IS YOUR CAMPUS PROPERLY INSURED?

School administrators wear many hats and have many responsibilities, one of which is to manage the risks that could cause harm to students, employees, or volunteers. Another duty is to be sure the school is covered with appropriate levels of insurance to protect it from physical or financial loss. We call these responsibilities *"Risk Management."** But risk management is more than "insurance." Managing risk on campus entails a three-part process:

- Identifying potential hazards and risks.
- Implementing specific loss-prevention measures to help avoid or mitigate accidents.
- Making sure organizations have implemented appropriate strategies to deal with the financial impact of possible losses.

We typically call the third element of the risk-management process "*insurance*." Determining the appropriate level of insurance needed by a school is a strategic decision that includes self-insuring the cost of specific deductibles, transferring the risk to specific types of insurance policies, and making sure these insurance contracts provide appropriate limits in accordance with denominational working policies. In this article, we will explore the administrator's responsibilities for managing a school's insurance program.

Focus on Insurance

Modern commercial insurance was founded through mutual agreements sealed with a gentlemen's handshake at Lloyd's

BY ARTHUR F. BLINCI and TIM NORTHROP

> **Managing risk on campus requires more than insurance.**

Coffee Shop in the 1600s along the docks of London to "insure" the safe passage of maritime commerce. Lloyds of London, one of the first commercial insurers, continues even today. It and many other companies established more recently operate under the premise of mutual trust and understanding between the insurer and the insured.

The same is true of the insurance coverage by the Seventh-day Adventist Church.

Since 1936, the church has owned and operated its own *captive insurance company** to protect denominational assets around the globe. Our risk-management specialists understand the needs of the church and the unique global challenges faced by denominational organizations, so they are able to craft an insurance program to meet those needs. The church is also very proactive in ensuring that denominational organizations have obtained appropriate insurance coverage in accordance with Section S-60 of General Conference Working Policy.

In most divisions of the world church, the arrangements and purchase of insurance coverage for the school or institution are handled by the treasurer at the union, conference, or mission level. This allows for uniformity in the type of insurance purchased and the limits of protection, and ensures compliance with denominational working policies. It relieves the local school administrator from having to shop for most forms of insurance through local insurance brokers or companies. However, it is very important that school administrators carefully review the insurance policies provided for their school in order to comprehend the scope and limits of protection, and understand their responsibility to prevent and promptly report losses.

RISK IDENTIFICATION
Analyze Risks, Hazards, and Property Values

RISK CONTROL
Accident Prevention, Minimization, or Avoidance

RISK FINANCING
Insure, Retain, or Transfer to a Third Party

Property and Equipment Breakdown Insurance

School buildings, as well as their equipment and contents, are insured under a *commercial property insurance policy* that provides protection from physical loss or damage to school property, providing the peril is included within the terms and conditions of the insurance contract. Losses caused by fire, smoke, wind, lightning, water damage, ice, snow, vandalism, and theft are typical insured perils, subject to the limits listed on the policy. Typical exclusions include catastrophic perils such as an earthquake, flood, earth movement, tsunami, and volcano. When a school needs coverage for these risks, the administrator will need to obtain specialized insurance. Consult with your denominational treasurer to secure quotations for this type of coverage.

Another important insurance coverage needed by schools is *loss of use through business interruption and extra expense.* When catastrophic losses occur, schools may suffer such severe damage that temporary facilities are required, and/or tuition income may be lost for a time. Business interruption and extra expense coverage provides financial assistance for these types of unplanned expenses or loss of revenue.

Many school facilities have a variety of equipment such as high pressure boilers, air conditioning/heating units, walk-in freezers/refrigerators, large electrical panels, industrial or farm machinery, and computerized systems that are subject to mechanical breakdown. *Specialized equipment breakdown coverage* can be added to the school's insurance policy if the institution has these types of mechanisms. Beyond paying for the traditional property-loss expenses, this coverage also covers losses from service interruption and the spoilage of perishable goods.

Every school year, the school administrator should review the statement of insurance values for each building included in the institution's property policy in order to ensure that no buildings have been left out, and the estimated value is adequate to replace the building, equipment, and contents in the event of a loss. To obtain accurate property value estimates, school administrators will need to work closely with the denominational treasurer or insurance company representative each year before the insurance policy renewal date.

