

### ***Information Center Fact Sheet*** **Museum Collections Insurance**

Museums hold collections in trust for the public. This stewardship responsibility requires thoughtful resource allocation both for preventing damage to the collections and for making restitution should damage or loss occur. To meet this stewardship responsibility, a museum must devote adequate financial and staff resources to collections care, conservation, and emergency preparedness. A good risk management plan also includes strategies for repairing or replacing material if damage or loss occurs. This usually involves collections insurance.

#### **How much should a museum insure for?**

Most museums do not insure for the full value of their collections. This is for two reasons:

- ❖ The value is constantly fluctuating, and there is no way to keep it current at every point in time.
- ❖ It is not economical. For most museums, insuring for the full value of their collections would be an irresponsible use of financial resources that could go towards preventing loss through other methods, such as fire suppression and conservation.

Therefore, museums usually purchase “blanket insurance” (insurance that covers loss of any covered object up to a given amount) for an amount less than the full value of the collection. This insured value is often determined by calculating “maximum probable loss”—the estimated amount of financial loss that would occur in a single event that did not destroy the whole collection. Each museum has to assess its own collection, storage and exhibit environments, and risk factors to arrive at this amount. For example, a museum in a floodplain might calculate its maximum probable loss by assessing the damage that would occur if its basement storage rooms flooded. A museum in an earthquake-prone area might calculate potential damage to collections based on a scenario in which one wing of the building collapses.

#### **What if the material is irreplaceable?**

Some collections material is truly unique and irreplaceable. In a larger sense, however, it constitutes a cultural or scientific asset for the community the museum serves. Even if a loss is total, insurance can enable the museum to purchase a comparable asset, if not a replacement, that can serve the museum’s mission and the community’s needs in a way similar to the lost material.

#### **How do we determine value?**

For the purposes of collections insurance, valuation is commonly handled in one of two ways.

- ❖ Schedules. Some museums that insure a limited number of objects use a “schedule,” listing specific pieces and the values for which they are insured. These values are the basis for compensation at time of loss. Note that such schedules may need to be updated frequently to reflect accurate values and may leave newly acquired material without insurance coverage if it has not yet been added to the schedule. This method is rarely practical for large collections.
- ❖ Blanket coverage. Many museums purchase blanket insurance that covers all the collections described, in a general way, in the insurance policy. Usually the insured value for a given piece is specified as “market value at time of loss.” The museum and its insurance agent should discuss how market value would be determined by the loss adjuster. The museum

may need to be able to produce documentation such as inventories, condition reports, and photographs to support this valuation.

### **What if the material has no market value?**

While insurance coverage is commonly written for “market value at time of loss,” some collections material has no market value, either because there is no market for the material (e.g., geological core samples, institutional archives) or because it is illegal to sell them (e.g., endangered species). In this case the museum’s collections staff should work with the insurance underwriter to determine an alternate method of valuation. These alternatives can include:

- ❖ An amount that reflects the cost of re-collecting and/or preparing and curating the material
- ❖ An amount that the museum feels would help “make it whole” again if the loss occurs

The fact that these values cannot be validated in the marketplace should not be a barrier as long as the museum and the underwriter can agree on the basis for valuation and the amount of the premium. Negotiation of a method of determining value should take place before a loss occurs—this is not something to argue about while salvaging artifacts from the rubble.

### **Can museums self-insure?**

Some museums within larger parent organizations (such as colleges/universities or government agencies) self-insure. This means that the parent organization maintains an insurance pool and runs its own insurance program with risk assessors and loss adjustors—effectively acting as its own insurance agent and underwriter. However, when museums say they are “self-insured,” most often they mean they have no insurance and intend to pay for repair or replacement of collections material out of the museum’s general operating or capital funds. Usually this means that the collections are effectively uninsured.

### **Additional Resources**

The Free Management Library, hosted by the Management Assistance Program for Nonprofits, offers several articles on different aspects of insurance and includes a dictionary of insurance terms. (<http://www.managementhelp.org>)

The Huntington T. Block Insurance Agency website has a series of frequently asked questions about insurance issues specific to museums.

([http://www.huntingtontblock.com/amo/htb/homepage.nsf/\(\\$DynamicFrameWeb\)?OpenForm&Link=/amo/htb/homepage.nsf/\\$\\$SearchResults/?SearchView&Query=museum&Count=75](http://www.huntingtontblock.com/amo/htb/homepage.nsf/($DynamicFrameWeb)?OpenForm&Link=/amo/htb/homepage.nsf/$$SearchResults/?SearchView&Query=museum&Count=75))