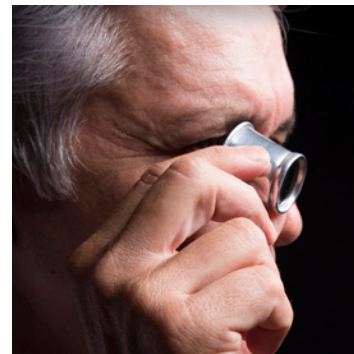


How to Insure and Appraise Your Collection



By Lawrence McGlynn CPA AAI CAGA



Many people seek out on-line bulletin boards to learn how to do everything from fix a kitchen faucet to make out a last will and testament. Sometimes people even cruise the Web to learn how to insure a collection of art or artifacts, **homing in on sites such as this one.**

While bulletin boards such as this can be helpful in many instances, rarely do they tell you the whole story. This e-book will give you an overview of what you need to do – and who you need to consult – in order to have your collection properly appraised and insured.





Lawrence McGlynn CIA AAI CAGA

“I am an art and artifact collector. I am also an insurance agent and that has been my primary job for close to 40 years.”

First, a little background about me. I am an art and artifact collector. I am also an insurance agent and that has been my primary job for close to 40 years. I own a full-service insurance agency in the Boston area. The agency is now celebrating its 100th year in business. In other words, we understand the insurance business. I am also a certified personal property appraiser. I also have an understanding of current appraisal practices.

I have discussed insurance for collections over the years via bulletin boards, blogs and You Tube videos, but this is my first time discussing appraisal work and why appraisals are necessary in order to properly insure a collection.



Lawrence McGlynn is president and owner of the McGlynn, Clinton & Hall Insurance Agencies, which is celebrating its 100th anniversary, as well as partner and owner of the brokerage firm, Insurance Services of New England, LLC. Since 2010, Lawrence has been the manager of McGlynn Appraisal Services, LLC, which is a CAGA certified appraisal company specializing in aerospace and maritime artifact and art appraisal. Lawrence is also a collector of space and maritime memorabilia and has been collecting such items since 1959.

“Now, most personal lines insurance companies that insure homes are willing to insure your collection, but they usually do not have the expertise to understand the objects or the value of objects in, say, an aerospace collection.”

Now, most personal lines insurance companies that insure homes are willing to insure your collection, but they usually do not have the expertise to understand the objects or the value of objects in, say, an aerospace collection.

As a result, an aerospace collector would be required to explain the collection and its value to the company representative or the collector’s agent. Even a more common set of collectibles, such as stamps and coins, can be a cause for miscommunication between the collector and the insurance company. Attempting to explain the nuances of an artifact in detail can often lead to confusion, which in turn leads to reluctance on the part of the insurance company to insure that type of object. As a result, a standard “vanilla” insurance company is likely to tell you, in declining your request, that it would be too difficult to determine the value of the collection and therefore it can’t insure your collection. While this response from an insurance company might have been valid ten or fifteen years ago, it shouldn’t be today. It’s really not that difficult to determine the value of a collectible in this day and age. Today, auction houses are running hundreds of auctions per year. Add Internet auctions run by independent auction sites into the mix, and the number of annual auctions numbers in the thousands. In other words, an object’s valuation information is out there to be found in numerous locations. In the event of loss, the company adjuster would just need to be guided to a site showing the sales and market value of the particular piece.

“In other words, an object’s valuation information is out there to be found in numerous locations. In the event of loss, the company adjuster would just need to be guided to a site showing the sales and market value of the particular piece.”



“An appraiser has to do the research to establish comparables (items that are the same or similar to the damaged or destroyed object).”



An appraiser’s job is to find valuation information for the objects in need of appraisal. That comes in the form of research via auction catalogs, retail sales establishments and the Internet. There are no secrets. An appraiser has to do the research in order to establish comparables (items that are the same or similar to the damaged or destroyed object). This is especially true if the appraiser is creating appraisals for donation deductions on a client’s tax return. That information will be recorded in the appraiser’s field notes in case it is needed to provide valuation information for an insured loss or to back up the donated value of an object in the event of an IRS request.

The role of the insurance agent is to help his client find insurance coverage to meet his needs. That is his job. At least, that is what an independent insurance broker does, since he represents the client and not the insurance company. He can either find the coverage that can be attached to the client’s homeowners policy through a “Schedule Personal Property Floater (HO-61) Endorsement” or go out to the market to search for a company with which to place protection under a separate policy. While there are slight differences such as loss determination valuation and deductible clauses, the coverage is similar and that means the replacement of the object or reimbursement of the monetary value of the destroyed object.

“The role of the insurance agent is to help his client find insurance coverage to meet his needs. That is his job.”



“For anything over a minimum value, you need an appraisal.”

