could hardly rebound to personal advantage. The customary method of making adjustments in the territory covered is ascertained and innovations are refrained from, while unusual cases are submitted to the companies which are liable.

Wide distribution of insurance. In the experience of leading fire insurance companies, the amounts at stake are so distributed as not to incur total loss, and that about 95 per cent of all fire losses sustained are partial, or

³⁰ Avery v. Ward, 150 Mass. 160, 22 N. E. 707.
Sternfeld v. Park Fire Insurance Company, 50 Hun. 262, 2
N. Y. Sup. 766. American Insurance Company v. Gilbert,
27 Mich. 429.

nine out of ten claims³¹ against fire insurance companies, the losses being relatively small compared with the total risk. Widely distributed school buildings, therefore, are insured at less than full value for specified amounts. Low cost protection is granted against their probable losses. On the other hand, insurance of one school building in a third class community is exposed to total loss, and the school authorities are impelled to insure at full value. The rate is increased, however, per hundred dollars. A partial loss to property should make for a proportionately less loss to the insurance company on the destroyed school or damaged building.

Rules in use. Under a variety of rulings³² there is a definite adjustment of loss made, in non-concurrent policies, as for example under the Page Rule under which the full amount of the blanket insurance and the full amount of the specific insurance contribute to satisfy the loss. The Cromie Rule requires that the blanket insurance coverage shall first be satisfied on the property which it covers; then it shall assist with the specific policy. Under the Reading Rule the blanket policy is apportioned among the various items of property in the same ratio as the value of each item is in proportion to the total value. The

³¹National Board of Fire Underwriters Proceedings, 1933.

³²Hollan, Francis C., Fire Insurance Classifications, 1933, pp. 10-12.

ratio allotted to each item also assists in covering the specific insurance on each item of property.

From the complex bearings of these rules, it is obvious disputes will arise which often result in litigation. The wise school official need not be much concerned with the aforementioned rules because many of the disturbances can be avoided by using concurrent policies which are alike in their description of the property.

CHAPTER VI
PREMIUM PAYMENTS

Definition of premium. The word "premium" in the field of insurance has a well settled and specific meaning which is thoroughly understood. "The consideration paid for a policy of insurance,"¹ "The sum paid by the insured to the insurer for the indemnity promised by the contract in the event of a loss,"² "The amount paid or agreed to be paid in one form or periodically to the insurer as the consideration for a contract of insurance."³ These definitions are current and in principle need not be misunderstood, though in application there are difficulties to settle, for example, as when premium payments are delayed and lapse or are paid by notes or to an agent who is not duly accredited.

Premiums defined by courts. Turning to Corpus Juris for the discussion on Premiums,⁴ we note the obvious principle relative to school property insurance as well as any other form of insurance. Numerous decisions in the various states as listed in the footnotes are quite applicable to the insurance of schools, although only a small percentage

¹ Webster's Secondary School Dictionary.

² Gephart, W. F., Principles of Insurance, Macmillan Company, p. 210.

³ Steeb, George V., Special Agents and Adjusters Handbook, The Spectator Company, New York City, p. 31.

⁴ Corpus Juris, Vol: 32, Sec. 324, p. 1192.

are direct decisions concerning schools in the strict sense of the word. So far as is known, there is no direct compilation of such school cases, and it would no doubt be a labor of considerable magnitude to compile these cases in full detail, together with the attending circumstances and news reports and figures of damage and indemnification, over a period of fifty years. "Premiums are of the essence of insurance contracts."⁵ The amount of the premium may be left open to be ascertained in the future. In that case, the company is bound by the amount fixed by the authorized agent. Where the parties cannot agree among themselves, the court may fix the amount. The usual or a reasonable amount will be implied in the absence of any express agreement with respect thereto.⁶ The amount of premiums is based on the amount of liability for which the company may be liable under the policy.

Dependence of rates on calculations. After all, the amount of premium is judged by means of the laws of probability, a law which is quite reliable when calculated on a wide basis of distribution.⁷ Hence the determination of the amount of premium to be applied on school properties is not empirical, as a rule, for there has been a remarkable

⁵ Texas State Mutual Fire Insurance Company v. Taylor, 157 S. W. 950.

⁶ Walker v. Metropolitan Insurance Company, 56 Me. 371.

⁷ Gephart, W. F., Principles of Insurance, pp. 104-105.

development in the classification of risks in this field. The rule is indeed not "Charge all that the traffic will bear," but what is approved and based on proper calculations of profit for the insurer, a rule that is sustained in all the state courts. While in the public utility field, municipalities have paid high for electric and gas service, the public schools have paid rates which reflect credit upon the skill and acumen of superintendents and rate makers.

Dependence of premiums upon classification of risks.

The more kinds of school property that are to be handled, the larger mass of statistical data results, and the more fully classified and heterogeneous is the whole structure, thus enabling the rate of loss for each group to be computed, and consequently the amount of premium.⁸ A sufficiently broad base has already been found for the ratios of loss to be determined for each group separately, as for example, small suburban or rural schools increasing in size to the well-constructed and almost entirely fire-proof high schools of the cities. An enormous mass of experience goes to make up the experience of the insurance companies with the schools, enabling reliable conclusions to be derived as to the cost of insurance to both large and small school properties, including extra premiums for certain types of fires and how caused, as well as deductions and credits for points of

⁸ Allan, H. W., Fire Insurance Business, John Wiley and Sons Inc., Publishers, p. 97.

prevention and protection. The large number of cases make for more certain judgment as to the outcome in the long run, and a number of fire insurance concerns pool their statistics,⁹ a course which has its advantages in avoiding underwriting mistakes. The conflagration hazard is, of course, indeterminate.

Factors affecting premium rates. Fire underwriters are private agencies with the public purpose of providing indemnity as a service or commodity to the community, or protection under given conditions for stipulated sums or an equitable premium. The general problem of rates is less difficult than charging to each separate risk its share of the general burden, since the magnitude of each piece of school property risk is different. There are many physical items,¹⁰ such as location, structural material, design, height, openings, heating and lighting, fire walls and doors, sprinkler or other protective devices, and also the efficiency and rank of the local fire department, together with the annual variation in fire loss to a degree as much as 20 per cent, all of which makes difficult exact calculation of premium rates for futures.

Dangers in too low rates. The premium rates have to be maintained, although in the face of ruinous competition the

⁹Gephart, W. F., Principles of Insurance, Vol: 2, p. 111.

¹⁰Mallalieu, W. E., "Build Against Fire," Safeguarding America Against Fire, Feb. 1929, p. 4.

schools have received protection at the expense of other interests at times. Consequently school officials cannot expect constantly lowering premiums without bankrupting the companies. If the rates are cut down too much, the promises of the companies are to be correspondingly lightened. Certain fire insurance companies have not acted to meet such competition,¹¹ the latter being the practice of unsafe concerns, and school officials would prefer not to save rates at the expense of the principal itself, which would itself be risked thereby. Of course, school properties are preferred risks and secure an advantage in premiums, and it is true that the school hazard is more profitable to the companies than others, but "with the costs accurately ascertained, the gross premiums may be made to accord with the net, with the same margin for expenses and profits, or with a difference in margin, as is thought wisest."¹²

Adequate premiums for better coverage. School properties will continue to pay premiums high enough so that the insurance will be written with caution thus assuring the company from incurring a deficit through the risk, and also providing these flexible premiums to superior risks in spite of the heavy fixed costs of the companies. There are

¹¹ Layton, W. D., Principles and Practices in Fire Insurance, pp. 70-72.

