Insurance and Prevention: Why and How?

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THE INSURANCE CONCEPT can be literally traced back to ancient times. The Babylonian civilization in the Middle East was considered the leader in world trade of that time. Babylon was at the center of the world trade market and became an ideal focal point for goods and merchandise brought from Europe, Asia and Africa. Numerous caravans traveled through Babylon bringing valuable materials which linked China, India, Persia, and Egypt to the trade center. Unfortunately, bands of robbers and pirates as well as the natural elements were constant threats these merchants faced on their journeys. Losses of life and materials were relatively high. The Babylonian merchants charged risk premiums on the credit they extended to merchants. Merchants pledged as collateral their property and their family in exchange for loans on the goods. The risks of loss were very high, and it was not uncommon for merchants to lose everything, whereby their families would be sold into slavery. Essentially, these high risks caused a decline in the growth of commercial trade.[1]

Insurance History

Improved trade conditions did not materialize until after the *Code of Hammurabi* (circa 1750 B.C.). The *Code of Hammurabi* played a significant role in the development of the insurance concept. The Hammurabian Code included the doctrines of civic responsibility, bot-

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tomry and respondentia. *Civic responsibility* established that a city was subject to payment of damages to victims for acts of violence which might have been controlled by the city authorities. Loans in the form of maritime contracts on the vessels and cargoes were called *bottomry* (vessels) and *respondentia* (cargoes). There were three basic parts to these loan contracts. They were "(1) loans on the vessels, cargoes, and freight, (2) an interest rate on the loan, and (3) a risk premium for the chance of loss of the venture and the consequent cancellation of the debt."[2] The borrower was freed of his obligation on the bottomry loan if the loss was no fault of his own. The bottomry agreements became a significant procedure for insurance, and were extensively used by many of the ancient civilizations up through the Roman Empire. So-called "marine insurance" is by far the oldest branch of the insurance industry.

Modern insurance practice traces its origins to the mid-seventeenth century in Europe. The Great Fire of London in 1666 is considered the catalyst that established the concept of fire insurance. The Fire of London burned for five days and approximately one-fourth of the dwellings were destroyed. It was the single largest disaster experienced by England in its history. Immediately following this major disaster, Nicholas Barbon established an office to issue fire insurance for homes and business enterprises. As England began to become the leading trade center of the world, the concept of life and health insurance was developed. Lloyd's of London became the insurance capital of the world issuing policies on an international scale.

The French, in the 1650s, can be credited with the establishment of the technique of actuarial science which used the theory of probability developed by Blaise Pascal. Actuarial science has become the sole method for issuing insurance throughout the world and is based on estimates of the probability of loss.

The Modern Insurance Industry

Insurance is a device to spread the risk of loss among a group of individuals who have contributed funds for the possibility of financial loss. It is a method to transfer the risk to the group whereby the individual alone does not suffer the entire loss. The individual pays a prescribed premium based on the probability of possible loss instead of facing alone the entire loss, should it occur.

Today, the insurance industry is a rather complex social institution employing literally hundreds of thousands of people and insuring tens of millions of individuals and business concerns. The insurance industry can be divided into three classifications. They are: (1) life insurance, (2) health insurance, and (3) property and liability insurance. Some companies specialize in just one or the other forms of insurance, while others issue all classes of insurance. Property and liability insurance should be a major concern of the library manager who is responsible for day-to-day operations. Property insurance is protection against hazards and risks of loss against the buildings and contents, while liability insurance protects the insured against claims arising from bodily injury or property damage caused by omission or negligence on the part of employees carrying out day-to-day operations. Insurance coverage is protection against loss, twenty-four hours of the day for the three hundred and sixty-five days of the year.