In an attempt to simplify the task, most insurance companies have a base requirement above which an item must be appraised before it can be added to the policy and anything under that value can be added without an appraisal. The minimum per-object value requirements can range from \$5,000 to \$50,000 for a single object and depend on the company’s underwriting appetite. To simplify that statement, if all your objects are below the minimum value that your company would accept before requiring an appraisal, then you could just list the item on the policy. As an example, if you have an object that is worth \$200, then the company would just use your number as the value for the item and would not need an appraisal. You just have to prove to the company the existence and the value of the item at the time of loss. For anything over a minimum value, you need an appraisal. As an example, if you have a painting worth \$75,000, you would be required to provide a professional appraisal completed by an independent appraiser as proof of value. With many objects and artists, this is a fairly straightforward process due to the mountains of data that have been generated about value by the many auction houses that have sprung up over the last few decades.

“With many objects and artists, this is a fairly straightforward process due to the mountains of data that have been generated about value by the many auction houses that have sprung up over the last few decades.”

“Remember, the key for an insurance company or appraiser is not the provenance, or authenticity, of an object, but proof of the object’s existence.”

As a collector, you need to do more than this if you want to be protected properly. You should also catalog your collection via hard copy to get the values of each item in your collection. It would also be best to document the entire collection via video camera or video phone. Video does a double service to the collector by both visually and verbally reviewing the collection. Then take the tape, disk or flash drive and place it in an off-premises location such as a safety deposit box. Remember, the key for an insurance company or appraiser is not the provenance, or authenticity, of an object, but proof of the object’s existence. There is nothing better for an insurance adjuster than to actually see the destroyed object in a photograph or video. There is also nothing better than video for the collector since most individuals cannot remember exactly what they have in their possession after a loss destroys their personal assets.





“It is the client’s responsibility to research and establish the provenance of the item before he purchases the object for his collection.”

One note on all discussion about provenance: While I absolutely agree that provenance is the key to the value of the object, it is not terribly important to the insurance company or the appraiser.

The insurance company is looking at either replacing the object or paying the listed value of the item. As for the appraiser, they are not authenticators. As stated in the notes section of a standard appraisal document, “To the best of our knowledge and given the known facts, the values listed for the appraised items are representative of value for comparable authentic items... however the process of valuation is not a certification of authenticity for a given item.” The appraiser has been asked to value an item based on the facts given to him by the client as well as his professional knowledge. It is the client’s responsibility to research and establish the provenance of the item before he purchases the object for his collection. If an item is fraudulent, blame the authenticator, blame the dealer or the private seller of the object, but don’t blame the appraiser. He is only professionally certified to value the item. While an appraiser can be very knowledgeable about the provenance of an object in his specialty, for legal liability reasons, his appraisal work is for valuation purposes only.

“While an appraiser can be very knowledgeable about the provenance of an object in his specialty, for legal liability reasons, his appraisal work is for valuation purposes only.”

Once the cataloging and valuing of the collection is completed, then it is time to talk with your insurance agent (hopefully, not a 1-800 number representative of some direct writer) about insuring your collection.

In talking with your insurance consultant, you should ask some questions about the type of insurance coverage he would suggest for your collection. What type of loss will be covered? Is the policy Named Perils or Open Perils? How will a loss be settled? Will the claim be paid based on Actual Cash Value or Replacement Cost? Is there a deductible? What items have a value that will require an appraisal? If you travel with the items will they be protected during transit? Will the piece be covered worldwide? Don't go for the least expensive product, because "you get what you pay for" means something in the insurance world.

Once you know the answers to those questions, then you should try to find a local personal property appraiser and educate him on the artifacts and their values. Ask that appraiser to appraise only the items that require an appraisal by your insurance company. Appraisers do so much more than simply pick a value and type up a letter. There is a lot that goes into an appraisal and the appraiser must be able to back up his valuations in the event of a legal or tax issue. Make sure that you inquire about an appraiser's fee to complete this work.

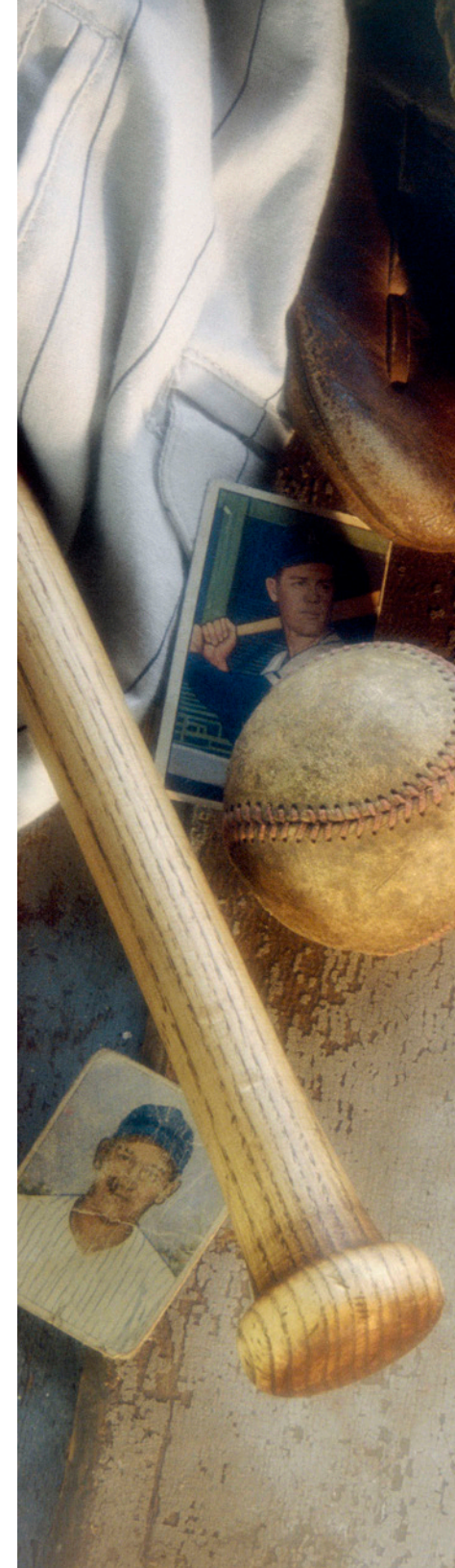
"There is a lot that goes into an appraisal and the appraiser must be able to back up his valuations in the event of a legal or tax issue."