¹² Dawson, Miles M., Article, Yale Readings in Insurance, p. 194.

other risks than those of fire,¹³ such as explosion and collapse of the structure, for which due coverage is to be provided, for the insurance is more valuable if it is more inclusive, for which reason if a greater premium is paid it may be equalized on a broader coverage of fire from many causes that render the ratio of premium payment equitable in proportion to the total liability. Overinsurance, however, does not with school properties produce incendiarism, but underinsurance results in the payment of small premiums. Indeed, the classification of coexistent relations found in our premium system covering the schools forms one of the features which gives fire insurance the claim to being no game of guesswork, but instead a statistical basis upon which scientific fire-rating rests as a science of measurement. The elements¹⁴ which determine premium rates are susceptibility and hazards, differences in location or in the construction and material of buildings, and differences in exposure or surroundings.

Uniformity of rates demanded. In most states,¹⁵ the insurance laws forbid unfair discrimination in rates and force the adoption of uniform methods in the filing of

¹³ Benson, S. D., Fire Insurance, pp. 201-202.

¹⁴ Gephart, W. F., Principles of Insurance, pp. 106-107.

¹⁵ Lectures on Fire Insurance, Insurance Library Association of Boston.

rating schedules with state offices. Economic considerations require uniform and equitable rates as between individual risks or classes of risks. While the short rate for one day is 3 per cent of the annual premium, longer periods of from one year to three years are proportionately less by far. A three year contract is written at $2\frac{1}{2}$ times the annual premium and for 5 years at four annual premiums.¹⁶

Minimum rates are made for and apply to any and all risks from a large group of school properties where the hazard is relatively uniform in nature, there being a saving of expense of separate ratings for certain public buildings, and these may be termed judgment rates. The key rate is a uniform rate assumed as a starting basis upon which to compute a number of given risks. It is stated¹⁷ that the cost of keeping such ratings varies from one to 2% of aggregate premiums of all companies, amounting to between four and five million dollars per year. Since these premium rates are the primary means of providing funds to meet insured losses, they should reflect loss experience closely indeed. Average risk¹⁸ over a number of years is used in each state

¹⁶ Huebner, S. S., Property Insurance, p. 244.

¹⁷ Dean, A. F., Analytic System for the Measurement of Relative Fire Hazard.

¹⁸ Pamphlet, "Rate Making", General Inspection Bureau, Minneapolis, Minn., pp. 17-20.

and raised or lowered by percentage amounts in conformity to statistical state experience.

Responsibility for rate making. Such rate making has to be cooperative, and is hence not forbidden by law in any of the states. Rate making¹⁹ for schools is in the hands of rating associations or bureaus, either sectional or local associations, who are not primarily concerned with the business of fire underwriting. In Texas, a department of the government is directly in charge,²⁰ but in other states, rates are made by field men, or general and special agents of the companies, or of direct company representatives. There are more than 40 rate making or premium calculating organizations in the United States,²¹ including four in New England, twelve in the Middle States, four in the Western States and five in the Pacific Coastal area. Daily reports²² by these various organizations and their affiliates are sent to the companies and to audit bureaus for certification as to correctness of the rate, policy form and clauses. However, these rate makers necessarily reflect the attitude of the insurers themselves, for if more were done to prevent fires, incendiarism and the like, the rates would be lowered.

¹⁹ Ibid. p. 23.

²⁰ Richards, George, Laws of Insurance, p. 346.

²¹ Billings, Henry L., Rate Making, p. 34.

²² Ibid. p. 38.

No definite standard rate for schools. Several forms²³ of rating schedules are in use in different states, sections and cities of the country. But public property and especially school buildings, are customarily given minimum class rates. However, no standard ratio has ever been established by comparison with other types of properties. These basis rates are estimates,²⁴ as judges have agreed, which represent the combined judgment of rating experts as to such unanalyzed features as hazard, fixed expense, moral hazard, average loss experience and the like. Cities and towns are divided on the basis of the type of fire protection offered and the mechanical facilities, such as for frame and brick structures.²⁵ The brick building rate is the basis to which charges are added to determine the cost of frame structures, of which so many school buildings are typical, to which the contents in desks, other furniture, laboratory facilities, plant for heating, etc., are added to the building rate. It is the arbitrary element in setting a basis rate as a standard by which to compare the elements of the hazard, inasmuch as insurance men²⁶ have decided it is not possible to place fire insurance rates on an actuarial basis similar to what has

²³ Huebner, S. S., Property Insurance, pp. 259-277.

²⁴ Billings, Henry L., Rate Making, p. 30.

²⁵ Ibid. pp. 36-37.

²⁶ Layton, W. D., Principles and Practices in Fire Insurance, p. 161.

been done in the field of life insurance. It is ever necessary for some human appraiser to set up standards in comparison with which the schedule would measure the risk of a particular school building, that being highly variable, according to location and the other elements as enumerated.

Local security affecting rates. Some cities with a favorable fire-loss not exceeding \$10 annually to each \$2000 of insurance have ideal conditions, water-works of fine nature and efficiency, hard-surfaced roads, splendid police and fire departments, favorable outlying exposures, and the like. If protest is made against high premiums, it is due to a realization of these fine conditions locally.²⁷ It has been determined that in naming a basis rate, the plan is to "secure a rate on which the fire cost of the past five years per \$100 of insurance would result in such percentage of the premium as with an allowance for proper expenses, and also for accumulation for periodical and inevitable sweeping fires or conflagrations, would leave margins for a moderate profit not exceeding five per cent. The insuring public cannot object to rates based on so moderate a profit."²⁸

Credit or deductions²⁹ are given for such items as add

²⁷ Edwards, B. W., Insurance Risks, pp. 67-68.

²⁸ Moore, F. C., Universal Mercantile Schedule.

²⁹ Wolff, Louis H., Principles of Fire Insurance, p. 227.

or subtract from the basis rate of 25 cents per hundred dollars per year. If the town is deficient in having no water works, fire alarm, telegraph, fire marshall or equipment, 32 cents is added, and if the streets are not hard-surfaced, a 2 cent charge is imposed. Certain percentage reductions are made from the original 25 cent rate for superior fire department appliances, and for a good reduction in fire waste of the city below 55% and not exceeding 15% on a three-year period.

High premiums for losses incurred. Decisions in law have to rest upon the facts of average experience. The evidence as to whether school buildings are good or bad insurance risks is problematical as yet. The number of 184 randomly selected school districts in Pennsylvania paid \$1,025,353 in fire insurance premiums during five years from 1920 to 1925. However, the fire losses in these districts for the period amounted to less than half, or only \$442,867, the losses being but 43% of premiums.³⁰ In a New York State study covering 1182 school buildings during the six year period from 1915 to 1921, W. T. Melchior shows that the losses were only 35.6 per cent of the premium. These are highly favorable showings, as regards the judgment of the insurance companies, although there is evidence

³⁰ "Fire Insurance for School Property", American School Board Journal, Vol: 70, April 1925, pp. 101-102.

submitted by the latter that school buildings are not good risks.

However, premiums still appear rather high, in view of the total records. The ex-Clerk and Business Manager of the Board of Education of Portland, Oregon³¹ indicates that in the sixteen year period from 1902 to 1918, Oregon schools received in payment for fire losses but 40.1 per cent of the premiums. It is evident to Melchior³² that the profits on school insurance in these states were large, for in Pennsylvania 57% of the premiums went to the fire insurance companies for overhead and profits; in Oregon 59.9% and in New York 64.6%, or practically two-thirds of the total premium payments.

Lower premiums for modern school buildings. Newer school buildings are considered better insurance risks, and hence are entitled to lower rates. They are more isolated, having less exposure; being constructed of fireproof or fire-resisting material, and required by law to be equipped with suitable apparatus for extinguishing flames, they deserve such reductions. Furthermore, they do not contain the combustible materials of factories, and they are occupied for a limited

³¹Thomas, R. H., "Fire Insurance in Public Schools", American School Board Journal, Vol: 57, Sept. 1918, p. 36.

³²Melchior, W. T., Insuring Public School Property, Bureau of Publications, Columbia University, p. 165.

number of hours per day by groups not engaged in smoking or other hazards.

