

**MONTANA ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS**

Risk Management Resource Guide

For School Business Officials



RISK MANAGEMENT REFERENCE GUIDE

Insurance coverage is outlined in your individual insurance policy, and difficult though it may be to understand, the school District Clerk or Business Manager should carefully read the policy. You are probably the only person in your district who will know what is in your insurance policy. This document is intended to give only general guidelines, not to advise you on your insurance needs or to act as an insurance agent.

Everyone, including school districts, faces multiple risks each day. When any particular risk of loss or liability has been identified, you can elect to manage a risk in several ways, including avoiding the risk, preventing the risk, or in some cases, insuring against the risk. When one party (the insured) pays another party (the insurer) to accept the transfer of risk of loss, it is called insurance, therefore, when risks can be identified, insurance can be purchased to mitigate the ill effects of an event and lessen the financial risk for the district.

All insurance has a deductible amount. The school decides the amount they wish to set as the deductible amount, and the insurance company charges the premium at a higher amount with a low deductible, and a lower amount with a high deductible. If there is a covered loss, the company will pay the amount of the loss, less the deductible amount.

Insurance policies have very specific limits of liability, which are spelled out in the limits of liability page on the policy.

For the purposes of this document, we are focusing on liability and property insurance, rather than health insurance, unemployment insurance, workers' compensation, or other types of insurance.

School districts may purchase different types of insurance coverage to avoid financial disaster when something unexpected happens. Insurance underwriters and actuaries compute the likelihood of a certain type of risk, and set the price of your premium based on that. If you have had several disasters, for instance, your premium will be higher than a district that has had fewer claims.

TYPES OF COVERAGE

Real and Personal Property covers damages to your physical buildings and property.

Business Automobile Coverage

Automobile coverage covers operation of vehicles, collision coverage pays for physical damage caused from a collision, and comprehensive coverage covers physical damage to a vehicle not caused by a collision. Not all policies include collision and comprehensive, if you wish to have that coverage, an additional premium is charged. Automobile coverage also covers medical payments and damage to property cause by a vehicle owned by the school, as well as coverage for other uninsured motorist.

The BAP liability form covers damages, both bodily injury and property damage, caused by an accident resulting from the ownership, maintenance or use of a covered "auto". Coverage is generally provided for medical payments to passengers and others regardless of liability as well as bodily injury caused by an uninsured or underinsured motorist. In addition the BAP can provide automobile physical damage coverage. Business automobile physical damage coverage can include either the specified perils form (fire, vandalism, hail, flood, earthquake, etc.) or comprehensive which covers any cause including glass breakage except collision or overturn and, of course, collision or upset can be included as a separate coverage and with a separate deductible. Separate premiums are charged by vehicle and for each coverage attached. Coverage also can be added for non-owned and hired automobile liability and hired or borrowed physical damage.

Commercial Property Policy

Commercial property insurance is designed to cover both real property (building, structure) and business personal property(furniture and fixtures, stock, machinery and equipment, etc.). The coverage can be written under the "basic" form which specifies eleven covered perils such as fire, windstorm, hail, vehicle, vandalism, etc.

Commercial property coverage can be expanded to "special" form meaning that risks of direct physical loss are covered(such as loss caused by freezing, water damage, glass breakage, collapse, aircraft or falling objects, etc.) unless the loss is excluded in the exclusion section or limited in the limitations section. The exclusion section describes the specific perils that are excluded. Some common exclusions are wear and tear, ordinance or law, earth movement/earthquake, flood, boiler machinery/equipment breakdown, failure of power or utility services if the failure occurs off premises, war, terrorism(unless purchased back) fungus, mold, etc.

Commercial property insurance can be further expanded by rider to cover business interruption/extra expense as a result of a covered peril, sewer backup, earthquake, etc.

Flood insurance can be purchased as a separate policy through the National Flood Insurance Program and can sometimes be added to a commercial property policy with limitations sometimes referred to as a "difference in conditions" form. Boiler and machinery/equipment breakdown coverage can be purchased as a rider to the commercial property policy or as a separate policy.

Loss payment can be limited to depreciated/actual cash value of the damaged property or expanded to replacement cost if designated in the policy.

Comprehensive General Liability

The comprehensive general liability picks up medical costs for bodily injury on premises you own or rent, regardless of fault. The insurance is limited as shown in the declaration of insurance. The comprehensive general liability also includes coverage for injury and property damage occurring away from the premises you own or rent and arising out of your operational and actions of employees and volunteers. It includes products sold or given to students or the general public if that person should become ill after consumption. (This is called products liability).

The general liability insurance will pay for defense costs so long as the employee is acting within the scope of assigned duties. If the staff member is acting outside the scope of his/her assigned duties, he/she has no liability coverage.

There are specific exclusions to your coverage under the general liability and those exclusions are listed in your policy. Exclusions general will include any claims under workers compensation, disability benefits, employers liability, unemployment compensation or similar law, and coverage for someone not employed by the school.

Emotional Distress is always excluded from school insurance coverage, as it is not considered bodily injury, however, most companies insure against damages resulting from physical or sexual abuse by any employee.

Both inland marine and boiler coverage exclude coverage for surges caused by off site lightning.

