



By Joel Leininger, LS

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Valuable Papers Insurance

Conscientious surveyors maintain several types of insurance coverage for their practice, spreading the risk of calamity among the rest of the insurance pool. One kind deserves some scrutiny, because many of us, I suspect, are unaware of the coverage particulars: Valuable Papers.

Here is what I once thought it covered: all of our archives, in the case of a disaster, up to the monetary limits of the policy. In the event of a partial loss, a pro rata share of the whole. If you are a member of a firm with a sizable trove of records (and by sizable, I mean anything

hundreds of dollars for all but the tiniest (or youngest) firm. What were your policy limits again? But no surveyor would ever consider such an action.

Artistry

From the insurance industry's perspective, coverage against loss of papers themselves is something akin to a "fine art" policy. Lose an insured painting, and the insurance adjuster reaches for his checkbook. It matters not to him whether you will replace the lost art; the painting itself was insured, and its loss triggers a payment obligation. Fine art policies require the art to be appraised – sometimes regularly – so as to ensure

collected the pieces over a period of 60 or so years, and were justifiably proud of the collection. Clearly its value was in the millions of dollars.

It was uninsured. Not because the owners had concluded that insurance was not desirable, or that the premiums were out of reach. The appraisals were the culprit. Each appraisal of the total collection could run more than a hundred thousand dollars, and the insurance company insisted that they be conducted every few years. The restaurant decided it simply was not worth it, and the fine art policy thus remained off the menu.

Similarly, obtaining coverage for non-replaceable survey records would require an appraisal of some sort. No insurance company in its right mind would take on faith an owner's estimate as to the value of his files. In the first place, owners tend to inflate the worth of their possessions – it's human nature. Further, naming your own number incentivizes loss. In other words, the ability to name the value of his assets can tempt an owner to inflate that value and then suffer a "loss" looking for a payout. None of us would do that, of course (can you say, "insurance fraud"?), but insurance companies have been in this game a *long* time. I'm guessing there are few scams they have not experienced. Taking the owner's estimate out of the equation removes most of that incentive. Therefore, independent appraisals are an essential part of the puzzle.

Who You Gonna Call?

Next problem: there aren't any competent survey records appraisers. There is simply not enough churn in the survey

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There is no crime in having uninsured assets.

more than a year's work – *i.e.*, all but the newest firms), and you buy valuable papers coverage to protect that asset, you are in for a surprise.

It turns out that valuable papers insurance covers the *replacing* of lost papers, not the papers themselves. This is an important distinction. If you do not replace the records, there is no payout. It is unclear to me why anyone would think a surveyor, after a total loss of the firm's archives, would consider replicating all the work lost, even if it could be done, but it is easy to see that coverage for such a task would run into the mil-

lions of dollars for all but the tiniest (or youngest) firm. What were your policy limits again? But no surveyor would ever consider such an action.

that the coverages are in line with actual value. And the owner pays for those appraisals, not the insurance company. I once frequented a restaurant that was *crammed* with art of every description; in fact it was famous not only for its food, but for the cacophony of sights, in all directions, greeting the diner. Statues of every stripe made moving to your seat difficult, and I'm convinced that less than a square foot of wall was uncovered by paintings – this in a restaurant having a number of rooms, the aggregate of which must have exceeded 10,000 square feet. The proprietors had

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business marketplace for competence to develop – remember, appraisal value is based on comparable sales, adjusted up or down depending on the condition and extent of the subject under consideration versus the comparables. Most appraisals work that way. Generally, the few survey firm sales that do occur are not public record; thus, comparables will be hard to uncover. I do not doubt that some alternative method of determining value could be devised if the marketplace demanded it, and widespread insurance requirements would create that demand, but it does not now exist in meaningful numbers.

Aside from the premiums you would pay for the actual coverage, what would you be willing to spend on an appraisal every five years or so? \$5,000? \$10,000? Most surveyors would balk, I suspect, at paying for those studies, and thus, unwittingly find themselves in the same boat as the restaurateurs above. Naked.

There is no crime in having uninsured assets. The prudent business owner merely recognizes the lack of coverage and provides alternative systems to protect the assets; offsite copies of the records, for instance.

Smart Move

There is one class of papers generated by us that does benefit from valuable papers coverage: work in progress. This refers to the work started but not yet delivered to a client. Calamities tend to be indiscriminate in their destruction, taking the fresh and not-paid-for work as well as the paid-for and archived work. The short term effects on the firm of one versus the other are very different. In the short term, the loss of a firm's institutional memory has the effect of an annoyance; not so for the work in progress. Depending on the amount of undelivered work lying around, and on the cost in personnel necessary to produce it, having to produce it a second time, uncompensated, can take a firm under. That possibility, coupled with the insurance company's readiness to underwrite the cost, makes valuable papers coverage a wise choice. But only for that.

So the value of your valuable papers coverage should be the value of your average work-in-progress, and you would be smart to provide for offsite duplication of your archives. For now, there is no better alternative. 