

# **AMERICAN ASSOCIATION OF INSURANCE SERVICES INLAND MARINE GUIDE FINE ART DEALERS - UNDERWRITING**

## **COVERED PROPERTY**

The intent of fine art dealer form is to provide coverage for fine arts that are for sale by a merchant. Art objects are usually thought of as paintings, sculptures, or similar works of graphic beauty. However, fine arts can also include historical objects that were originally created for functional use. These objects now have value as fine arts because their craftsmanship or decorative elements are in a rare or historical style. Historical items that are sometimes classified as fine arts include maps, dishes, vases, pots, costumes, dolls, and armaments.

### **Property Not Covered**

The following objects are not covered under a fine art dealers form; coverage for these items can be provided under separate Inland Marine coverage forms:

1. numismatic objects or collections (i.e. coins or currency);
2. philatelic items or collections (i.e. stamps); or
3. jewelry, unless the jewelry is an antique (100 years or older).

## **RISK SELECTION**

To underwrite a fine art dealers risk, obtain the following information:

1. Construction, occupancy, protection, and exposures should be determined for each scheduled location. The following specific conditions may exist in some operations and should be carefully evaluated:
  - a. Is there a concentration of values in a storage room? If so are there any special alarms or controls? Is the storage room in the basement where water damage can occur?

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- b. Do the operations include any extensive packing or framing? Is packing or framing done for others? Is the accumulation of combustible materials associated with packing and framing properly controlled?
  - c. If a dealer is located in a multi-tenant building, do the operations of other tenants present hazardous exposures? For example, are there art studios involved in woodworking or welding? Are there restaurants?
- 2. The type, grade, and extent of the burglary alarm should be determined.
- 3. Years in business and years under current management should be determined. A dealer in business over five years is considered a more stable and desirable risk.
- 4. A description and percentage breakdown of stock should be obtained (e.g. paintings 75%, sculptures 15%, glass figures 5%, and antique jewelry 5%).
- 5. It should be determined if inventory records are updated at least annually and if duplicate inventory records are stored away from the premises.
- 6. The average and maximum inventory values during the past twelve months should be determined. Also, the single highest valued item in the inventory during the past 12 months should be determined.
- 7. The annual values shipped should be determined, including a breakdown of the mode(s) of transportation.
- 8. The number of exhibitions away from the dealers' premises should be determined, including the maximum values exhibited.
- 9. The loss experience should be obtained and evaluated. A risk with more than three theft losses in five years may have inadequate controls and would be considered a poor risk.

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## **Special Risks**

Catastrophic losses and loss frequency are associated with the following types of risks:

1. Antique dealers or if the value of antiques makes up more than 25% of an art dealers inventory;
2. Auction houses; and
3. Rug dealers or if the value of rugs makes up more than 10% of an art dealers inventory.

## **KEY HAZARDS**

### **Fire**

Art work that is not directly touched by a fire can still be destroyed by the accompanying heat, smoke, and water. Even minor damage can result in a significant loss because restored work will be worth significantly less than its previous value. In addition to standard controls for the peril of fire, underwriters may want to consider the following:

1. Smoke or heat detectors/alarms should be installed when values exceed \$500,000.
2. All values within a single building should be considered as 100% PML.

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## **Theft**

The level of alarm protection should be dictated by the values at risk and the location of the risk. For example, a dealer specializing in mass produced lithographs would not be considered a target for theft. On the other hand a dealer with individual paintings valued at over \$50,000 each could have a significant theft exposure. In addition to alarms and special protective measures, the adequacy of passive controls (e.g. doors, locks, lighting) should be evaluated.

### **Alarm Guidelines**

The following alarm system guidelines should be considered:

1. Minimum protection, a UL-certificated central station alarm, or police station connected mercantile alarm system.
2. Values from \$1,000,000 to \$2,500,000, a UL-listed B-2 certificated central station alarm system should be required.
3. Values over \$2,500,000 or an individual item valued in excess of \$500,000, a UL-listed BB-2 certificated central station alarm system should be required.

### **Special Measures**

Some risks may require additional special protection from theft losses:

1. Street level display windows should have roller grills or bars in addition to an alarm system when the art values in the windows exceed \$5,000 during non-business hours.
2. A dealer with small, valuable objects (e.g. antique jewelry, jade figurines) should be written with a higher separate theft deductible unless:
  - a. items are in locked display cases; and
  - b. customer control measures are used, for example, locking doors then buzzing-in customers and allowing items to be inspected one at a time.

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## **Transit**

The over the road hazards that are associated with transportation (e.g. overturn, collision) can severely damage fine arts. The exposure to breakage and theft can also be quite high when fine arts consists of fragile and high valued items. The following points should be considered when providing coverage for fragile or high valued art:

1. shipments should be packed by a professional fine arts packer;
2. additional security measures (e.g. armed guards) should be taken when high valued objects are being transported; and
3. a common carrier specializing in the transportation of art should be used.

## **ENDORSEMENTS**

The following is a list of endorsements that modify the fine art dealers coverage form.

### **Breakage**

The breakage endorsement deletes the breakage exclusion in the coverage form. When providing breakage coverage the following underwriting issues should be considered:

1. A review of the inventory breakdown should be made to determine if a large percentage of the inventory is made up of fragile art objects. The higher the percentage of fragile items, the greater the exposure to a loss.
2. The method of transportation should be evaluated. Risks that use owned vehicles or do their own packing can be more hazardous than ones that use common carriers or professional packers.
3. When earthquake coverage and breakage coverage are provided additional conditions (e.g. higher deductible, sub-limit) should be contemplated if a covered location is in an Earthquake Zone 1 or 2.

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## **Earthquake Coverage**

This coverage can be provided by indicating an applicable limit on the declarations page. When providing this coverage the following information should be obtained and analyzed:

1. the earthquake zone that has been assigned to the area;
2. the construction of the covered location; and
3. the percentage of fragile items that make up the inventory.

## **Flood Coverage**

Coverage for the peril of flood can be provided by indicating an applicable limit on the declarations page. When adding this option an underwriter should obtain and appraise the following information:

1. the Federal Emergency Management Agency's flood zone for the area where the risk is located;
2. the history of flooding in the area; and
3. the floor on which the risk is located, ground floor and below locations are considered to have the greatest exposure to flooding.

## **LOSS CONTROL**

The following are possible issues that relate to a loss control survey.

This information is NOT intended to represent a comprehensive and exhaustive treatment of loss control issues that relate to a fine art dealers risk. UNDERWRITERS SHOULD CONSIDER additional questions that address concerns about individual risks.

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## **Loss Control Survey**

In most cases a standard property loss control survey that addresses construction, occupancy, protection, and exposures will be sufficient for a fine art dealers risk. For some risks the following additional features may need to be addressed:

1. the extent and control of packing and framing operations;
2. the protection of display windows;
3. the protection of storage rooms including security measures;
4. the maintenance and storage of inventory records;
5. the control of customer traffic including the display and protection of small objects.