Loss prevention is a method to reduce the possibility of loss. Loss prevention systems—e.g., automatic detection and extinguishing—reduce the probability of fires causing extensive damage, but they do not eliminate fires. Good housekeeping practices and fire safety programs can be used to eliminate hazards that may contribute to fires and liability claims. Charles F. Gosnell stated, in an article in the *Encyclopedia of Library and Information Science*:

> It is well to recognize and remember that all losses, whatever the intermediate arrangement for compensation or spreading the risk, are losses to society as a whole are eventually paid for by the public at large. Insurance is a fine device for softening the blows of loss, but is not in itself productive. Productivity occurs when the losses are prevented, and society is therefore so much richer.[3]

The Loss Factor

Loss experiences in libraries have been caused by acts of God and by fires which were either set unintentionally or intentionally. Hurricanes, windstorms, cyclones, tornadoes, and earthquakes have taken their toll upon libraries over the last twenty-five years. Basically, most hurricanes, windstorms, tornadoes, and cyclones, are accompanied by considerable flooding which causes extensive damage. Mud and water damage is usually very high—especially to the contents of the building. In some instances, the building structure itself sustains damage which necessitates rebuilding or renovation. Acts of God are not predictable, but insurance coverage is just one method of protection against financial loss.

A fire in a library is still the single most menacing threat because of the destruction caused to both the building and its contents. Beside the actual fire—which may or may not destroy everything—smoke and water damage can certainly be considerable to the contents and the interior of the building. Without the aid of an automatic detection or an extinguishing system, the fire could spread quite rapidly and cause extensive destruction. It is literally water from the firemen's waterhoses which causes most of the water damage to books. The intense heat and smoke from the flames are additional hazards to the library. However, today there are commercial firms that specialize in salvaging water-logged books and deodorizing smoke-damaged books and interiors of buildings. Although the costs for these operations are relatively high, the proper insurance coverage can cover 100 percent of the expense. Otherwise, the cost for salvage and deodorization must be absorbed by the library budget and/or the institution.

Examples of Loss Experiences

Texas Education Agency, Austin, Texas: 1976

The single largest loss to books was caused in a fire at the Texas Education Agency in Austin, Texas on 2 and 3 February 1976. The building, equipment and the entire school textbook collections were destroyed in the fire. More than 1 million books were burned in the blaze. The loss was estimated at $1 million to the building and $5 million for the books. The building did not have any detection or extinguishing system. There was no insurance and a special appropriation from the state legislature was necessary.

Federal Way Branch, Kings County, Washington: 1975

The Federal Way Branch of the Kings County Library System (Washington) was totally destroyed by a fire during the night in 1975. The fire was started in the bookdrop when two teenagers threw a lit book of matches into it. Because the library did not have either an automatic detection or extinguishing system, the fire rampaged unnoticed during the night. The entire building and the 35,000-volume collection were lost at an estimated value of $1.5 million. The Library Director, Herbert Mutschler, indicated that the library did not maintain adequate insurance protection because it had opted for the minimum. Also, it did not have a sprinkler system because it was thought that a fire was a remote possibility. The minimum insurance coverage was taken on the building for $400,000, but the contents were not insured. Therefore, the library is now faced with the problem of raising additional funds for a new building as well as for developing a library collection.

Apparently, there is still the prevalent attitude among many library managers that fire and other hazards in libraries are rare and that insurance and loss prevention programs are expensive luxuries. Unfortunately, the Federal Way community is a prime example of this prevalent attitude. The community must raise more than $1 million to rebuild a new library and collection when insurance coverage and loss systems were available at moderate costs. Until library managers become more cognizant of the different safeguards for protecting libraries—and, more importantly, their contents—the perpetuation of possible financial and academic losses to society will continue into the late 1980s and 1990s.