Irregularities in premium payments. Conflicts may arise as to the amount of premium, or conditions arising which make for adjudication. There are many surrounding circumstances concerning premium payments, which have been passed on by the state courts. For example, where an insured has a running account with an insurance agency, with whom insurance premiums are settled from time to time as called on to do so, a policy of insurance taken out by the insurer through an agency is not invalidated because premiums were not paid when the policy was taken out, but the insured is entitled to pay on demand only.³³ Another point of interest is that when policies are issued and delivered at an agreed premium, the burden of establishing the right to increased compensation is upon the company.³⁴ But after a policy has been contracted for, at an agreed premium, it is difficult to dispute a recorded act, although the rate may be higher than warranted.

Little protest from school officials for high rates.

Fire insurance experts will admit that there are discrimina-

³³ Pelican Insurance Company of New York v. Schild Knecht, 108 S. W. 312.

³⁴ Daniels, Frank E., Fire Loss Settlements, Home Insurance Company, New York, p. 68.

tions in rate making,³⁵ and there is an eagerness on the part of companies to secure the preferred classes of risks. There is a possibility of unjust rates between specific preferred risks. Insurance companies in general have found that they can levy high rates on churches, schoolhouses, public buildings and kindred risks without causing much opposition.³⁶ Were the companies to make higher rates on mercantile or factory risks, there would be a different situation, protests from boards of trade and chambers of commerce, inasmuch as these properties are owned by men with a private interest, whereas the insurance companies have to contend with no concentrated organization when they fix the rates on school property. Nevertheless, it has been shown in a survey³⁷ of the officials of 32 insurance companies that 21 thought school buildings bad risks. This conclusion seems on the face of it to be contrary to the experience records as already stipulated, but is not wholly inconsistent with special facts, for some buildings were of poor construction, or there was lack of fire protection and general carelessness. There are, of course, good and bad risks. The record of Cincinnati, Ohio is particularly

³⁵ Hollan, Francis C., *Fire Insurance Classifications*, 1933, p. 16.

³⁶ Ibid. p. 17.

³⁷ Anderson, L. W., "Agents' Survey", Pamphlet, Insurance Company of North America, Chicago, Ill., 1932, pp. 3-4.

favorable over a long period of years. Indeed, the premiums appear to that city school system so high, that no insurance is taken out with private Cincinnati companies, but a special appropriation each year takes care of fires.³⁸

Small risk in Chicago schools. A letter from John E. Byrnes, business manager for the Board of Education of the city of Chicago, reported by Ward G. Reeder, offers this remarkable piece of evidence:

"At no time during my thirty-years' service with the Board has a school building been totally destroyed by fire. During the past two years, two school buildings were badly damaged to the extent of approximately \$25,000 each; but our records show that the loss by fire in all school buildings during the past 25 years would average about \$6000 a year."³⁹

Comparison of premiums with those of state insurance.

Various facts can be adduced from the experience of large school systems to prove private insurance disadvantageous, and three states, North Dakota, South Carolina and Wisconsin,⁴⁰ have enacted laws providing for state insurance of school property. North Dakota is the state where all school property except that located outside the incorporated limits of a village or city has to be insured in the state fund,

³⁸ Engelhardt and Engelhardt, Public School Business Administration, pp. 392-393.

³⁹ Reeder, Ward G., Business Administration of Schools, Ginn and Company, 1929, p. 303.

⁴⁰ Smith, Harvey A., Economy in Public School Fire Insurance, Teachers College, p. 102.

as provided for in 1919.⁴¹ Reeder reports that the State Commissioner of Insurance of Wisconsin affirms that the State Insurance Fund writes insurance on state, city, county and village school districts at 75 per cent of the rates charged by stock companies.⁴² However, the overhead of the old line insurance companies is approximately 42 per cent,⁴³ and the question of the complete suppression of private insurance is hardly to be discussed at this stage of industrial disintegration. It stands to reason that state operation in conducting such business cannot entail so large an overhead expense, which accounts for reduced premiums.

Slowness of companies to reduce rates. Apparently companies do not reduce rates with facility when fire-fighting devices are introduced or better forms of construction adopted. Insurance men do not primarily interest themselves in reducing fire, for their function is to take losses as they occur, and then to charge the community for such loss out of the total compensation or premium fund. These companies take the hazards as they find them, in the sense that physicians take their pay out of sickness, but the profes-

⁴¹State Fire and Tornado Fund Law, North Dakota, Section 189c1 and Section 189c12.

⁴²Reeder, Ward G., Business Administration of Schools, 1929, p. 309.

⁴³Benson, S. D., Fire Insurance, p. 160.

sion is endowed with a larger ethical motive in seeking to prevent sickness actively, whereas fire insurance companies are not charged with a preventive mission to the same extent as the life insurance organizations.

The aggregate of premiums of the companies has to pay for the totality of losses, which aggregate at least half the sum received and sometimes considerably more. Out of this income, 15 per cent commissions have to be paid, the salaries of special agents consume 5 per cent, the maintenance of home office takes as much as the commissions, taxes eat up some three per cent, and the profit remaining is somewhat under seven per cent.⁴⁴

The plan in Minneapolis⁴⁵ may be here cited, for example.

The correct amount allotted to any one agency is not less than \$40,000, and a maximum of \$250,000 was set so that the business could be properly distributed among them and also to protect the agents who supplied some of the taxes. Instead of having a number of policies written through several agencies in the same company, a general policy was written in which the agencies of the company participated, thus reducing the expense and clerical labor made necessary when fire losses were adjusted. Evidently the situation

⁴⁴ Report of National Board of Fire Underwriters, 1928.

⁴⁵ Reeder, Ward G., Quoted from Mimeographed Material from the Business Manager, Board of Education, Minneapolis, Minn., pp. 111-112.

is satisfactory in Minneapolis, sufficiently so as to permit private insurance, for all occasion for complaint has been removed, according to our authority. There are special factors in coming to a satisfactory computation of premium rates and coverage, thanks to annual questionnaires submitted to and from agents. The answers determine the amount of school insurance to be granted to each agent. The taxes, real and personal, paid to the city, are the basis, the formula being the amount of taxes multiplied by the percentage of business actually devoted to fire insurance. Agents are granted full policies up to their quota. These considerations are deemed equitable, on account of the return to the city of taxes paid. For example, if \$5000 or over is yielded the city in taxes, the maximum insurance is granted or \$250,000. This privilege of assignment has not been disputed in the courts.

Co-operation for public welfare. In this field, the function of the fire insurance business should be broadened to serve more social ends, and under state laws the various corporations be permitted to cooperate to regulate their rates, to regulate commissions, to secure effective and economical supervision of risks, to study the hazards entailed among school properties, and to repress incendiariism through concerted effort.

Illustration of saving in premiums.⁴⁶ Mr. L. H. Pettit,

superintendent of schools in Chanute, Kansas, has given a typical instance of efficient changes in school policies regarding fire insurance thus effecting a considerable saving in premiums through taking advantage of legal allowances. The situation in that middle western city being typical of hundreds of other towns where insurance principles are not strictly followed is summarized in the following paragraphs.

Competition of companies. Competition was very keen in Chanute and over half a dozen companies sought to grant policies on terms and conditions that were not fully understood by the educators. A certain insurance concern offered a low rate policy under the 90% co-insurance clause and this prevailed over a higher estimate for what apparently was less coverage. The agent failed to state that the board of education would be obliged to buy up to 90% value under the co-insurance clause. Hence, later on only half of the 90% of value was paid in settling for a loss. The policies were ordered rewritten as straight insurance and distributed among several large companies having agents in the community.

