

Local Government Insurance Trust

RISK MANAGEMENT BULLETIN

No. 77

December 31, 1999

Fine Arts Property Risk Management

Introduction

Fine Arts are a type of property deserving specialized treatment. Specifically, due to the valuation disagreements following a loss between the insurer and insured or other parties with an insurable interest. Essentially, the valuation concerns is what makes Fine Arts a unique feature different than other types of property that is best handled by agreement as to its "stated value".

The LGIT Property Scope defines Fine Arts as works of art, antiques or rare articles, including without limitation, paintings, etchings, drawings, lithographs, museum quality photographs, pictures, tapestries, statuary, marbles, bronzes, antique furniture, rare books, antique silver, porcelains, rare glassware and bric-a-brac.

Risk Management

The LGIT Property Scope offers two methods to insure Fine Arts: Unscheduled and Scheduled.

1) Unscheduled Fine Arts is the first method to insure under the Blanket Buildings and Contents Limit. This option treats Fine Arts like any other property such as desks, chairs, etc. However, the Fine Arts will only receive Actual Cash Value (ACV). ACV is Replacement Cost less physical depreciation. This option should be used for low valued Fine Arts.

2) Schedule Fine Arts is the second method to insure them under the Fine Arts Option of Coverage. This coverage will afford coverage up to the agreed, scheduled "stated value" provided in the event of a total loss. This method prevents any future disagreement since all parties agreed up front to the assigned value. "Valuable" Fine Arts should be scheduled under this option of coverage.

Financial Risk Management prevents accepting any value that an artist may assign or any appraiser may assign to the art. Members should be careful not to accept any value without authentic verification. Over-inflated values can easily be prevented through the use of a qualified, licensed, insured and certified Fine Arts appraiser. Upon acceptance, the Fine Arts can be correctly valued and insured.

Sponsoring Organizations



Contractual obligations assumed for other's (non-owned) Fine Arts is another area of concern. Generally, in accepting other's Fine Arts, it is always wise to have a contract stating who is responsible for what and for how much based on a current, acceptable and qualified appraisal.

The contracts with the artist, museum or any other third party can be negotiated from "no responsibility" to "full responsibility", depending on the circumstances. Negotiation is the key. Keep in mind that practically everything is negotiable. Try never to accept a contract as originally presented. Review it and make any and all changes to negotiate favorable and customized terms for both parties. Better yet, have your own standard Fine Arts contracts to present to the other party's acceptance.

A first good standard Fine Arts contract you present states that you do not accept any responsibility for items regardless of fault and the artist is responsible for delivery, installation, take down and return. Start negotiations from there in working to an agreeable contract with the artist/museum in assuming any risk.

Begin negotiable points from "no responsibility" and assume risk that is acceptable to you and the artist. Additional risk assumptions can include the following degrees or combinations:

- Theft only
- Fire and theft legal liability only (legal liability means "your fault" vs. not negligent)
- "All-Risk" (special perils property form) legal liability only
- Fire and theft regardless of fault
- "All-Risk" (special perils property form) coverage
- Exclude transit and packaging responsibilities
- Exclude installation/take down and return
- Cover only total losses
- Apply per item deductible
- Negotiate valuation of items
- Negotiate maximum liability per item or total exhibit
- Coverage excess only to their own insurance policies, etc.

Also, receive proof of their ownership; authenticity of Fine Arts; inspect upon delivery and have artist sign as to his acknowledgement to any defects, breaks, marring, scratching, etc; and take pictures upon acceptance.

Risk Management-Loss Control focuses on implementing the appropriate security measures to prevent not only theft, but vandalism or accidental damage. Basic Loss Control measures include "roping off" to prevent touching; surveillance cameras; security locks on doors, windows or other openings; security alarms (local, central station, etc), security guards, packaging, delivery routes, and drivers. Also, the location and placing of the Fine Arts should be considered as to its risk of loss against flood, fire, theft, breakage, etc.