General Liability Insurance

Accidents that occur on campus or during school activities off campus are covered under a *general liability insurance policy.* This type of policy provides legal defense and indemnity* to injured third parties for which the school, its employees, or volunteers may be held legally liable due to negligence associated with the accident. General liability insurance provides specified limits of coverage for physical injury, property damage, personal injury (defamation), product liability, and other liabilities that may arise from a school's operation.

This type of insurance is very broad and includes the operation of mobile equipment that is not licensed for highway use (farm tractors, riding lawn mowers, golf carts, etc.). Limits are normally stated in increments of U.S.$1 million.

School insurance policies need to include an endorsement stating that all school employees and volunteers are listed as an additional named insured under the provisions of the institution's general liability insurance. This means if teachers or volunteers are named in a lawsuit alleging their negligence* associated with an incident that occurred while they were performing their assigned duties, the school's general liability insurance coverage will provide legal defense for these individuals, as well as for the school.

Employment Practices and Sexual Misconduct Liability Insurance

In North America and some other church divisions, a special form of liability insurance is provided to cover allegations of certain wrongful acts associated with the school's employment practices: wrongful termination, discrimination, sexual harassment, etc. This insurance also provides protection from claims associated with sexual misconduct that may occur between teachers, employees, or volunteers and a minor (a child under age 18).

Educators Professional Liability Insurance

Educators are held to professional standards in their teaching and academic decision-making. The church provides $2 million limits of *educators professional liability insurance* for all teachers as part of a General Conference master *professional liability insurance program.* Fortunately, throughout the years we have experienced very few claims in this area.

Automobile Liability Insurance

Schools operate many types of vehicles. Buses, vans, and automobiles transport students, teachers, and volunteers; trucks, tractors, and trailers haul goods and/or perform other services on behalf of the school. All of these vehicles need to be properly insured against the liability that may arise as the result of an accident. The minimum limits of liability insurance required on vehicles are established by local and state laws. Limits are also specified in denominational working policies, which typically exceed the minimum limits required by the government. This added protection helps minimize the potential financial loss that can result from a vehicle accident.

Accidents can occur during the operation of any type of vehicle. All school-owned vehicles licensed for highway use should be included in a single insurance policy and registered in the legal name of the conference/mission or school. In the interest of safety, all denominational organizations are advised not to purchase, rent, or use 15-passenger vans to transport people because these types of vans have a very high risk of rollover accidents. In many jurisdictions, transporting students in this type of vehicle is prohibited by local laws. Within denominational organizations, tragic accidents involving school vehicles have resulted in death and paralyzing injuries. As a result, millions of dollars have had to be paid in claim settlements on behalf of the denomination.

In addition to the liability protection afforded by these policies, the school administrator needs to determine whether to insure the institution's vehicles for physical damage due to collision or other perils such as fire, water damage, hail, flying debris, theft, and vandalism. Although this is usually an easy decision for newer vehicles (physical damage coverage is usually required if the school is making payments on the vehicle), in the case of older vehicles, it will be more cost-effective not to buy physical damage insurance and to self-insure the risk at the school level. When a vehicle without this type of insurance is damaged in an accident, the school will be responsible for the financial cost.

Minimum Limits of Liability Insurance — GC Working Policy S 60 10[1]

Type of Insurance	Limits of Liability (U.S. Dollars)
General Liability	$1,000,000
Hospital Professional Liability	$1,000,000
Commercial Auto Liability	$1,000,000
Garage Liability	$1,000,000
Excess Liability	$9,000,000
Executive Risk—Directors and Officers Liability	$25,000,000
Executive Risk—Fiduciary Liability	$10,000,000
Executive Risk—Employee Dishonesty	$3,000,000
Miscellaneous Professional Liability	$1,000,000
Trustees Errors and Omissions Liability	$1,000,000
Aircraft Liability (Owned and Non-owned)	$50,000,000
Airport Liability	$50,000,000

Workers' Compensation Insurance

When employees are injured on the job, it is important for them to receive prompt medical care. Many governments require the employer to have *workers' compensation insurance* to pay for medical care, rehabilitation, disability, and loss of earnings in accordance with the statutory regulations where the school is located. This facilitates the employee's return to work and saves the school additional substitute staffing costs. In most countries, workers' compensation insurance covers all or most of these types of financial loss.

