

Insurance Board Building Coverage vs. Scheduled Property

This paper is prepared to help define the differences in coverage terms between the ***Building & Personal Property Coverage Part*** and other options under the Insurance Board program as defined by the ***Commercial Articles and Miscellaneous Equipment Coverage Form*** and the ***Commercial Fine Arts Coverage Form***.

The Property Form

The Insurance Board property policy provides coverage for buildings and personal property under a single limit. Within the coverage form, organs and other church fixtures are included within the definition of “building”. Coverage for “stained glass” is provided by a coverage extension applying to “building glass and outdoor signs”. The policy contains a \$25,000 sublimit for items considered to be Fine Arts (“paintings, etchings, pictures, marbles, bronzes, tapestries, rare or art glass, valuable rugs, statuary, sculptures, antique furniture, antique jewelry, bric-a-brac, porcelains, icons, torahs, and similar property of rarity, historical value or artistic merit”).

When high value components are covered under the Building form, they are subject to all of the conditions, limitations and exclusions as if they had no more value or meaning than the kitchen sink. And the items are subject to the same valuation and loss settlement conditions as the kitchen sink. There is no substitute for actually reading the policy to fully understand these conditions. Circumstances of loss vary greatly, so the coverage must be read in the context of the facts of the actual loss. Highlighted here are terms which will become the focus of loss investigation and settlement.

Certain exclusions will always apply and most will rarely be an issue: Radioactive matter, lead, pollution, asbestos, cyber risk (Year 2000) and mold. The IB does see exposures or claims in which pollution, asbestos and mold may be a factor.

Other exclusions must be teased out of the policy. The following are existing exclusions:

- Earth movement, flood, artificially generated electrical current
- Wear and tear, settling, cracking, shrinking, expansion
- Marring or scratching
- Dampness or dryness or temperature extremes
- Rodents, insects or birds including their secretions
- Faulty, inadequate or defective “design, specifications, workmanship, repair, construction, renovation ...” or “material” or “maintenance”.
- With respect to “building glass”, wear and tear, latent defect, rodents, and most notably “breakage during installation, dismantling, (or) repairing...”
- “(F)ragile articles, such as glassware, statuary, marble, china, porcelain **if broken**” are not covered unless due to a “covered cause of loss”.

There are yet other exclusions in the policy.

Bearing in mind partial losses that may involve “sets” of high value items, settlement and valuation under replacement cost provisions may be complicated. The Valuation provides for:

- Replacement cost only if replaced
- Coverage for “the reasonable and necessary cost to replace ... the damaged property” with “materials of like kind and quality” which are “used for the same purpose”
- Payment will not exceed “the amount you actually spend.”

The loss settlement terms are particularly problematic with “pairs and sets”. If one has a precious salt and pepper shaker, and only the salt shaker is destroyed, under the building terms, the insured will receive only a “like kind and quality” salt shaker. There is no provision for the loss of value of the “set”.

While these policy terms are a disadvantage to coverage of high value items under the property form, one distinct advantage exists. For example, suppose there is a five year old appraisal of an organ at \$400,000, and it is destroyed today. If the current value (after depreciation) can be proven to be \$500,000, then there would be a loss settlement in that amount. The full policy limit would be available. If the item were scheduled at \$400,000, the lower scheduled limit would apply.

However, under the property policy, there would be a “hold back” until the new organ was actually installed, specifically, all of the installation cost, a major component of pipe organ value. If the item were scheduled, the church could walk away from the organ with \$400,000. Under the property form, the church may receive, say, \$300,000, until they actually replace it. Note that an organ has value where it sits, but it cannot be easily sold or even given away without accounting for the removal and re-commissioning costs at a new location. (In a recent claim, the costs to remove, store and reinstall 1600 pipes and electronics for a high value organ in order to effect other building repairs was over \$340,000.)

The Fine Arts and Commercial Articles Forms

The IB program **Fine Arts** and **Commercial Articles** forms have both similar and different exclusions. The differences are catalogued in the table below. The Fine Arts form has fewer exclusions. Other terms for post loss valuation are the same.

While many of the exclusions are the same as the property form, for reasons of moral hazard, there is broader coverage for common losses to precious items, such as ordinary breakage, spilling and unexplained disappearance.

The two most important differences between these forms and the property form are

- absence of exclusions relating to water damage (other than Flood) and ordinary breakage; and
- simpler terms of loss settlement, that is, no requirement to repair or replace as a condition of receiving full value.

Finally, the program currently provides a \$1,000,000 per item limit and \$5,000,000 schedule limit for the Fine Arts Coverage Form (larger limits available but must be approved and endorsed). This constraint does not currently apply to the Commercial Articles Form, though the coverage is not as broad.

