

INSURANCE

A paper discussing the types of insurance relevant to museum professionals, including building, permanent collection, public liability, workers compensation, temporary loans and tours and contents.

1. To Insure or Not To Insure

Insurance is a legal form of gambling. The company bets the insured that certain events will not happen. If the events occur, the company loses; if they don't, the insured loses. The amount of the premium represents the odds of the event occurring. If the odds are high, so are the premiums. If the chances are low, so are the premiums.

It is a matter of considerable debate as to whether museums should take out insurance on their collections. In brief, the argument against says that as museums largely collect the irreplaceable, insurance is pointless. The argument for, stresses that:

- (a) only some of the collection is irreplaceable and the insurance will enable the replacement of that which can be replaced, and
- (b) new material will have to be found and this will also have to be paid for.

The decision to insure or not to insure the collection is one that every museum board has to make for itself. It is a matter of policy.

If the museum decides to "self-insure" it should budget for insurance premiums and actually appropriate that sum and invest it. All too often that money is merely treated as "budget-fat" and allocated to other pressing needs.

If it decides not to insure at all, the board is making a very serious decision affecting the future of the collection. It may be that the board should at least consider taking out "annual aggregate" and "stop-loss" cover. For example, the museum and the insurance company may agree that if claims exceed a total of \$250,000 in a year or \$50,000 on any single loss, the company will cover the amount of the loss in excess of those amounts. Similarly, the use of "deductible" (discussed later) may reduce the premiums to manageable sums.

2. Subject Matter of Insurance

The following are the aspects of museum organisation that usually should be insured:

- (a) the building
- (b) furniture and fittings
- (c) permanent collection
- (d) loans

(e) workers compensation

(f) volunteer insurance

(g) public liability

This does not affect State or Federal museums. These are self-insured by the government.

3. Workers' Compensation

Employers are legally obliged to take out workers' compensation insurance for all employees.

The cost of workers' compensation insurance takes account of the dangers inherent in the employee's job. Thus, a museum administrator will cost less to insure than a salesperson, who in turn will cost less to insure than a storeman.

Premiums are calculated on the number of employees, their occupations and their gross salaries at the time of taking out the policy. During the year the complement of staff may change considerably but this is simply noted at the end of the insurance period and the next year's cover will be accordingly adjusted.

4. Public Liability

Public liability is essential. All museums should have it, without exception. Any institution that invites the public to its premises must protect both itself and those who use it. Its not a legal obligation, but a social obligation. It is not uncommon for Australian courts to award in excess of \$1,000,000 to seriously injured plaintiffs. Those sums are awarded not to punish the negligent but to compensate the injured. Whilst premiums have increased dramatically in recent years, public liability cover is still relatively cheap.

It is also prudent business practice. Visitors are always likely to trip, fall and hurt themselves and just that simple incident could wipe out the museum and endanger the personal resources of the board and management.

5. Fire Insurance

Basic fire insurance covers the building. In some policies it will cover the fittings such as carpets and lights. To this may be added dangers such as flood and storm, but as might be expected with any optional extras, they increase the premium.

The premium will vary considerably according to the location of the building, the construction materials, its age, the accessibility of fire extinguishers or the installation of sprinkler systems, even whether people are allowed to smoke on the premises.

It is wise to make sure that the cover will meet replacement costs and that there is no deduction for depreciation.

Moreover, if an "agreed amount" cover can be negotiated, this will eliminate the trap of a "co-insurance" penalty.

(For explanation of "co-insurance", see later).

6. Permanent Collections

The premium for a permanent collection cover should be based upon the **market value** of the items covered, at the time of taking out the policy.

There are now policies available which cover the collection against fire theft and malicious or accidental damage or loss. The policies relate specifically to museums, art galleries and antique dealers.

Again the insurance company will assess the risks in determining upon a premium. Factors other than market value may include: security measures deployed, frequency, manner and expertise of handling, special characteristics of the objects (such as fragility or attractiveness to thieves), storage and environmental controls (such as humidity, light, dust, heat).

Once a claim is made, the burden is on the museum to prove that the amount claimed is a fair market value for the loss. This may be easy if there are comprehensive accessioning records maintained and if expert valuers (or auction records) substantiate the claim. This is rarely a problem for major institutions but is commonly more difficult for organisations that do not maintain adequate records or collect material that, while being socially and historically significant to the local community, does not have an established market value.

7. Temporary Loans and Travelling Exhibitions

The usual practice is to insist that the "borrower" will meet all insurance needs. The issue of who should arrange and pay for insurance should always be set out in the loan agreement.