Maintenance of poor records. Previously no one knew whether the buildings were adequately covered or whether

⁴⁶Pettit, L. H., "Readjusting Board of Education Insurance", American School Board Journal, Vol: 84, May 1932, pp. 49-50.

certain buildings were over insured. In this section of the country it is important to have wind and tornado coverage, and it was found that two of the structures were not covered by fire insurance. There were about 175 policies in force ranging from \$200.00 to \$10,000.00 expiring at irregular intervals over a period of years. There was no uniformity in the amount of insurance policies falling due, consequently a great inequality in the amount of premium payments with subsequent unevenness in balancing budgets.

Results of wise planning. Under an altered insurance regime, the valuation of buildings, equipment and present replacement values was definitely fixed. Figures showed that the present value of buildings and equipment was \$560,000.00 and the contents \$51,800.00. Using the 80% co-insurance clause the board was enabled to carry \$490,000.00 of fire insurance on an annual premium of \$2,585.07, together with tornado insurance totalling \$529.20. On the new basis of 80% co-insurance the board could carry \$122,800 more of combined insurance than under the former plan at a total annual rate of \$80.81 less premium. Instead of 175 policies in force only twenty-seven policies were issued on the readjusted basis.

The conclusion to be derived from the above example is that a general form should be adopted by agents with all policies running concurrently. Small policies should be

eliminated or combined into larger policies expiring at a given date in equal amounts so as to stabilize budgetary appropriations.

Official supervision. The various states, through commissions or boards,⁴⁷ pass upon the solvency of insurance practices, but, of course, this is a problem of some magnitude. A certain legal standard reserve based on scientific calculations has to be built up on adequate premiums, and likewise the cost of commissions and similar overhead expenses of the fire insurance company must be approved.

Minimum rate depending on type. There are minimum and specific rates, the former applying to the entire group of risks of the same class even if the hazards are variable. For instance, the practice⁴⁸ of the companies is to apply the same rate to small schools of the same type of construction and in the same locality, without regard to variation in hazards, inasmuch as the extra cost of determining the precise degree of difference in hazards would entail much expensive appraisal work that would not justify the expense or variation in the premium.

Dependence of specific rate upon type and location. The

⁴⁷ Huebner, S. S., Property Insurance, 1918, D. Appleton and Company, p. 244.

⁴⁸ Benson, S. D., Fire Insurance, p. 96.

specific rate⁴⁹ is directly promulgated on a specific school building, and a definite location. These principles of rate making are in conformity to public interest and the acts of legislatures of the states passed over a series of years to prevent unfair discrimination between risks and the charging of unreasonable premiums. This scientific system of premium fixation takes into account the special hazards involved, the schedule commencing with a key rate, or rate which should be charged for a standard school building in the town or city. The inducement to lower rates is the more suitable construction of school buildings, superior fire departments and accessibility by means of good roads and other special considerations.

⁴⁹ Billings, Henry L., Rate Making, p. 36.

CHAPTER VII

CONCLUSION

Need for information. It is thus seen that public school administrators need to acquaint themselves with the intricate clauses and judicial rulings on the subject of fire insurance as applied to the properties under their jurisdiction. Such familiarity on the part of superintendents, boards of education, trustees and other insurers of large or small school properties in city or country, will lead to considerable saving in premiums as well as to more favorable conditions of recovery of loss. Fire insurance is indeed one of the weak spots in board of education financing, and the business seems as a whole to be loosely conducted.

There seems to be an air of mystery about the whole problem to most school insurers, and while fire losses are relatively rare, insurers do not seem to think it important enough to make definite valuations of buildings and property contained. Only a large scale conflagration seems to awaken local officials to the need of adequate and soundly placed insurance which is to restore what is reduced to smouldering walls, or at least placed out of service in large part.

Wise administration and reduction of costs. The wise administrator is able through knowledge of insurance regulations to conserve and protect the wealth of a school dis-

strict not only through prevention and payment for fires, but through proper disbursements and wasteful charges. While insurance itself protects, it is necessary to insure against overpayments or mishandling of the insurance privilege by clever agencies. While public money is protected against loss, theft and fraudulent use, there needs to be additional protection against unwise administration of funds through miscalculations. A code of ethics for the handling of public money in this field is inadequate to provide the judicial and technical knowledge that makes the most of values and the recouping of losses in a legitimate manner.

Need for definite reports. Many forms of irregularity may be discovered by state examiners sent out by the attorney-general, who can thus keep fairly correct accounts of the funds spent for insurance in their fields. A condition of poor, careless, slipshod appraisals and methods of keeping accounts of insurance is thus preventable through a system of reports required of each school board.

Little judicial uniformity. The multiplicity of state laws and court decisions of the forty-eight jurisdictions is practically impossible for even the expert to follow, even in the special field of school property insurance, for there is little unanimity in this department. It is declared as a general rule that the power to contract or to write such insurance is expressly conferred by statute, or by implication

conferred by statute, applying to all school insurance contracts. The myriads of school districts or other local school organizations have the power of entering into such contracts, and such only as are expressly or impliedly authorized by statute. No implied power jointly to insure a school building arises from the power of separate school districts individually to insure such a building.¹ It has also been decided that a civil township as distinguished from a school township has no authority to make a contract to build a school house.² Thus it is assumed there would be no power to insure.

Statutory provision in California. In California boards of trustees of school districts possess no authority to place insurance on the school property other than that granted to them by Pol. Code, section 1608, subdiv. 3, giving boards power to insure in any solvent insurance company doing business in the state, organized under state law.³ Here a school board has no power to place fire insurance on the school property with the mutual insurance companies organized under the laws of another state.

Insurance during construction of building. A statute requiring a county board of education with the duty of

¹ Stroh v. Casner, 201 Ill. A 281.

² Hornby v. State, 69 Indiana, 102, McLaughlin v. Jefferson County, Shelby Tp., 52 Ind. 114.

³ People v. Stanley, 193 Cal. 428, 225, P. 1.

seeing that school buildings are insured does not require the board to take out insurance in its own name, and does not prohibit the school trustees from so doing.⁴ The contract for the construction of a school building often contains a clause that the school authorities shall maintain insurance during the construction of the plant.

Need for legal advice. Such is the intricacy of various state provisions that it seems necessary for the corporation counsel in each district to advise the boards or managers before placing premiums. Indeed legal knowledge will result in a reduced loss for communities, especially the smaller ones. During the construction of a building, there is some fire risk attached. In Pennsylvania, the school code requires the affirmative vote of a majority of the school directors to make a contract, (Sec. 617, as amended by Act July 10, 1919, P.L. p. 889) requiring that the contracts be awarded to the lowest responsible bidder. The law does not deny the right to insert in a school construction contract a provision requiring the school authorities to make out insurance payable to the district and to the contractors according to their interests.⁵ These references have been purposely mentioned in detail, so that the complicated

⁴American Insurance Company v. Newberry, 215 Ala. 587, 112 S. 195.

⁵Hagen Lumber Company v. Duryea School District, 277 Pa. 345, 121 A. 107.

nature of many insurance situations may be brought out, in the case of public property insured in the name of "the people," by persons who in law stand in place of the insured.

Rating schedule. No system of classification will permit accuracy of rating, nor can rates be based wholly on the classification of school property losses. However, the tabulation of such losses, together with facilities for fire prevention, are of great significance in determining adequate rates. The scientific schedules provided by Dean of the Mercantile Schedule supply a method of assessing the right charge for this class of hazard and every element entering into this, such as defective flues, rubber hose connection for a gas fire, etc., in an endless series. A. F. Dean does not seek to establish the selling price of the fire indemnity, but analyzes the amount of hazard in school risks as compared with other risks. The total hazard is computed in a grouping of parts that approximates the entire risk involved. Of course, this scale is relative to other risks, but the four chief items are protection, structure, exposure and occupancy, even if the building be under municipal protection. These exist in such variation and combination as to permit of no fixed rule applicable under the conditions of state law.