| Comparison of Terms | Fine Arts | Commercial Articles |
|---|------------------|---------------------|
| Exclusions: | | |
| Repairing, restoration or retouching process | X | X |
| Dishonest acts | X | X |
| Voluntary parting | | X |
| Unauthorized instruction to transfer to any person or place | | X |
| Acts or decisions, including the failure to act or decide | X | |
| Fault, inadequate or defective: <ul style="list-style-type: none"> • Planning, zoning, development, surveying, siting • Design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction • Materials used in repair, construction, renovation or remodeling • Maintenance | X X X X | X X X X |
| Wear and tear | X | X |
| Hidden or latent defect | X | X |
| Gradual deterioration | X | X |
| Depreciation | X | X |
| Mechanical breakdown | X | X |
| Insects, vermin, rodents | X | X |
| Corrosion, rust, dampness, cold or heat | X | X |
| Earth movement (unless Earthquake coverage selected) | X | X |
| Flood (unless Flood coverage selected) | X | X |
| Delay, loss of market, loss of use | | X |
| Unexplained disappearance | | X |
| Shortage found upon taking inventory | | X |
| Territory: | US, CND PR | Anywhere |
| Valuation at Settlement: | | |
| The lesser of: <ul style="list-style-type: none"> • The reasonable and necessary cost to repair or restore such property to the physical condition that existed on the date of loss • Cost to replace the article • The value stated on the Memorandum of Coverage | X X X | X X X |
| Pair and set clause -- If not repairable to the "physical condition that existed on the date of loss", the lesser of: <ul style="list-style-type: none"> • Full value of the pair or set • Amount designated on the schedule • Must surrender the pair or set | X X X | X X X |
| New Acquisitions | | |
| Must be reported within 90 days; premium from date acquired | X | |
| Must be reported within 30 days | | X |
| Limited to lesser of 25% of schedule or \$10,000 | | X |

Underwriting Fines Arts and Commercial Articles

We recommend that churches schedule articles on which there is a loss payee that requires it, articles of significant value that travel outside the premises, pairs or sets, higher value art, or articles with a unique characteristic that will make replacement cost difficult to determine. The major benefits include broader coverage and a simpler loss adjustment. Further, church leaders, in fulfillment of their fiduciary responsibilities, will have higher awareness of the value of assets they manage. Awareness of value hopefully brings greater diligence in maintaining property. A consideration for the church is whether an item, such as a pipe organ, is a significant source of revenue to the church, as for weddings or concerts. Or, can the church afford to effect repairs to or replacement of a high value gift which experiences a loss not covered by insurance.

The table below indicates which articles are eligible to be scheduled under the Commercial Articles and Fine Arts forms, respectively. While eligibility is different, the base rate for both forms is the same. The standard **deductible is \$1,000** for both forms, which is a selling point for such items which **may need expensive repairs** not easily funded within normal operating budgets.

| Coverage Form | Eligible Articles |
|--|---|
| <p>Commercial Articles Base Rate \$0.25/\$100 value</p> | <ul style="list-style-type: none"> • Pipe organs and musical instruments • Office equipment • Sporting equipment other than watercraft • Equipment for servicing the premises, other than trailers • Audio & video equipment • |
| <p>Fines Arts Base Rate \$0.25/\$100 value</p> | <ul style="list-style-type: none"> • Stained glass that cannot be exactly replaced (“art glass”) • Rare musical instruments that cannot be exactly replaced (typically displayed as art) • Liturgical items, icons and jewelry • Tapestries, textiles, furniture and other items of antiquity • Paintings, sculptures and statuary |

The most important element of underwriting the broad category of “fine arts” is documentation of value. More specifically, documenting value *before* a loss occurs. **The loss settlement process will be no less contentious if there is not a strong foundation for the asserted value beforehand.** Even if it is decided to not schedule an item, having documentation of value before a loss will make loss adjustment much easier, especially if the item is destroyed beyond recognition after a serious fire.

Currently, the IB requires photos of any scheduled items valued more than \$100,000. An appraisal is strongly recommended but not required. Reliance is placed on the insured to “state” a value and it is rated accordingly. However, it is dangerous to assert a value that may create an expectation of coverage for the stated value. **Loss settlement is based upon value at the time of loss**; value still must be proven. It is the church’s responsibility.

For example, an item has been scheduled at \$500,000, based upon conjecture or a very old appraisal (when the property was in better condition). If at the time of loss, it is determined the items is worth only \$400,000, the lower amount will be paid.

In another example, the sexton at an Iowa church (see photo below) asserts there is a connection between his church’s glass and Frank Lloyd Wright, the famous Chicago architect who began his work in the early 20th century. While the style of the glass is reflective of the art-deco style of that period, there is nothing to substantiate this glass was in any way associated with Wright. That is, there is no professional appraisal or documentation. If the glass is destroyed as a result of a major fire, lacking a professional appraisal prior to loss, the value of the glass will be debated endlessly and to the great dissatisfaction of the church leaders.

The professional duty of insurance agents is to advise the insured of the benefits of the coverage on the one hand. On the other hand, the insured must understand the terms of loss settlement and the further benefit of investment in a professional appraisal. Subsequently, the appraisal must be updated to assure the insurance limit is keeping up with the value of the item.

A Note on Stained Glass

In 2012 the IB commissioned an appraisal of an extraordinary collection of Tiffany stained glass windows in order to understand their value and the impact of a partial loss on the value of such a collection. We learned there is a great distinction between ordinary stained glass in churches and that which may be construed as “art glass”, items which have been produced by famous studios such as Tiffany and very few others.

Individual items of Tiffany glass, especially those absent liturgical themes which can be used in a non-religious context, have a substantial market value. However, because the market is glutted with decommissioned old churches with less important stained glass, there is very little market for the latter. Hence it has little value outside its current location. Therefore, scheduling of ordinary stained glass is less a concern since it is covered as part of the building. On the other hand, identification of “art glass” and establishing value before a loss is strongly recommended.

Pipe organ in a Pennsylvania church



African-American liturgical textiles in a Chicago Church



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Note: This document is provided as education and guidance only regarding an insurance coverage issue. The actual policy and actual circumstances of loss will govern the outcome of any loss adjustment now or in the future. Examples of loss adjustment may not apply in other circumstances.

Highly detailed stained glass, likely 19th century



Early 20th century stained glass in an Iowa church



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20th Century “art glass” – “Kneeling Angel” – Frederick Wilson, Tiffany Studios.