Executive Risk Insurance

School governance is handled through school boards comprised of denominational employees and church members. The duties of board members and school officers include the responsibility to operate the school in accordance with local laws and denominational education codes and working policies. *Directors and officers liability insurance* protects the institution from liability caused by wrongful acts of board members or officers that cause harm to third parties. This insurance is subject to an exclusion that does not allow denominational organizations to bring legal actions against another denominational entity's board for alleged "wrongful acts" since they are all insured under one master insurance policy by the General Conference.

The General Conference arranges this insurance protection for schools through its *executive risk insurance* program. This program covers four key exposures to risk:

- Directors and officers liability
- Outside-directorship liability
- Fiduciary liability
- Crime—internal theft

Outside-directorship liability insurance provides professional liability coverage for employees who may be authorized by the school to serve on a board of directors for a non-denominational organization. Fiduciary liability insurance protects the school from legal liability in the administration employee benefit-related programs, e.g., retirement and medical healthcare programs.

School funds can be lost through theft by employees and volunteers, or through other fraudulent acts. All schools in the North American Division have a $3 million limit on crime-insurance protection. Unfortunately, this insurance is not available to schools in other divisions. Therefore, it is critical for the school's financial records to be audited annually and strong internal-control practices implemented to protect the school's financial assets.

In many countries, the church requires *student accident insurance* to pay for minor accidents that occur during typical school activities. By providing insurance for these kinds of medical expenses, the school is able to minimize the impact on its general liability insurance premiums. Some divisions require the purchase of this type of insurance for students by the conference/mission office, while others expect the local school to handle the responsibility. Administrators need to understand the terms, conditions, and exclusions of the accident insurance protection and to ensure that the policy is renewed at the beginning of each school year. The conference/mission treasurer or an insurance broker can assist the school in securing this type of insurance.

Trading Dollars or Financing Losses?

Many forms of insurance, such as property insurance, require the policyholder to select an appropriate level of financial risk to be self-insured by the school. This is called a *policy deductible.* In the event of a covered loss, the school is required to pay the deductible, while the insurance company is responsible for the remainder of the claim. It is a fallacy to think that a low deductible is the best choice to protect the school's assets. The level of the deductible will vary, based on several factors. Issues to consider when choosing a deductible include:

1. Type of insurance policy
2. Level of exposure for loss
   a. How frequently a specific type of loss can be expected to occur
   b. The anticipated financial cost to the school
3. Financial capability of the school to fund a certain deductible level

The administrator must evaluate his or her school's exposure to specific types of loss and determine how frequently these occur. Yes, the cost of a $500 loss may be recovered; however, if three of these losses occur during one school year, and the annual premium is only $1,200, how will these losses affect the renewal premium? Deductible levels should be set so the school is responsible for handling small losses that can be readily cared for within the annual operating budget. Schools should avoid being in a situation where loss dollars are simply being traded for premium dollars each year. Insurance is designed to support the school by offering financial integrity and stability during major loss situations and providing financial resources to restore normal operations in a timely manner. Deductible levels should be established with input from the school administration, school board, and conference/mission treasurer.

Other Insurance Programs

The types of insurance described in this article comprise the key elements of a school's property/casualty insurance portfolio. In addition, many schools also provide other types of coverage for employee benefits such as *health/medical insurance, life and disability insurance,* and *accident insurance* for students and volunteers. It is critical for school administrators to understand the terms and conditions associated with each type of insurance pertaining to their school, employees, and students. This article provides only a brief description of the basic coverage needed for educational organizations within the Seventh-day Adventist Church. Specific details appear in the policies written for each school or denominational organization. Consult with denominational treasurers or your insurance company if additional questions emerge from reading this article.

Fortuitous Versus Business Risks*

Commercial insurance is designed to provide protection from fortuitous risks. This means insurance provides financial protection from losses associated with accidental occurrences for which school employees may be deemed liable. However, a school can suffer significant financial loss caused by non-fortuitous acts as well. These are called *business risks*. Here are some examples in each of these categories:

Fortuitous Risk

• A student is injured in an accident on the playground as the result of negligence in maintaining the swing set.

• A gymnasium roof is destroyed by hail during a storm.

• A pedestrian is injured by a school-owned vehicle, either on campus or off.

