

MUSEUMS: TIPS FOR DISCERNING THE LIMIT OF COVERAGE FOR YOUR MUSEUM



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WHAT IS A POLICY LIMIT?

An insurance policy is written with specific maximum payout amounts called limits; usually these limits are written on a per-occurrence basis, meaning that the limit is the most the insurer will pay in any one event or disaster. A museum's limits may be considered "blanket" and as such, applied as needed for losses to permanent collection and/or loans.

WHERE DO YOU START WHEN DISCERNING WHAT LIMIT TO PURCHASE?

At minimum, insurance must be purchased to cover all borrowed objects in a museum's care, custody, or control for which a museum is responsible for insuring. The total value of loans at any given time throughout the year should serve as the baseline for a museum when determining what policy premises limit it needs. We suggest using an excel spreadsheet with the exhibition and incoming loans schedule to forecast total values of loans at a museum in the months ahead.

Beyond this baseline, a museum can determine how much additional coverage it will purchase to protect the permanent collection if there was a catastrophic loss. This determination looks at several factors, including the spread of total artwork value throughout the building(s) or off-site locations; the museum's internal risk tolerance level (which may be determined by the board or director); and the museum's susceptibility to natural catastrophic events (e.g., hurricanes, earthquakes). All museums should have a thoughtful understanding of what policy limit they are comfortable with for each policy year.

WHAT IS PROBABLE MAXIMUM LOSS (PML)?

A museum may determine its policy premises limit by assessing its Probable Maximum Loss (PML) scenario. The PML is generally defined as a significant loss resulting from a covered disaster (e.g., fire, flood, tornado), assuming the normal functioning of protective features (e.g., firewalls, security system) and proper functioning of most (perhaps not all) active suppression systems (e.g., sprinklers). For example, the destruction of a storage vault or a wing of a museum may be used to estimate PML. When calculating this figure, it is important to remember that all property owned by others for which a museum is responsible for insuring will account for the first payment in the event of a catastrophic loss. Examine the PML estimates regularly, especially in times of rapid collection growth, museum construction, increased art market values, or increased exhibition activity. A policy limit sufficient for a museum's PML a decade ago may be absorbed by a single object today.

Once or twice a year, a museum may need to increase its policy limits temporarily for a high value incoming exhibition or make other changes due to movement of its collection during the year. Review the policy limit with your broker in advance to determine if changes may be needed.

Your museum's collection and loan values are always changing; fine art insurance should give the museum peace of mind in the event of a catastrophic loss. For more information on reviewing your museum's policy limits, contact a representative from Huntington T. Block at HTBinfo@huntingtontblock.com.

Over, please.

CLAIMS SCENARIO

Applying the concept of PML can help a museum understand just how much insurance to consider purchasing. One such museum had four separate locations where collections were displayed and stored. The museum performed an inventory and determined the total value of loans and permanent collection at each location. The museum decided to purchase a limit equal to the total value of the highest valued location. Since the other locations were separated sufficiently, the museum felt comfortable that a catastrophic loss would not impact more than one location at the same time.

This strategy was put to the test when a rash of tornados came through the area in a significant convective storm. One location was completely destroyed, and the others experienced only minor damage. The collections located at the destroyed location were a total loss as many were works on paper, archives, and memorabilia that could not be restored or salvaged. While the museum suffered a catastrophic loss, it was paid to its fine arts policy limits. Had the same storm severely impacted multiple locations, the museum may have been underinsured. However, it was fortunate that for this particular situation, their PML strategy worked, and the museum had sufficient limits of coverage. Every museum is different in how they examine their limits. For more information on reviewing your museum's policy limits, contact a representative from Huntington T. Block at HTBinfo@huntingtontblock.com.

WHY HAVING A FINE ARTS BROKER IS IMPORTANT?

One of the biggest advantages in purchasing a museum collection and temporary loans policy is working with a specialized broker who is knowledgeable regarding fine art insurance coverage. Fine art brokers provide museums with personalized guidance and work on their behalf to place appropriate insurance coverage. For more information, please contact a representative from Huntington T. Block at HTBinfo@huntingtontblock.com



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