"Don't go for the least expensive product, because "you get what you pay for" means something in the insurance world."

“The insurance premiums for an Open Perils, Replacement Cost policy with transit and worldwide coverage are typically 1% to 2% of the total value of the collection.”

Now, what is the price required to insure your collection?

The insurance premiums for an Open Perils, Replacement Cost policy with transit and worldwide coverage are typically 1% to 2% of the total value of the collection. If you have a collection valued at \$100,000, then the premium can cost \$1,000. Adding the coverage to your homeowners policy can produce a less expensive premium with similar coverage, but that will depend on your insurance company. An organization like Chubb Insurance Company will provide a Scheduled Personal Property endorsement to a homeowners policy that is very good. Just remember their motto is that “you get what you pay for.”



“Appraiser fees can vary. While it can depend on the job, the average fee is around \$125 per hour with a minimum guaranteed amount of hours.”

Is there a standard fee for a professional appraisal?

Appraiser fees can vary. While it can depend on the job, the average fee is around \$125 per hour with a minimum guaranteed amount of hours. That is \$1,000 for an eight-hour day. Some appraisers also charge for expenses such as travel and lodging and some companies include those costs in their hourly fee. You may find an appraiser who will do the job for a flat fee based on the amount of items that he has to review for the appraisal report. One thing that should not be included in any fee is the offer to purchase any object that the appraiser values for you as it is a violation of all the known appraisal societies' ethical standards. It is important to do your homework, so you can reduce the amount of time the appraiser spends on the number of objects that you ask him to appraise.



“It is important to do your homework, so you can reduce the amount of time the appraiser spends on the number of objects that you ask him to appraise.”

“I know that all the items in my collection are valuable to me, but are all those artifacts valuable in realistic terms of the market and the cost of appraising as well as insuring them?”



As you can see, there is a cost to insuring your collection and that leads to a final recommendation of creating a plan to separate the high value items from the less expensive objects. Then you should impose a monetary limit on what objects you want to insure against loss. Insuring an easily duplicated inexpensive item is not worth the premium paid. Yes, as a collector, I know that all the items in my collection are valuable to me, but are all those artifacts valuable in realistic terms of the market and the cost of appraising as well as insuring them?

Choose wisely, because it all costs money.



**McGlynn, Clinton & Hall
Insurance Agencies, Inc.**

325 Boston Post Road
Unit #4
Sudbury, MA 01776-3043
www.mchuinsure.com

978.443.6530 voice
978.443.0263 fax
insure@mchinsure.com

9 steps to protecting the value of your collection:

1. Always research and establish the provenance of an item before purchasing the object for your collection.
2. Create a hard-copy catalog that lists the values of each item in your collection.
3. Using a video camera or video phone, document your entire collection by creating a narrated video.
4. Store the completed video and printed catalog in an off-premises location such as a safety deposit box.
5. Discuss your collection with your insurance agent and ask how to provide the proper insurance coverage. Make sure to ask the following questions:
 - What type of loss will the policy cover?
 - Is the policy Named Perils or Open Perils?
 - How will a loss be settled?
 - Will the claim be paid based on Actual Cash Value or Replacement Cost?
 - Is there a deductible?
 - What items have a value that will require an appraisal?
 - If you travel with the items will they be protected during transit?
 - Will the piece be covered worldwide?
6. Through recommendations from your agent, friends and colleagues, find a local personal property appraiser. (Make sure that you inquire about an appraiser's fee to complete your project.)
7. Ask that appraiser to appraise only the items that require an appraisal by your insurance company.
8. Once the appraisal of your collection is complete, meet with your insurance agent to determine the best strategy for protecting your collection against loss.
9. Now knowing that your collection's value is properly safeguarded, enjoy a good night's sleep!