Each of these incidents involves an unforeseen or accidental event for which insurance would provide legal defense for the school and indemnification for lawsuits resulting from various types of injuries.

Business-related Risks

Business-related risks include a variety of risks relating to the normal expected operation of the school. For example:

• The principal enters into a contract to purchase a major piece of equipment for the school without obtaining proper board authority. The school thereby incurs a financial obligation for which it has insufficient cash flow.

• The treasurer is tardy in sending the payroll tax deposits to governmental authorities due to cash-flow challenges. As a result, the school is fined several thousand dollars in penalties and interest.

• The school illegally disposes of hazardous chemicals, for which it is fined by the government and required to pay for the resulting environmental cleanup.

These are actual examples of situations that have occurred at Adventist schools for which there is no insurance protection. In each case, one or more school employees engaged in either unauthorized or illegal acts.

These incidents above involved actions taken by school personnel that were not fortuitous or accidental. In these situations, the school is financially responsible for making restitution as required under the terms of a contract or the laws of the government. Such expenses will have a direct impact on the school's operating budget.

It is very important that school boards establish policies ensuring the review and approval of all contracts by legal counsel before they can be authorized. School administrators must ensure that all contracts are approved before they commit the school to the terms and conditions required. Likewise, the school administrator must make sure that employees and volunteers are following the laws of the land.

Pay Now or Pay Later

In the 1970s, Fram became known for its marketing slogan for selling oil filters: "You can pay me now, or pay me later." The lesson was simple—you can pay a few dollars today for a new oil filter and perform regular maintenance on your vehicles, or neglect maintenance and pay thousands of dollars for a major engine repair later. This principle can also be applied to the purchase of insurance for Adventist schools.

Unfortunately, some school administrators display an attitude of entitlement when it comes to filing an insurance claim. Entitlement thinking reasons as follows: *Since the school has property insurance, why bother to spend extra money now for routine preventative maintenance, even if these actions could help minimize building damage in the future?* Suppose the roof on the gymnasium is old and needs replacing. Entitlement thinking reasons: *If a windstorm rips off the shingles, insurance will replace the roof. Let's defer maintenance for another year and see what happens.* This is called a moral hazard.* This type of thinking destroys the relationship of mutual good faith and integrity between the insurance company and its policyholders.

The church, and the insurance company, expect the school to take appropriate care of its facilities. This includes routine maintenance and implementation of safety measures that prevent or mitigate the impact of accidents on campus. Yes, the school may "win" the game of deferred maintenance roulette if a severe windstorm or hailstorm comes through campus and finishes off the gymnasium roof. But when the loss adjustor looks at the damage, it will be evident that neglect of preventive maintenance contributed to the severity of the damage. In these situations, the insurance company may charge a depreciation factor in calculating the loss settlement. This could result in the school still bearing a financial responsibility in restoring the building to usable condition.

Another factor to consider is the impact of claims on future insurance premiums. Underwriters recognize that the cost of a serious property loss or accident may exceed the premium paid for insurance in one year. However, this situation should be the exception rather than the rule. Repeated claim payouts that exceed the amount of the premium will result in steep increases in insurance costs. It will prove true the oil filter adage, "You can pay me now, or pay me later." This type of situation can be avoided if a school implements good maintenance and safety practices.

Timely Reporting of Losses

School administrators must provide timely reporting of accidents and losses that occur throughout the year. The sooner the school notifies its insurance carrier that an accident or loss has occurred, the faster investigation and restoration can begin. All insurance policies require prompt reporting of all covered losses. Delays in accident reports and submission of claims can create several problems:

• The evidence or facts of what occurred may be destroyed or lost due to the delay.

• The school incurs unnecessary financial cost in the early stages of handling the loss.

• Claimants can become frustrated because of the lack of communication, thus increasing the ultimate settlement costs.

• The insurance company's ability to file a subrogation* action against other responsible third parties may be jeopardized.

• The claim may incur restrictions or even be denied because of failure to report the loss promptly as required by the insurance policy.

• A delay in reporting may increase the cost of settling the claim.

"Helping through **Adventist Risk Management®, Inc.** encourages me daily. The feeling of helping to continue the mission of the church drives me."

JONI DREHER-SMITH IS A CLAIM EXAMINER WHO HAS BEEN SERVING THE SEVENTH-DAY ADVENTIST CHURCH AT ADVENTIST RISK MANAGEMENT®, INC. FOR 12 YEARS.