The standard requirement is that the material will be covered for "all risks" both at the museum and whilst in transit.

In these instances it is usually advisable to take an "**agreed value**" policy rather than a "**market value**" policy. It is also desirable to consider whether "deductibles" are desirable, for although they keep the cost down, it means that the borrowing museum will be liable to make up the difference and it may not have the resources to do so. If that were to occur both parties would be in a difficult position.

8. Goods in Custody Cover

This policy is designed for organisations which hold goods on consignment or loan. This allows a museum to insure objects that do not belong to it, thus protecting both itself and the lender.

If operating a museum shop one might purchase a package which may cover say, \$30,000 stock and \$5,000 goods in custody. A declaration of actual stock and goods in custody must be made monthly and the premium will vary monthly depending on the actual variations reported each month.

9. Transit Cover

Common carriers do not treat art pieces or historically significant objects as a separate category. They usually offer a general insurance policy costing about \$4.50 per \$600 cover. This is usually automatically added to the freight cost. It is also totally inadequate for the transport of cultural material.

Museums must use specialist carriers. All of these have their own terms of carriage and these should be considered with care.

10. Plate Glass Insurance

Plate glass is expensive and some property owners may elect to insure themselves against its breakage. However where the museum rents buildings the lease agreement usually obliges the tenant to take out plate glass insurance. If the glass has painted lettering or burglar systems attached these additional expenses can also be insured.

11. Contents (excluding the collection) Insurance

Standard "all risks" insurance should be taken out to cover typewriters, curtains, display cases, shelves, filing cabinets, desks and so on. There are two types of cover:

- a) actual cash value (i.e. replacement cost less depreciation)
- b) replacement cost (i.e. no deduction for depreciation).

Make sure you know what you are buying. Regular checks should be made of the inventory to ensure that the amount of cover is sufficient. Coverage is usually written on the basis of "cash value", that is, replacement cost cover (with no deduction for depreciation). Replacement cost cover (with no deduction for depreciation) will also be available but will obviously cost more. It should also be noted that many policies exclude the property of employees, volunteers and members of the public (for example, the cloakroom). This should be checked.

12. Trustees and Officers

The museum's rules often contain an indemnification of trustees/board members, officers and employees, so long as they have acted in good faith. The museum may then insure against any direct loss arising from actual or alleged error, misstatement, act or omission and breach or neglect of duty, of such persons.

13. Volunteers

Volunteers are not covered by workers compensation insurance because they are not employees. Nor are they covered by public liability for they are more than "mere" members of the public. Volunteers must be covered for personal injury.

One must also make sure that the other insurance policies protecting the museum and its collection cover situations in which the loss is caused by a volunteer.

14. Other Cover

The variety of insurance cover available is limited only by the needs, imagination, and resources of the parties.

Other policies not discussed here, include: boiler insurance; computer insurance; library, valuable papers and records insurance; vent insurance; all risk floaters; accounts receivable insurance; money and securities insurance;

products liability insurance; contractual liabilities insurance; publishers liability insurance; and many others. It is important to discuss at length the museum's needs, before settling for any particular policy or company.

15. Co-Insurance

Administrators must be aware of the dangers of the "co-insurance" clause. This clause takes effect if the collection is under-insured. For example, if the collection is worth two million dollars it may be insured for only one million (on the basis that it is unlikely that more than half of it would be wiped out in any disaster). In such a case the payment made by the insurance company will be reduced by the same percentage as the under-insurance. So, in the above example the payout would be reduced by fifty percent.

Although the company will allow a 10% margin, museums are usually better off having the co-insurance clause deleted altogether. A "deductible clause" will help keep the costs down.

16. Deductibles

A "deductible" is the agreed amount that will be subtracted from the payout in the event of a loss. For example, the museum may agree to meet the first ten thousand dollars of any loss. This cover will be cheaper than one in which the museum meets only the first five hundred dollars.

Deductibles may be structured in a number of ways. For example they may relate to individual items, to all losses resulting from a single occurrence, or even all losses within a specified period. It is crucial to examine the exact terms used in the contract.

17. Conclusion

The insured should always insist upon being given a draft of the policy and an opportunity to examine discuss consider and negotiate it. It is essential to have a complete understanding of all its terms. If in doubt, ask.

Always insist on receiving a copy of the final insurance contract. It is the only way that one can be sure that the policy has actually been issued and is the only way to be sure of the exact terms of the protection that has been bought.