

## Insurance

This section covers insurance for your building(s), machinery, and equipment, NOT for your collections (these will be addressed later). Items to be considered here (in addition to the building itself) might include photocopiers, microfilm readers, computers, scanners, etc.

Insurance is a complex subject and can be very confusing. This brief summary introduces some basic concepts, but it is very important that you consult with your insurance agent to determine precisely what coverage is right for your institution.

There are a number of issues to consider when planning for insurance coverage. You will need coverage not just for your collections, but also for your building, machinery, and equipment. If your institution does a lot of business electronically, the data and systems may need to be insured as well. You should also consider business interruption and extra expense insurance, which covers loss of income and any extra expenses that may be incurred while providing services during the period of repair and restoration after a disaster.

An institution can be self-insured, purchase commercial insurance, or have a combination of the two. Some larger institutions or those that are part of a larger entity (e.g. university, government agency) choose self-insurance or a combination of commercial and self-insurance. Commercial insurance is more common for smaller institutions that do not have the resources to allow for self-insurance.

**Self-insurance** means that the institution (or parent institution) sets aside a certain sum of money in a reserve fund, which will be used for salvage or replacement of collections or other property, or to provide business interruption funds, in case of a disaster. Self-insurance is not necessarily easier or cheaper than commercial insurance, as the funds must be carefully managed. Also be aware that some institutions do not set aside any specific funds for insurance. They simply expect to pay for any losses out of general operating funds; this is the equivalent of carrying no insurance at all, and is NOT recommended.

**Commercial insurance** refers to the practice of paying premiums to an independent insurance company that will reimburse the institution if damage or loss occurs. If you have commercial insurance, talk with your insurance agent (and perhaps with the claims representative of your insurance carrier as well) to identify any potential trouble spots in your situation. Go through several different hypothetical disaster scenarios with your agent to help you decide how much and what type of coverage you need. For example, you might need to know whether losses that occur in off-site storage are covered, whether losses of items being transported are covered, and/or whether your policy provides for restoration or replacement of certain valuable objects.

Regardless of the method of insurance coverage, your institution must:

- 1) establish the value of the item(s) to be insured,
- 2) decide on the appropriate type of coverage, and
- 3) establish the procedures and documentation that will be required in the event of damage or loss.

### Establishing Value

Whatever type of coverage is chosen, it is essential to establish the value of collections and to regularly update those valuations to ensure that sufficient coverage is being provided. Be sure to keep documentation of these valuations in a secure place so that it is not lost in a disaster.

Determining the value of buildings and equipment is usually fairly straightforward, but determining the value of collections (particularly special collections and archival materials) can be more challenging. Value can be established using the original purchase price, the standard trade price (found in standard resources such as Books in Print, or by consulting specialized catalogs or dealers), or through an independent appraisal (sometimes the only option for rare materials, archival materials, or those whose market value is difficult to determine).

### Types of Insurance Coverage

#### Perils Insured Against

There are two general types of commercial insurance: all-risk and named peril. All-risk is generally preferable, as it provides protection for any event except those that are specifically excluded. Excluded risks (e.g., flooding, earthquake) can usually be added as an endorsement to the policy, which will raise the premium but may be worthwhile for some institutions. For library special collections and/or archival collections, a separate Valuable Papers and Records policy may be needed. This type of policy covers specific collections of particular value and allows for complete reimbursement, usually on an actual cash value basis.

#### Type of Reimbursement

There are several specific types of insurance coverage that can be used by libraries, archives, and other cultural institutions, which are described in detail below. Reimbursement is calculated using different assumptions for each type, so it is important to determine what type of policy or policies is most appropriate for your institution.

**Replacement Cost:** The real cost of replacing or restoring an item in the current market with one of like kind and quality. With this type of coverage, an item must normally be replaced unless an agreement for salvage or restoration is made with the insurance carrier, or unless there is a salvage or restoration endorsement to the policy.

**Actual Cash Value:** The amount of reimbursement based on the current market value of an item minus depreciation. This can reduce premiums, but in the event of a disaster, actual cash value may result in less reimbursement than a replacement provision.

**Average Replacement Cost:** Establishment of an average cost for all holdings or for all items in a particular category of holdings (e.g., reference books, serials). This value is determined when the policy is written, and an accurate listing of the number of items in each category must be provided. This method can result in lower premiums but must be used carefully. Items of special value that would be expensive to replace should not be included.

**Agreed Amount Valuation:** The institution and the insurance carrier agree to a specific amount of coverage for each item at the time the policy is written. Value would be determined through a qualified appraiser.

## **Resources for Professional Appraisers**

Appraisers Association of America at [www.appraisersassoc.org/directory/index.htm](http://www.appraisersassoc.org/directory/index.htm)

or

American Society of Appraisers at [www.appraisers.org/findappraiser/](http://www.appraisers.org/findappraiser/).

## **Procedures and Documentation**

It is also essential to be aware of required procedures in the event of a disaster (e.g., your insurance carrier may not want you to begin salvage until the claims representative has viewed the damage). It is also important to document both the pre-disaster and post-disaster condition of the insured property. Photographs, videotape, condition reports, appraisals and other methods of documentation may be needed.

Before moving to the next screens, locate your Summary of Insurance and your Claims Manual (provided by your insurance agent), if you have them. They will contain much of the information that is requested in the following forms.