Adventist Risk Management® Inc.

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Remember, insurance is based on a mutual relationship of trust and understanding. The insurance company has a duty to promptly adjudicate all legitimate claims in accordance with the terms and conditions of the school's insurance policy. It is not an adversary; it is your agent, representing the school and the church in order to professionally handle the settlement of these claims.

Risk Management—It's More Than Insurance

Managing the risks at school requires all administrators, teachers, and school employees to be faithful stewards in caring for assets entrusted to them. This includes appropriate maintenance of facilities, careful supervision of all activities, and following the biblical counsel: "Treat people in the same way that you want them to treat you"[2] in dealing with students, employees, and volunteers. This is true stewardship in action. To reinforce these efforts, the school needs to have a comprehensive insurance program in place that is prepared to respond on behalf of the school in times of crisis or loss.

Adventist Risk Management considers it a privilege to provide both risk management and insurance services to the Seventh-day Adventist Church throughout the world. Our mission is to help support your mission. To learn more about the insurance programs available for your school, visit our Website: http://www.adventistrisk.org.

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REFERENCES

1. General Conference Working Policy S 60 10: "Minimum Limits shall be defined as no less than the limits indicated."

2. Luke 6:31, *Common English Bible*. Copyright © 2011 by Common English Bible.

* BRIEF GLOSSARY

Risk Management†—The practice of identifying and analyzing loss exposures and taking steps to minimize the financial impact of the risks they impose. Traditional risk management, sometimes called "insurance risk management," has focused on "pure risks" (i.e., possible loss by fortuitous or accidental means) but not business risks (i.e., those that may present the possibility of loss or gain).

Captive Insurer—An insurance company established by a parent firm [i.e., General Conference] for the purpose of insuring the parent's exposures [i.e., Seventh-day Adventist Church entities].

Indemnity, Principle of—A general legal principle related to insurance that holds that the individual recovering under an insurance policy should be restored to the approximate financial position he or she was in prior to the loss. Legal principle limiting compensation for damages equivalent to the losses incurred.

Negligence—Failure to exercise reasonable consideration resulting in loss or damage to oneself or others.

Business Risk†—A risk of loss so closely tied to an insured's way of doing business that it is considered not to be an appropriate subject of insurance coverage; such risks are typically addressed as overhead (i.e., the cost of the loss is included in the price of the business's products or services) or as a subject for loss control.

Moral Hazard—Personality characteristics that increase the probability of losses. For example, not taking proper care to protect insured property because the insured knows the insurance company will replace if it is damaged or stolen.

Subrogation—Situation where an insurer, on behalf of the insured, has a legal right to bring a liability suit against a third party who caused losses to the insured. Insurer maintains the right to seek reimbursement for losses incurred by insurer at the fault of a third party.

* Unless otherwise noted, terms in this list are taken from National Association of Insurance Commissioners (NAIC) Glossary of Insurance Terms: http://www.naic.org/consumer_glossary.htm. Terms marked with a † are from the International Risk Management Institute, Inc. Glossary of Insurance and Risk Management Terms: http://www.irmi.com/online/insurance-glossary/default.aspx.

A more comprehensive list of insurance-related terms appears in an online glossary prepared especially for this article by article coauthor Arthur Blinci. See http://circle.adventist.org/files/jae/en/jae201477014902.pdf.

GLOSSARY of Common Insurance Terminology*

for "Insurance 101: Is Your Campus Properly Insured?"
By Arthur F. Blinci and Tim Northrop
October/November 2014 *Journal of Adventist Education*

Accident – an unexpected event or circumstance without deliberate intent.

Automobile Liability Insurance – coverage for bodily injury and property damage incurred through ownership or operation of a vehicle.

Auto Physical Damage – motor vehicle insurance coverage (including collision, vandalism, fire and theft) that insures against material damage to the insured's vehicle.

Bodily Injury – physical injury including sickness or disease to a person.

Business Interruption – loss of income as a result of property damage to a business facility.

Business Risk† – a risk of loss so closely tied to an insured's way of doing business that it is considered not to be an appropriate subject of insurance coverage; such risks are typically addressed as overhead (i.e., the cost of the loss is included in the price of the business's products or services) or as a subject for loss control.