Judicial and legislative errors. Both courts and legislatures have made errors on the subject of insurance which

have proved controversial matter that has had to be settled in the light of experience, the assumption being made often enough that fire insurance is identical with other forms, especially life insurance. The fire insurance contract is one which depends on the good faith of the school officials in maintaining proper conditions for the prevention of loss, and hence rests on the moral circumstances and efficiency of the insured. It is impossible to tell from the occasional inspection of a building its manner of handling and use. In fire insurance there is an indemnity upon the value of the property, whereas on life insurance the compensation is determined in advance. Furthermore, there is constant depreciation in school properties.

No idea of profit from insurance. Public school officials do not purchase insurance with the idea of gain for the indemnity is based on the actual loss suffered. Fire insurance concerns cannot be indifferent to the huge annual losses, and they are charged with the duty of determining loss by fire and prorating this charge in the form of premiums. There are many kinds of school properties differing much in construction and degree of care employed as well as circumstances surrounding.

More uniformity within states. The laws of the various states seek to promote a degree of uniformity within their confines of rulings and decisions, but fires take their toll

under favorable returns in one year and in a certain region, and may show a heavy loss in other places and at other times. New building materials and altered codes and improvements in local fire protection may bring about improvements, making schedule rating changes. States seek to promote greater equity, but this is a field where hazards are peculiarly not completely calculable, as with lives.

Liability of state if it becomes the insurer. It is well to consider the loss experience, as for example, in the five years following 1919 there was an average loss in school property of \$6,946,540 per year.⁶ These conflagrations entail a responsibility on insurance concerns which is measured at the extreme limit by the San Francisco disaster. School properties are part of the community which is not exempt from these large fire losses. Heavy bond issues would otherwise have to be issued to pay the losses, were the state conducting the insurance business, in order to pay the immediate funds needful for recuperation, for fire losses have to be paid quickly. This liability is what prevents most states and municipalities from entering the field competitively or as a monopoly. It is necessary to have accumulated a large surplus for unusual losses on a large scale.

Problem of investing funds. Then too, problems arise in connection with the investment of surplus funds, and

⁶Pamphlet, "School Fires", National Fire Protective Association, p. 38.

there is some risk to that feature, and since the contracts for fire insurance are short, this means a constantly changing investment fund, frequently at a low rate of interest under present conditions. These funds are supposed to be safely and securely invested, so that policies will be paid as accidents arise. However, the insured has no great interest in the earnings and investments unless he is a member of a mutual company. These mutual companies are out of the realm of this study and in some states are prohibited from insuring schools especially if organized under laws of another state.

Inexperience of states. The business of conducting fire insurance is one for which the states have relatively little experience in the field of school insurance, that being for the most part conducted by stock fire insurance concerns whose earnings have not been impressive. These earnings are derived from invested funds, and the profits, if any, obtained from premiums running for short terms. The state could hardly obtain better investment return on surplus and capital or total of premiums beyond actual running expenses. The insurance receipts and balances would have to be invested in the securities of private companies or in government bonds, and the state would receive interest on surplus held to meet large losses. These funds would have to be in rapidly convertible securities paying a low

rate of interest, a profit which would be of no great consequence. The profits which now go to the private insurance companies, of course, would revert to the state, whenever such profits exist, but if the state runs the insurance of schools, the premiums paid and the reserves would necessarily be rather less, and the board would insist on purchasing indemnity at cost.

Paying dividends. The states might find the experience rather costly until a parallel with the practices of private fire insurance companies could be found. In some years the average loss for school properties might even exceed total premium collections, if the school properties were given proportionally favorable premiums as compared with old line companies. The dividends of stock companies may yield a rather high average at certain periods, but the amount of dividends paid reflects capital appreciation over a long period, thus permitting underwriting profit to accumulate on judicious investments.

Increased rates. The insurance rates have of late years increased, thus making these concerns more profitable, in view of the added risks of incendiariism, juvenile crime, industrial disputes, the use of gasoline and oil for combustion, and similar added hazards of the period. The insurance companies have no doubt made profits as a whole, but this does not mean that the state could do the same if

it should assume the total business. The companies derive earnings from investment of past premiums held as surplus. The state could not secure any interest on capital stock, for there would be none. It is indeed easy to apologize for the companies as a whole, if not for their dealings with the schools.

Inexperienced state officials. A good deal of accurate judgment is called for, inasmuch as the fire insurance concern does not know at the time insurance is issued whether it is accepting a heavy liability or not. State employees would hardly be expected to have any superior judgment by virtue of appointive or civil service office. There are indeed many toll takers in this class of insurance. There are instances of first class treasurers of states who are skillful at handling the state's funds, but, for the most part, these officials commit blunders for which redress must be made at the next election.

No background of experience. The state organization would lack the experience of the old line companies, for there would be no surplus of fire indemnity. Furthermore, in congested districts, an organization of this sort might not issue insurance. However, the old line companies are secure and able to meet competition and to provide the lowest rates to meet possible losses. Many concerns have gone out of business, not many having survived a thirty-

year period. Indeed, these concerns are hardly to be termed monopolistic, inasmuch as new companies are being formed each year. While agreements are made among independent and competing companies, this is necessary for the sake of permitting competition, and the rate is determined by fire risk experience and not the expense of management. Were a larger degree of uniformity the case, a lower rate would prevail.

Need for co-operation of government and insurance companies. A state official once wrote:

"What is needed by our people is not submergence of this great institution in sovereignty, but the proper coordination of insurance and government. Each should do for the other only what each can do better than the other."

For the most part, there should be helpful supervision and regulation rather than downright condemnation. If the corporate initiative fails in the school property field, only then should the state take over this class of risk, as some municipalities and states have already done. But the industry is setting its house in order under special management, showing the value of corporate initiative and is even ready to improve on its record. These insurance corporations have the technical and specialized functions adequate to meet state insurance in the field of school property risks. The task of computing the general profits of state operation and private insurance of school property insurance

is one which is to be left to time, and the demonstration of a long continued record, for in the aggregate that survives which is best fitted to serve the public.

Need for wise use of state regulatory power. After all, indemnity cannot be sold for less than what it costs, and in spite of temporary reductions from rate wars, the premiums have advanced in order to cover past mistakes. However, the state can set a limit for expense operation to about 40 per cent, though it would be difficult to force all companies to continue in business under these terms. Commissions also might be limited. These restrictions would cause the formation of more mutual fire insurance organizations and tend to solidify existing stock companies. It would be better to regulate wisely rather than to encourage the formation of many new companies through the easier restrictions that would prevail without proper state regulation. The public has had in the long run to pay the loss of those companies which have failed in operation.

Efficient service from old line companies. In the case of school property insurance, it is likely that a certain proportion of school business makes a profit that has to bear the loss of general coverage insurance. However, the companies are, in our view, endeavoring to use skill, foresight and technical ability in order to reduce overhead expenses and to make the lowest charge ultimately for this

service without taking away the incentives for conducting the business for the public weal.

Future improvements and progress. As time goes on, there will be greater accuracy in determining rates for carrying school buildings, but as this is a country of rapid industrial and technical change, constant readjustments have to be made in the fire insurance business. Indeed, these mutations seem to be symptomatic of a growing and prospering nation, the rapidity of change being an evidence of a progressive mentality among our people. Standardization is as yet some distance away, consequently rates can only be approximated, and the hazard taken and borne by private capital in the field of public service seem to justify the small margin of profit which ensures the existence of these concerns.

Limits to government interference. The invalidity of interference by government in all that concerned the industry and labor of the nation as well as its production was recently announced by unanimous decision of the United States Supreme Court. Unless we are prepared entirely to alter the constitution of things, we shall permit private agencies to handle school property insurance under wholesome regulation in the interests of the companies as well as the public. The degree of such regulation is often a matter of perplexity to the various state jurisdictions, but in the long run better order will emanate.

A P P E N D I XA

COPY OF NEW YORK STANDARD FIRE POLICY

No.....

INSURANCE
COMPANY

Of
New York

Amount \$..... Rate..... Premium \$.....