School Board Liability

School board liability has a combination of coverage, including directors and officers, errors and omissions, employment practices meaning activities related to recruitment, hiring, evaluation, promotion, demotion, discipline or termination

of an employee. It covers any employee, but only while acting within the scope or the course of their duties as an employee, your elected or appointed officials while acting within the scope or the course of their duties, and any person while serving as a member of a board or committee or as a person charged with the duty of executing directives of any board, committee, or governing board of the school. Before the legal liability claim will be paid, you, or the service organization you have hired to act on your behalf, must investigate any event, record the specifics of the claim or suit and the date received, settle or defend all claims or suits that are within the application self-insured retention, give the company the right to associate at their own expense in the defense of any claim or suit, cooperate with the insurance company, maintain accurate records, and other items that are spelled out more specifically in your insurance policy. This coverage will also cover the school for sexual harassment.

Electronic Data Processing and system equipment coverage will pay for damage caused or resulting from any covered cause of loss including equipment and component parts owned, leased, rented, or under the school's control for which the school may be liable. Most insurance companies specifically exclude artificially generated electrical current, including electric arcing that disturbs electrical devices, appliance, or wires, except if an artificially generated electrical current results in fire, they will pay for the damage caused by the fire.

Umbrella/Excess Liability Policy

An umbrella/excess liability policy is often the only method to purchase higher limits of liability. Often the primary insurer is limited by reinsurance requirements as to the liability limits available under the primary policy and an umbrella/excess liability policy is the only solution. The umbrella/excess liability policy will generally include a schedule of primary liability policies such as commercial general liability and business automobile liability policies and required limits. It can also extend beyond the primary employer's liability limit which is usually provided as part of a workers compensation policy. The umbrella can either be a stand alone, broader coverage form with its own exclusions and limitations or a following form "excess liability" policy which uses the exclusions and limitations from the listed primary liability policies. A true "umbrella" liability form is ideally the best policy form. The "umbrella" policy may have a retention limit such as \$10,000 that will apply in the event that a claim occurs that isn't covered by primary insurance but because the "umbrella" form contains its own provisions, exclusions and limitations, the claim could possibly be covered by the umbrella liability policy.

Boiler and Machinery

Boiler and machinery coverage is designed for equipment breakdown protection. Equipment breakdown coverage pays for actual loss of "Business Income" from a total or partial interruption of business during the period of restoration, and extra

expense you incur to reduce or avert the amount of loss under the coverage. Covered equipment must be located on the premises, and used to supply air conditioning, communication services, electric power, gas, heating, refrigeration, steam, water or waste treatment to the premises. There are limits to the insurance company's liability, and your policy will set those out in detail. Exclusions to equipment breakdown coverage include depletion, deterioration, corrosion, erosion, wear and tear, rust, fungus, decay, wet or dry rot or mold.

Building coverage excludes coverage for breakdown, as does inland marine coverage.

Both inland marine and boiler coverage exclude coverage for surges caused by off site lightning.

Inland Marine Policy

Inland marine insurance is designed to cover physical damage to property or equipment that is mobile or can be more easily moved from one location to another. Examples of covered inland marine type property include construction tools and equipment, grounds maintenance equipment such as a street sweeper or lawn mower, communication equipment, fine arts, sign, bailee (property of others), musical instrument/camera, valuable papers and other miscellaneous property. The perils covered are similar to the commercial property form with the addition of transit/conveyance and often flood and earthquake. Inland marine coverage can be written to cover scheduled items/property or unscheduled (blanket) property. Some common exclusions are mysterious disappearance, mechanical breakdown, and electrical current/power surge unless caused by lightning damage to the specific property, wear and tear, etc.

Glossary of Terms

Appraisal - A method by which a person evaluates the characteristics of all buildings and advises district of the cost to replace them.

Bodily Injury - An injury including physical injury to any person, death, sickness, disease, or any mental anguish, shock or disability arising from such bodily injury.

Co-insurance Clause - A property policy provision designed to encourage insurers to purchase coverage equal or nearly equal to the values of the property. A coinsurance clause is designed to limit the benefits paid to a deliberately underinsured customer who suffers a partial loss.

Deductible - The amount that the district must pay before the insurance company is liable for payment. Insurance companies will not pay for loss or damage until the amount of loss or damage exceeds the specified deductible amount.

Depreciated Cost - The depreciated value only pays a percentage, based on the age of the covered item.

Employee Benefits - Means any life insurance, accident or health insurance, profit sharing plans, 401K or deferred compensation plans, retirement plan, social security, unemployment compensation, workers compensation coverage, disability benefits, expense reimbursement plan, travel insurance, or holiday or vacation plan provided or sponsored for the benefit of any official or employee of the insured.

Employee Dishonesty - Employee dishonesty means only dishonest acts committed by an employee, whether identified or not, acting alone or in collusion with other persons, with the manifest intent to cause you to sustain loss and also obtain financial benefit for the employee or any person or organization intended by the employee to receive that benefit.

Market Value - The value of the building and/or land if it were sold in today's market.

Replacement Cost - The amount of money necessary to rebuild the building at today's costs. This is the insurance coverage usually recommended for school district buildings.

Wrongful Act - Means any actual or alleged error, act, omission, misstatement, misleading statement, neglect or breach of duty committed by an insured, including employment practices, discrimination or discrimination arising out of employment practices, violation of civil rights, misfeasance, malfeasance, or nonfeasance in the discharge of duties, individually or collectively that results directly but unexpectedly and unintentionally to damage others.