Captive Insurer – an insurance company established by a parent firm [General Conference] for the purpose of insuring the parent's exposures [Seventh-day Adventist Church entities].

Claim – a request made by the insured for insurer remittance of payment due to loss incurred and covered under the policy agreement.

Comprehensive General Liability – coverage of all business liabilities unless specifically excluded in the policy contract.

Conditions – requirements specified in the insurance contract that must be upheld by the insured to qualify for indemnification.

Deductible – portion of the insured loss (in dollars) paid by the policy holder.

Directors and Officers Liability – liability coverage protecting directors or officers of a corporation from liability arising out of the performance of their professional duties on behalf of the corporation.

Endorsement – an amendment or rider to a policy adjusting the coverages and taking precedence over the general contract.

Equipment Breakdown Insurance† – coverage for loss due to mechanical or electrical breakdown of nearly any type of equipment, including photocopiers and computers. Coverage applies to the cost to repair or replace the equipment and any other property damaged by the equipment breakdown. Resulting business income and extra expense loss is often covered as well.

Exposure – risk of possible loss.

Fortuitous [Risk] Event** – an unforeseen event that occurs by chance or accident from natural or man-made forces over which an affected person has no control. A fortuitous event can have either positive or negative consequences.

Hazard – circumstance which tends to increase the probability or severity of a loss.

Incurred Claims – paid claims plus amounts held in reserve for those that have been incurred but not yet paid.

Indemnity, Principle of – a general legal principle related to insurance that holds that the individual recovering under an insurance policy should be restored to the approximate financial position he or she was in prior to the loss. Legal principle limiting compensation for damages be equivalent to the losses incurred.

Insurance – an economic device transferring risk from an individual to a company and reducing the uncertainty of risk via pooling.

Insured – party(ies) covered by an insurance policy.

Limits – maximum value to be derived from a policy.

Mobile Equipment† – equipment such as earthmovers, tractors, diggers, farm machinery, forklifts, etc. that, even when self-propelled, are not considered automobiles for insurance purposes.

Moral Hazard – personality characteristics that increase the probability of losses. For example not taking proper care to protect insured property because the insured knows the insurance company will replace if it's damaged or stolen.

Named Insured – the individual defined as the insured in the policy contract.

Negligence – failure to exercise reasonable consideration resulting in loss or damage to oneself or others.

Occurrence – an accident, including injurious exposure to conditions, which results, during the policy period in bodily injury or property damage neither expected or intended from the standpoint of the insured.

Peril – the cause of property damage or personal injury, origin of desire for insurance.

Premium – money charged for the insurance coverage reflecting expectation of loss.

Property [Policy] – coverage protecting the insured against loss or damage to real or personal property from a variety of perils, including but not limited to fire, lightning, business interruption, loss of rents, glass breakage, tornado, windstorm, hail, water damage, explosion, riot, civil commotion, rain, or damage from aircraft or vehicles.

Retention – a mechanism of internal fund allocation for loss exposure used in place of or as a supplement to risk transfer to an insurance company.

Risk – uncertainty concerning the possibility of loss by a peril for which insurance is pursued.

Risk Management† - the practice of identifying and analyzing loss exposures and taking steps to minimize the financial impact of the risks they impose. Traditional risk management, sometimes called "insurance risk management," has focused on "pure risks" (i.e., possible loss by fortuitous or accidental means) but not business risks (i.e., those that may present the possibility of loss or gain).

Self-Insurance – type of insurance often used for high frequency low severity risks where risk is not transferred to an insurance company but retained and accounted for internally.

Subrogation – situation where an insurer, on behalf of the insured, has a legal right to bring a liability suit against a third party who caused losses to the insured. Insurer maintains the right to seek reimbursement for losses incurred by insurer at the fault of a third party.

Transfer of Risk† – a risk management technique whereby risk of loss is transferred to another party through a contract (e.g., a hold harmless clause) or to a professional risk bearer (i.e., an insurance company).

Underwriting – the process by which an insurance company examines risk and determines whether the insurer will accept the risk or not, classifies those accepted and determines the appropriate rate for coverage provided.

Wrongful Act† – the event triggering coverage under many professional liability policies. Typically, a "wrongful act" is defined as an act, error, or omission that takes place within the course of performing professional services.

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