In Consideration of the Stipulations herein named
and of.....Dollars Premium
does insure.....

and legal representatives, to the extent of the actual cash
value (ascertained with proper deductions for depreciation) of
the property at the time of loss or damage, but not exceeding
the amount which it would cost to repair or replace the same
with material of like kind and quality within a reasonable
time after such loss or damage, without allowance for any in-
creased cost of repair or reconstruction by reason of any ordi-
nance or law regulating construction or repair and without com-
pensation for loss resulting from interruption of business or
manufacture, for the term of.....
from the.....day of.....193...., at noon,
to the.....day of.....193...., at noon,
against all DIRECT LOSS AND DAMAGE BY FIRE and by removal
from premises endangered by fire, except as herein provided, to
an amount not exceeding.....Dollars,
to the following described property while located and contained
as described herein, or pro rata for five days at each proper
place to which any of the property shall necessarily be removed
for preservation from fire, but not elsewhere, to wit:

This policy is made and accepted subject to the foregoing stip-
ulations and conditions, and to the stipulations and conditions
printed on the back hereof, which are hereby made a part of this
policy, together with such other provisions, stipulations and con-
ditions as may be endorsed hereon or added hereto as herein pro-
vided.

Provisions required by law to be stated in this policy:--This
Policy is in a stock corporation, and is issued under and in
pursuance of Sections 130, 131 and 132 of the Insurance Law of
the State of New York.

In Witness Whereof, this Company has executed and attested
these presents; but this policy shall not be valid unless coun-
tersigned by the duly authorized Agent of the Company at.....
Countersigned at.....President
this.....day of.....193
.....Agent.....Secretary.

1 This entire policy shall be void if the insured
2 Fraud, misrepre- has concealed or misrepresented any ma-
3 sentation, etc. terial fact or circumstance concerning this
4 insurance or the subject thereof; or in case of any fraud or false
5 swearing by the insured touching any matter relating to this
6 insurance or the subject thereof, whether before or after a loss.

7 This policy shall not cover accounts, bills,
8 Uninsurable currency, deeds, evidences of debt, money,
9 and notes or securities; nor, unless specifically
10 Excepted property named hereon in writing, bullion, manu-
11 scripts, mechanical drawings, dies or patterns.

12 This Company shall not be liable for loss
13 Hazards not or damage caused directly or indirectly by
14 covered. invasion, insurrection, riot, civil war or
15 commotion, or military or usurped power, or by order of any
16 civil authority; or by theft; or by neglect of the insured to use
17 all reasonable means to save and preserve the property at and
18 after a fire or when the property is endangered by fire in
19 neighboring premises.

20 This entire policy shall be void, unless otherwise provided
21 by agreement in writing added hereto,
22 (a) if the interest of the insured be other than
23 Ownership, etc. unconditional and sole ownership; or (b) if
24 the subject of insurance be a building on ground not owned by
25 the insured in fee simple; or (c) if, with the knowledge of the
26 insured, foreclosure proceedings be commenced or notice given
27 of sale of any property insured hereunder by reason of any mort-
28 gage or trust deed; or (d) if any change, other than by the death
29 of an insured, take place in the interest, title or possession of
30 the subject of insurance (except change of occupants without
31 increase of hazard); or (e) if this policy be assigned before a loss.

32 Unless otherwise provided by agreement in writing added
33 hereto this Company shall not be liable for loss or damage
34 occurring
35 (a) while the insured shall have any other
36 Other insurance. contract of insurance, whether valid or not,
37 on property covered in whole or in part by this policy; or
38 (b) while the hazard is increased by any
39 Increase of hazard. means within the control or knowledge of
40 the insured; or
41 (c) while mechanics are employed in building,
42 Repairs, etc. altering or repairing the described premises
43 beyond a period of fifteen days; or
44 (d) while illuminating gas or vapor is gener-
45 Explosives, ated on the described premises; or while
46 gas, etc. (any usage or custom to the contrary not-
47 withstanding) there is kept, used or allowed on the described
48 premises, fireworks, greek fire, phosphorus, explosives, benzine,
49 gasoline, naphtha or any other petroleum product of greater
50 inflammability than kerosene oil, gunpowder exceeding twenty-

51 five pounds, or kerosene oil exceeding five barrels; or
52 (e) if the subject of insurance be a manufac-
53 turing establishment while operated in
54 whole or in part between the hours of ten P. M. and five A. M.
55 or while it ceases to be operated beyond a period of ten days; or
56 (f) while a described building, whether in-
57 tended for occupancy by owner or tenant, is
58 vacant or unoccupied beyond a period of ten days; or
59 (g) by explosion or lightning, unless fire
60 ensue, and, in that event, for loss or dam-
61 age by fire only.

62 Unless otherwise provided by agreement in
63 writing added hereto this Company shall
64 not be liable for loss or damage to any property insured here-
65 under while incumbered by a chattel mortgage, and during the
66 time of such incumbrance this Company shall be liable only
67 for loss or damage to any other property insured hereunder.

68 If a building, or any material part thereof,
69 fall except as the result of fire, all insurance
70 by this policy on such building or its contents shall immediately
71 cease.

72 The extent of the application of insurance
73 under this policy and of the contribution to
74 be made by this Company in case of loss or damage, and any
75 other agreement not inconsistent with or a waiver of any of
76 the conditions or provisions of this policy, may be provided for
77 by agreement in writing added hereto.

78 No one shall have power to waive any pro-
79 vision or condition of this policy except such
80 as by the terms of this policy may be the subject of agreement
81 added hereto, nor shall any such provision or condition be held
82 to be waived unless such waiver shall be in writing added hereto,
83 nor shall any provision or condition of this policy or any for-
84 feiture be held to be waived by any requirement, act or proceed-
85 ing on the part of this Company relating to appraisal or to any
86 examination herein provided for; nor shall any privilege or per-
87 mission affecting the insurance hereunder exist or be claimed by
88 the insured unless granted herein or by rider added hereto.

89 This policy shall be cancelled at any time
90 at the request of the insured, in which case
91 of policy. the Company shall, upon demand and sur-
92 render of this policy, refund the excess of paid premium above
93 the customary short rates for the expired time. This policy
94 may be cancelled at any time by the Company by giving to the
95 insured a five days' written notice of cancellation with or with-
96 out tender of the excess of paid premium above the pro rata
97 premium for the expired time, which excess, if not tendered,
98 shall be refunded on demand. Notice of cancellation shall state
99 that said excess premium (if not tendered) will be refunded on
00 demand.

01 This Company shall not be liable for a
 02 Pro rata liability.greater proportion of any loss or damage
 03 than the amount hereby insured shall bear to the whole
 04 insurance covering the property, whether valid or not and
 05 whether collectible or not.

06 The word "noon" herein means noon of
 07 Noon. standard time at the place of loss or damage.

08 If loss or damage is made payable, in whole
 09 Mortgage or in part, to a mortgagee not named herein
 10 interests. as the insured, this policy may be cancelled
 11 as to such interest by giving to such mortgagee a ten days'
 12 written notice of cancellation. Upon failure of the insured to
 13 render proof of loss such mortgagee shall, as if named as insured
 14 hereunder, but within sixty days after notice of such failure, ren-
 15 der proof of loss and shall be subject to the provisions hereof as
 16 to appraisal and times of payment and of bringing suit. On pay-
 17 ment to such mortgagee of any sum for loss or damage here-
 18 under, if this Company shall claim that as to the mortgagor or
 19 owner, no liability existed, it shall, to the extent of such pay-
 20 ment be subrogated to the mortgagee's right of recovery and
 21 claim upon the collateral to the mortgage debt, but without
 22 impairing the mortgagee's right to sue; or it may pay the mort-
 23 gage debt and require an assignment thereof and of the mortgage.
 24 Other provisions relating to the interest and obligations of such
 25 mortgagee may be added hereto by agreement in writing.