Prevention and Preparedness

Preventive measures reduce the probability of loss against disasters, and libraries, even if they are insured, should develop preparedness and fire-safety programs to insure that fire hazards are eliminated. Library managers appear to be ill-prepared to face a major disaster. Fire prevention, library inspections, emergency evacuation procedures, and life-safety programs are methods of preparedness that are essential, not only in cases of emergency situations, but also in the daily operations of the library. Library staff members should be alerted to the dangers or hazards that may cause fires. They should be instructed to practice good housekeeping methods to eliminate hazards. Also, staff members should have specific instructions about their responsibilities under emergency conditions, and drills should be initiated so that the staff are prepared in the event of such a situation. Library managers must become more cognizant that it is the responsibility of management to initiate protective measures and to instruct staff of the steps needed to reduce hazards as well as to be prepared for an emergency. *Fire Safety, Self-Inspection Forms for Libraries*[4] is specifically designed for staff use. It has excellent evaluative forms which can be easily implemented in any library. Performing the evaluation will serve as an indication whether the library is prepared for a possible disaster as well as to show if corrective measures are necessary to prevent losses. With these forms and periodic inspections by fire inspection personnel and other agencies, library managers can initiate a fairly complete life-safety and fire prevention program.

Analysis of Risks—Risk Management

To a library manager or governing board, risks are embodied in all library property both owned and used which—if lost, damaged, mutilated, destroyed, or caused bodily injury—would result in financial loss. The replacement, repair or settlement of injury claims would present the library with a serious financial liability. The very nature of insurance is based on the laws of probability and estimates of the risk of loss. These are the basic rudimentary aspects of an insurance program. Library managers hold the responsibility of avoiding the risks of loss to both the library buildings and the contents. This is the relatively new concept of risk management, and it should be applied in purchasing insurance. Essentially, it is a method of evaluating the risks of loss, whereby some items should be insured, and others with minor or remote risks of loss should be candidates for self-insurance. It is the responsibility of library managers to become equal partners with the insurance firms in developing an insurance program to meet the present and to anticipate the future hazards facing their libraries. The ultimate responsibility for securing the insurance coverage falls to the library's board of trustees or to the institutions' insurance managers. However, library managers should seek to insure that this responsibility is adequately and completely met. Chapman Parsons stated:

> I am not, and do not expect you to become, an insurance expert. However, having some responsibility for managing the business affairs of the library, you should be generally aware of general insurance practices in order to be knowledgeable in advising the trustees and be able to speak effectively and clearly with representatives of the industry.[5]

Appraisals and Valuations of Property

Another essential aspect of the insurance program is the appraisals and valuation of property. An inventory of the building (improvements as well) and the contents such as books, other library materials, furniture, equipment, supplies and fixtures is vitally important. Accurate and complete records of the costs are essential and should be updated each year. A problem, basically, could arise if there is loss and the records are incomplete. This could be a factor if there is a loss of less than the total contents and buildings, in which case the insurance company would probably request "proof of loss." This is especially likely when only a portion of the book collection has sustained a loss. If there is up-to-date information about the valuation of the collection, claims are usually easier to be settled. But, changes in the collection must be reflected in the insurance policy, otherwise claim settling may be very costly to the library. Harold Roth lists ten reasons why libraries may experience difficulties in settling claims as follows:

1. An inventory has never been taken or is out of date.
2. Shelflists and collections have never been weeded.
3. Insurance coverage had not changed with a changing collection or with the depreciating or appreciating value of that collection.
4. Collections have been arbitrarily swelled by gifts and other miscellany to hold space.
5. Extensive runs of periodicals and other materials have been accumulated for the same reason.
6. Used and unused portions of the collection share the same general areas.
7. Shelflists contain a variety of information and inconsistent pricing data.
8. A substantial portion of the collection and its stacks have been completely destroyed.
9. The policy covering the collection has a coinsurance feature, which in case of a fire, may lead to the presumption the collection is underinsured.
10. There is a question as to whether books and other library materials are part of the contents as covered by the policy.[6]

Insurance—Options

There are several approaches when considering insurance coverage for the buildings and contents of libraries. Over the years, libraries have been designated by insurance companies and the state rate bureaus as a preferred class and are, therefore, eligible for insurance packages. Generally, the package policies can essentially reduce the overall premiums.

Libraries have been eligible for the Public and Institutional Property (P.I.P.) Form plan. The P.I.P. form has a $500 minimum annual premium and a coinsurance clause of 90 percent as well as a $100 deductible per loss. Within the plan, the library can opt for property insurance coverage either on the basis of "Named Peril" or "All Risk". Basically, if the perils are not listed under the policy, there may not be coverage. "Proof of Loss" will rest with the library. The loss must be attributable to a specifically listed peril, otherwise claims will be very difficult to settle. However, on an "All Risk" basis, if it is not specifically excluded there will be coverage. Below are listed a number of perils which may appear in some policies as insurable perils or as exclusions in an all risk coverage: fire; lightning; winds from cyclones; tornadoes, etc.; smoke damage; explosions (steam boiler); aircraft damage, vehicle as well; sprinkler leakage; vandalism; riot-civil commotion; water damage; glass breakage; building collapse; theft, robbery or burglary; earthquakes; floods; employee dishonesty; sonic boom; and transit collision.

Another important aspect is to consider whether or not to insure on an "Actual Cash Value Basis" or on a "Replacement Cost Value Basis." Under the basis of a loss settlement, actual cash value means the market value less depreciation for wear and tear while replacement cost means new without a deduction for depreciation. However, a word of caution: if the loss is not replaced, the settlement will be on the basis of actual cash value. Generally, if you opt for the replacement-cost value, the premiums may be at a higher level.

The P.I.P. coinsurance clause is an obligation on the part of the insured to carry insurance at the 90 percent level at the time of loss. Anything less will result in a proportionate reduction in loss claims. The coinsurance clause can be waived by an endorsement known as "Agreed Amount Clause." Each year, however, the library is required to file a statement of values with the insurance company and adjust the coinsurance amount to the 90 percent level. Essentially, both the insured and the insurance company have agreed that the coinsurance requirement has been met and will be continued for twelve months with this endorsement. Therefore, this will avoid any possible proportionate reduction in loss settlements due to underinsurance. Regular fire inspections are required and have to be reported to the rating bureau.

The Blanket Coverage Form is similar to the P.I.P. form. It has a coinsurance requirement at 90 percent of the total value. Coverage is available on all risk basis and values can be insured at either the actual cash value or replacement cost basis. There is a $50 to $100 deductible per loss. The properties—buildings and contents—are included in one policy with a single amount of insurance. This generally avoids the risk of being underinsured on some items, while being overinsured on others. The library files a statement of values of the properties with the insurance company or the state rating bureau to determine the average rate for the blanket policy. These policies can be written for a three-year period.

Besides the aforementioned forms, three other methods have been used to insure books and other library materials: (1) "Valuable Papers and Records Forms," (2) "Special Library Policy (Hartford Library Policy)," and (3) "Fine Arts Policy Form." All three policies are issued on a "valued basis." That is, the library declares in advance, the value of the properties insured. They are "all risk" policies, without the exclusions for flood and earthquake damage. Usually, the "Fine Arts Policy" covers art works, pictures or other rare items. Libraries that have large collections of this nature should consider this policy form because it affords considerable loss protection against damage due to fire, water, theft and other hazards.

The "Valuable Papers and Records Form" does not have a coinsurance clause, and loss settlements are based on an actual cash value basis: depreciation is deducted. The library is also required to declare the unit values of items by classes of property. Essentially, if the library maintains accurate pricing records and declares the values appropriately, loss settlements should not be a serious problem. However, if the library is not accurate in declaring values, losses could be very costly to the library's operating budget. Some insurance companies have modified the form to include replacement cost and to provide blanket coverage rather than on the basis of values by categories of materials. Thus, this would alleviate, somewhat, the problem of inaccurate reporting and make claim settlements a lot smoother.