26 The insured shall give immediate notice, in
 27 Requirements in writing, to this Company, of any loss or
 28 case of loss. damage, protect the property from further
 29 damage, forthwith separate the damaged and undamaged
 30 personal property, put it in the best possible order, furnish a
 31 complete inventory of the destroyed, damaged and undamaged
 32 property, stating the quantity and cost of each article and the
 33 amount claimed thereon; and, the insured shall, within sixty
 34 days after the fire, unless such time is extended in writing by
 35 this Company, render to this Company a proof of loss, signed
 36 and sworn to by the insured, stating the knowledge and belief
 37 of the insured as to the following: the time and origin of the fire
 38 the interest of the insured and of all others in the property, the
 39 cash value of each item thereof and the amount of loss or damage
 40 thereto, all incumbrances thereon, all other contracts of in-
 41 surance, whether valid or not, covering any of said property,
 42 any changes in the title, use, occupation, location, possession, or
 43 exposures of said property since the issuing of this policy, by
 44 whom and for what purpose any building herein described and
 45 the several parts thereof were occupied at the time of fire; and
 46 shall furnish a copy of all the descriptions and schedules in all
 47 policies and if required, verified plans and specifications of any
 48 building, fixtures or machinery destroyed or damaged. The
 49 insured, as often as may be reasonably required, shall exhibit
 50 to any person designated by this Company all that remains of

51 any property herein described, and submit to examinations
 52 under oath by any person named by this Company, and
 53 subscribe the same; and, as often as may be reasonably
 54 required, shall produce for examination all books of account,
 55 bills, invoices, and other vouchers, or certified copies thereof,
 56 if originals be lost, at such reasonable time and place as may
 57 be designated by this Company or its representative, and shall
 58 permit extracts and copies thereof to be made.

59 In case the insured and this Company shall
 60 Appraisal. fail to agree as to the amount of loss or
 61 damage, each shall, on the written demand of either, select
 62 a competent and disinterested appraiser. The appraisers
 63 shall first select a competent and disinterested umpire; and
 64 failing for fifteen days to agree upon such umpire then, on
 65 request of the insured or this Company, such umpire shall be
 66 selected by a judge of a court of record in the state in which
 67 the property insured is located. The appraisers shall then
 68 appraise the loss and damage stating separately sound value
 69 and loss or damage to each item; and failing to agree, shall
 70 submit their differences only, to the umpire. An award in
 71 writing, so itemized, of any two when filed with this Company
 72 shall determine the amount of sound value and loss or
 73 damage. Each appraiser shall be paid by the party selecting
 74 him and the expenses of appraisal and umpire shall be paid
 75 by the parties equally.

76 It shall be optional with this Company to
 77 Company's take all, or any part, of the articles at the
 78 options agreed or appraised value, and also to
 79 repair, rebuild, or replace the property lost or damaged with
 80 other of like kind and quality within a reasonable time, on
 81 giving notice of its intention so to do within thirty days
 82 after the receipt of the proof of loss herein required; but
 83 there can be no abandonment to this Com-
 84 Abandonment. pany of any property.

85 The amount of loss or damage for which
 86 When loss this Company may be liable shall be pay-
 87 payable. able sixty days after proof of loss, as herein
 88 provided, is received by this Company and ascertainment of
 89 the loss or damage is made either by agreement between the
 90 insured and this Company expressed in writing or by the
 91 filing with this Company of an award as herein provided.

92 No suit or action on this policy, for the
 93 Suit. recovery of any claim, shall be sustainable
 94 in any court of law or equity unless all the requirements of
 95 this policy shall have been complied with, nor unless com-
 96 menced within twelve months next after the fire.

97 This Company may require from the insured
 98 Subrogation. an assignment of all right of recovery
 99 against any party for loss or damage to the extent that pay-
 00 ment therefor is made by this Company.

A P P E N D I X

B

Policy Number	SWORN STATEMENT in PROOF OF LOSS	Amount of Policy
_____	to the	\$ _____
Agency at	_____	Issued Expires
_____	_____	_____ 19 _____ 19
	of	

By the Above Numbered Policy of Insurance You Insured

Against loss by fire upon the property described under schedule "A", according to the terms and conditions of the said policy and all forms, endorsements, transfers and assignments attached thereto.

(1) TIME AND ORIGIN: A fire occurred on the _____ day of _____ 19____ about the hour of _____ o'clock _____ m. The cause and origin of the said fire were: _____

(2) OCCUPANCY: The building described, or containing the property described, was occupied at the time of the fire as follows, and for no other purpose whatever: _____

(3) TITLE AND INTEREST: At the time of the fire, the interest of your insured in the property described by this policy was sole and unconditional ownership, and no other person or persons had any interest therein or incumbrance thereon, except: _____

(4) CHANGES: Since the said policy was issued there has been no assignment thereof, or change of ownership, use, occupancy, possession, location or exposure of the real or personal property described, or of your insured's interest therein, except: _____

(5) TOTAL INSURANCE: The total amount of insurance upon the property covered by this policy was, at the time of the fire \$ _____ as more particularly specified in the apportionment attached under schedule "C," besides which there was no policy or other contract of insurance, written or oral, valid or invalid.

(6) THE CASH VALUE of said property at the time of the fire was \$ _____.

(7) THE WHOLE LOSS AND DAMAGE as stated under schedule "B" was \$ _____.

(8) THE AMOUNT CLAIMED under the above numbered policy is \$ _____.

The said loss did not originate by any act, design or procurement on the part of your insured, or this affiant; nothing has been done by or with the privity or consent of your insured or this affiant, to violate the conditions of the policy, or render it void; no articles are mentioned herein or in annexed schedules but such as were in the building damaged or destroyed, and belonging to, and in possession of the said insured at the time of said fire; no property saved has in any manner been concealed, and no attempt to deceive the said company, as to the extent of said loss, has in any manner been made. Any other information that may be required will be furnished on call and considered a part of this proof.

The furnishing of this blank or the preparation of proofs by a representative of the above insurance company is not a waiver of any of its rights.

State of _____

County of _____

_____ Insured

Subscribed and sworn to before me this _____ day of _____ 19____

Notary Public

BIBLIOGRAPHY

BOOKS

- Allan, H. W., Fire Insurance Business, John Wiley and Sons, Inc., New York City, 1921.
- Bissell, Richard M., Yale Lectures on Insurance, Fire and Miscellaneous, Yale University Press, New Haven, 1904.
- Barden, R. P., Modern Insurance Problems, Macmillan Company, Chicago, 1920.
- Brown, Harold H., The Adjustment of Building Losses, D. Appleton Company, New York, 1921.
- Benson, S. D., Fire Insurance, D Appleton Company, New York, 1916.
- Billings, Henry L., Rate Making, Macmillan Company, Chicago, 1920.
- Cooley's Briefs on Insurance, Second Edition, Vol. 1, Vernon Law Book Company, Kansas City Mo., 1928.
- Corpus Juris, Vol. 32, Sec. 324, p. 1192, The American Law Book Company, 1924.
- Daniels, Frank E., Fire Loss Settlements, Home Insurance Company, New York, 1923.
- Dawson, Miles M., Yale Readings in Insurance, University Press, New Haven, 1912.
- Engelhardt and Engelhardt, Public School Business Administration, Bureau of Publications, Columbia University, 1927.
- Edwards, B. W., Insurance Risks, Little, Brown and Company, Boston, 1918.
- Griswold, J., The Underwriters Textbook, National Board of Fire Underwriters, New York City, 1923.
- Gephart, W. F., Principles of Insurance, Macmillan Company, Chicago, 1917.
- Huebner, S. S., Property Insurance, D. Appleton Company, Chicago, 1922.
- Hollan, Francis C., Fire Insurance Classifications, American Academy of Political and Social Science, Philadelphia, 1933.