The Hartford Library policy (also known as "Model ALA Library Policy) was developed by Gage-Babcock and Associates, Inc. ALA Insurance for Libraries Committee, and the Hartford Fire Insurance Company. The library is required to report, each year, the declared values for either each book or the unit value per category of materials. Loss settlements are based on the declared values rather than on the basis of actual value or replacement value of individual items. There is a $250 deductible per loss and a "full reporting clause" which, essentially, means a 100 percent coinsurance clause. Basically, if the declared values were inaccurately reported (lower than the actual value), loss settlements are proportionately reduced.

Any of the above forms, as well as those mentioned previously, either in a combination of packages or singularly, would meet the insurance needs of most libraries. Several writers, including myself, have recommended the "Model Insurance Policy" as affording the best protection for contents of libraries. Oscar Trelles recommends that:

> If insurance is contemplated, the model ALA policy be chosen. However, if the latter cannot be applied in a given state or if the librarian decides not to use it, then a combination of the Public and Institutional Property Form with a Valuable Paper Policy and a Fine Arts Policy should be chosen, as these would provide equivalent protection at a more economical cost.[7]

For more complete information about the insurance concept for libraries, an adeptly written manual—*Insurance Manual for Libraries*[8] by Gerald E. Myers—is an excellent and useful book to make library managers and library boards more aware of an insurance program, and of the responsibilities essential in establishing that program. Originally, this revised manual was prepared for the member libraries of the Illinois Library System (Bur Oak, Du Page, Northern Illinois, North Suburban, Starved Rock, Suburban Library Systems), in 1972. The manual is composed of nine chapters. Chapters three through nine analyze the insurance coverage and programs. They cover: (1) analysis of risks, (2) appraisals and valuation of property, (3) insurance coverages, policies, and policy forms, (4) new constructions, (5) insurance rates and premiums, (6) loss prevention and safety, and (7) losses and claims. These chapters will prove to be a welcome aid to both the library board and the library manager as an indication of the types of insurance programs available to libraries. Also, because of its many useful features—chapter one ("A Philosophy of Insurance for Libraries"); chapter two, "Procedures for Handling the Insurance Program"; the appendixes, "Sample Risk Management Statement," "Example of Valuation Study," "Analysis of Insurable Values," "Special Library Policy," "A Typical Analysis of *Bowker Annual Prices,*" and "Checklist for Library Insurance"; and a glossary of terms—this is probably one of the best manuals published within the last twenty years. It has all of the essential components for the development of a sound insurance program.

Lack of Recognition of Protective and Preventive Measures

Unfortunately, many library managers only realize the importance of insurance after a major loss experience. The cost of insurance is relatively inexpensive when one considers the protection it affords. Several library directors stated that they had opted for the minimum insurance coverage because fire was a remote possibility. After major loss experiences had occurred, they realized the importance of insurance protection. If one considers that the yearly premiums are protection against potential losses, they are relatively inexpensive compared to raising literally millions of dollars to rebuild library buildings and collections that were underinsured. However, protection by insurance is by no means the final answer. Preventive and corrective measures are needed to eliminate the likelihood of hazards so that losses are less likely to occur. Automatic detection and extinguishing systems prevent the spread of a fire and lower the risk. When these two systems, protection and prevention, are incorporated into a library's program, its insurance premiums are at a much lower rate. Charles F. Gosnell goes even further and suggests actual dollar savings over time, as follows:

> [If] a book collection housed in an unprotected stack is insured at full value, the installation of a good automatic sprinkler system will result in such a reduction in insurance premiums as to pay for the cost of the sprinkler installation in the course of a half-dozen years. Thus much protection can be secured with an actual saving in expense over the long range, a capital investment well worthwhile.[9]

During a shrinking budgetary base, library managers must determine, as part of the decision-making process, which programs are cost-justified in order to rationally warrant the expenditure of funds. Insurance and loss prevention coverage are cost-justified as the best possible safeguards to preserve and protect the incalculable wealth of buildings and the contents of libraries for future generations.

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