- Layton, W. D., Principles and Practices in Fire Insurance, Macmillan Company, Chicago, 1918.
- Melchior, W. T., Insuring Public School Property, Teachers College, Columbia University, 1925.
- Reed, J. L., The Fire Insurance Contract, Insurance Society of New York, 1918.
- Reeder, Ward G., Business Administration of Schools, Ginn and Company, 1929.
- Reed, Prentiss B., The Adjustment of Fire Losses, McGraw-Hill Book Company, New York, 1929.
- Richards, L. B., Adjusting Fire Losses, McGraw-Hill Book Company, New York, 1918.
- Richards, George A., A Treatise on the Laws of Insurance, Banks and Brothers, Law Publishers, New York City, 1893.
- Skaaland, S. G., Insuring School Property in Minnesota, University of Minnesota Library, Minneapolis, 1925.
- Smith, Harvey A., Economy in Public School Fire Insurance, Bureau of Publications, Columbia University, 1930.
- Strayer, Engelhardt and Others, Problems in Educational Administration, Bureau of Publications, Columbia University, 1925.
- Steeb, George V., Special Agents and Adjusters Handbook, The Spectator Company, New York, 1922.
- Wakefield, D. E., Handbook of Fire Insurance Adjustments, Underwriters Laboratories, St. Louis, Mo., 1925.
- Willey, C. F., Insurance Laws and Principles, D. Appleton Company, New York, 1915.
- Webster's Secondary School Dictionary, American Book Company, Chicago, 1925.
- Wolff, Louis H., Principles of Fire Insurance, Little, Brown and Company, Boston, 1923.
- Zartman, L. W., and Price, W. H., Yale Readings in Insurance, Yale University Press, New Haven, 1914.

Zimmerman, L. W., Property Appraisals, The Rough Notes Company, Indianapolis, 1923.

MAGAZINES

Baldwin, Harry G., "Why An Appraisal of School Property", American School Board Journal, Vol. 90, April 1935.

Fleming, Alfred T., "Facts About Fire", North American Gazette, Nov. 1930.

"Fire Insurance for School Property", American School Board Journal, Vol. 70, April 1935.

Mallalieu, W. E., "Build Against Fire", Safeguarding America Against Fire, Feb. 1929.

Pettit, L. H., "Readjusting Board of Education Insurance", American School Board Journal, Vol. 84, May 1932.

Sumner, Kurth, "Facts About Fire Insurance", North American Gazette, Insurance Company of North America, Philadelphia, Oct. 1931.

Thomas, R. H., "Fire Insurance in Public Schools", American School Board Journal, Vol. 57, Sept. 1918.

The Weekly Underwriter, National Board of Fire Underwriters, Chicago, March 1927.

PAMPHLETS

Anderson, L. W., "Agents' Survey", Insurance Company of North America, Chicago, 1932.

Brown, Donald R., "Property Appraisals", Committee on Publicity and Education, Boston, 1933.

"Fire Hazards", National Fire Protective Association, Chicago, 1932.

Handbook of Property Insurance, Insurance Company of North America, Philadelphia, 1930.

"Insurance Policies", National Board of Fire Underwriters, New York City, 1930.

- Moore, F. C., Fire Insurance and How to Build, National Board of Fire Underwriters, New York City, 1920.
- Peers, Joseph L., "Safeguarding the Schools Against Fire", National Board of Fire Underwriters, Chicago, 1928.
- Pamphlet, Section 4086, General Statutes, Revised of Connecticut, National Board of Fire Underwriters, New York City, 1930.
- Pamphlet No. 2, Committee on Publicity and Education, Chicago, 1930.
- "Rate Making", General Inspection Bureau, Minneapolis, 1931.
- "Safeguarding Against Fire", National Board of Fire Underwriters, New York City, 1929.
- "School Fires", National Fire Protective Association, Boston, 1929, 1930, 1931.

CASE CITATIONS

- Avery v. Ward, 150 Mass. 160, 22 N. E. 707.
- American Insurance Company v. Newberry, 215 Ala. 587, 112 S. 195.
- American Insurance v. Gilbert, 27 Mich. 429.
- Bank of South Jacksonville v. Hartford Insurance Company, 1 F. (2nd) 43.
- Connecticut Fire Insurance Company v. Colorado Mining and Mill Company, 116 P. 154.
- Common Wealth's Insurance Company v. Monninger, 18 Ind. 352.
- Connecticut Fire Insurance Company v. Erie Railway Company, 73 N. Y. 399.
- Downs v. German Alliance Insurance Company, 67 A. 146.
- Enright v. Montank Fire Insurance Company, 15 N. Y. Sup. 893.
- Folds v. Fireman's Fund Insurance Company, 110 S. E. 925.
- Fidelity-Phenix Fire Insurance Company v. Sadau, 167 S. W. 334.

- Hagen Lumber Company v. Duryea School District, 277 Pa. 345,
121 A. 107.
- Herdon v. Imperial Fire Insurance Company, 107 N. C. 183,
12 S. E. 126.
- Hornby v. State, 69 Ind. 102.
- Insurance Company of North America v. Fidelity Company,
123 Pa. 523.
- Lebanon Mutual Insurance Company v. Losch, 109 Pa. 100.
- Liverpool and G. M. Steam Company v. Phoenix Insurance Com-
pany, 129 U. S. 397.
- Merrell v. Agriculture Insurance Company, 73 N. Y. 452.
- Murphy v. Northern British and Mercantile Company, 61 Mo.
App. 323.
- McLaughlin v. Jefferson County Shelby Township, 52 Ind. 114.
- National Union Fire Insurance Company v. Washington County
School District, 131 Ark. 547, 199 So. 924.
- National Union Fire Insurance Company v. Burkholder, 83 S. E.
404.
- Plath v. Minnesota Farmers' Mutual Fire Insurance Association,
23 Minn. 479.
- Pelican Insurance Company of New York v. Schild Knecht,
108 S. W. 312.
- People v. Stanley, 193 Cal. 428, 225 P. 1.
- Phoenix Insurance Company v. Erie and W. Tr. Company,
117 U. S. 312.
- Stroh v. Casner, 201 Ill. A. 281.
- Sternfeld v. Park Fire Insurance Company, 50 Hun. 262,
2 N. Y. Sup. 766.
- Texas State Mutual Fire Insurance Company v. Taylor,
157 S. W. 950.

Walker v. Metropolitan Insurance Company, 56 Me. 371.

Whitehurst v. Layetteville Mutual Insurance Company,
51 N. C. 353.

Witherell v. Maine Insurance Company, 49 Me. 200.

LECTURES ON INSURANCE

Dargen, J. T., "Settling Fire Losses", Published by Home Insurance Company, New York, 1920.

Luce, Robert L., "Government Control of Fire Insurance Through Legislation", Given to Insurance Department of the United States Chamber of Commerce, 1923.

Lectures on Fire Insurance, Vol. 1, Insurance Library Association of Boston, 1920.

Medicott, W. B., "Fire Insurance Policy Forms and Clauses", From a Series of Lectures on Fire Insurance, Insurance Library Association of Boston, 1912.

MISCELLANEOUS SOURCES

Dean, A. F., Analytic System for the Measurement of Relative Fire Hazards.

Erbele, Martin, Insurance Agent, Forbes, N. D.

Insurance Yearbook, National Board of Fire Underwriters, New York City, 1925.

Moore, F. C., Universal Mercantile Schedule.

Mallalieu, W. E., Manager's Report, National Board of Fire Underwriters, New York City, 1928.

National Board of Fire Underwriters, Proceedings, 1933.

New York Standard Fire Policy.

Report of Illinois Fire Commission, 1911.

State Fire and Tornado Fund Law, North Dakota, 1919.

Thomas, John R., Member Committee on Public Relations,
National Board of Fire Underwriters, Chicago, 1930.

Wolff, Louis H., "Fire Loss Adjustments in Twelve Lessons,"
Agents' Service, Indianapolis, Indiana.