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Editor's Note

For businesses and institutions around the world, the exposure to valuable papers and records losses needs to be considered with all insurance reviews, because the loss of research documentation, accounts payable, and all forms of valuable books and printed media, could be

devastating to an organization.

In this issue, insurance expert Paul O. Dudey takes a detailed look at the standard insurance extensions and coverages to properly insure and understand the exposure to valuable papers and records losses.

In addition, veteran public adjusters Ethan Gross, Barbara Hoffman and Pasquale Cuccaro draw on their extensive backgrounds to offer case studies illustrating how the coverage can be applied from a claims perspective.

Stephen J. Van Pelt, Editor

Valuable Papers and Records

Understanding the Exposures and Available Coverage



Paul O. Dudey, CPCU

Among the most important but often overlooked or underinsured exposures of businesses and institutions of many kinds are the exposures to loss of valuable papers and records.

Two types of coverage are generally available: First, Valuable Papers insurance, covering the cost of research and replacement of valuable papers and records, or where they cannot be replaced, pay for their value that is lost or destroyed; Second, Accounts Receivable insurance covering the cost to research and replace the records and recover the dollar value of money owed to the firm by customers or clients, and pay for money that cannot be recovered, when accounts receivable records are lost or destroyed in a fire or other disaster.

Limited Valuable Papers coverage is offered by extension of most basic property insurance forms, but reliance on this can prove to be grossly inadequate in the event of a major loss.

The standard Insurance Services Office (ISO) Building and

(Continued on next page)

Personal Property Form CP 00 10 06 95 covers Valuable Papers and Records lost or damaged by a covered cause of loss with a limit of \$2,500.00 (which can be increased at added cost). As there is no definition or limitation on this term, it can be read as including Accounts Receivable records, but will not cover irreplaceable valuable papers such as historical documents or rare first edition books. It covers only the cost to research and replace or restore the records.

The ISO Business Owners Policy (Form BP 00 01 01 97) offers two coverage extensions: Valuable Papers and Records; and Accounts Receivable; each with a basic limit of \$5,000.00 on the described premises and \$2,500.00 away from the described premises. Both of these limits can be raised for added premium. Both require that the loss be from a covered cause of loss under the policy. Collapse loss is more limited, following the limited Collapse coverage of the property form to which it applies.

Accounts Receivable coverage is not excluded from the Valuable Papers and Records item, so presumably a major loss of Accounts Receivable records could be paid for, using the combined limits of both items.

The preferred method to cover valuable papers and records, however, is by purchase of separate Valuable Papers and Records insur-



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Insuring Valuable Papers & Records

The cost of reconstructing valuable papers and records following their damage or destruction can be overwhelming. In the case of irreplaceable books or documents, the loss can be devastating.

The protection offered in the extension of the property forms, discussed above, is frequently quite

inadequate to cover the loss of valuable papers and records.

For full coverage, Valuable Papers & Records insurance is called for. Two coverages are offered: For valuable papers and records that can be replaced, a blanket limit of insurance is offered. This limit should be high enough to cover the cost of research and replacement following the worst possible loss that might be sustained.

For valuable papers and records that cannot be replaced, such as

one-of-a-kind historical documents, and rare first edition books, particularly copies autographed by the author, individual amounts of insurance reflecting their individual appraised value must be provided for each item to be insured.

Irreplaceable items that are not scheduled are not covered. Also, the insured objects should be reappraised periodically, every two or three years or so, to reflect inflation and the current market conditions. The schedule of amounts must be adjusted accordingly.

The coverage is “all risk” but subject to various exclusions common to inland marine policies. Most important, perhaps, for records



stored electronically, is the exclusion of loss or damage by electrical or magnetic destruction. To cover this exposure requires a separate coverage, Electric Data Processing coverage.

Insuring Accounts Receivable

Two coverages are available to insure Accounts Receivable, reporting form and non-reporting form. Both cover the cost of restoring Accounts Receivable records following their damage or destruction from a covered loss and paying for any shrinkage in collection of sums due.

The reporting form requires that the insureds submit monthly reports to the insurers showing the total current value of accounts receivable outstanding. Late or underreporting of values can result in reduced recovery of loss. The form has a limit of insurance as shown in the declarations. Premium is based on the values reported even if higher than the limit, but the insurer will pay no more than the limit of insurance in event of loss, so care should be taken to keep the limit as high as the highest outstanding accounts receivable value.

The non-reporting coverage does not require monthly reports of values, but if there are great variations in values from month to month the reporting

form is usually less costly than the non-reporting coverage, the premium for which is based on the limit of insurance.

The limit should be set as high as the highest month’s value, or alternatively, if values follow a seasonal pattern, the limits can be raised or lowered seasonally to meet the current level of need. The only problem here is in neglecting to keep pace with the changing needs, which can result either in unnecessary extra cost or, in event of loss, possible underinsurance.

Protecting Valuable Papers & Records

While insurance clearly is called for to protect against loss of valuable records, even more important is a program of records protection well thought out and rigorously enforced. This should include at least the following:

1. Storage of all important records in fire and burglary resistant locked files when not in use, and whenever premises are closed.
2. Records should be returned promptly to storage after use.
3. Duplicates of important records should be stored at a secondary location remote enough not to be involved in the same loss. How far away is open to question, as tenants in the World Trade Center may have discovered. Transfer of duplicates to the secondary loca-

tion should be done at least daily, perhaps more often with electronic data.

4. Special thought should be given to protection of rare books or other documents that are irreplaceable. As already noted, their value should be determined by a qualified appraisal, and insured for that value (and adjusted periodically to reflect inflation and market conditions). Because factors of deterioration and water damage can affect their condition and value along with

the threat of fire or theft, display and storage of these items should protect against light and too high or too low humidity, and protection afforded by dry powder rather than water sprinklers. This, as well as being protected against fire and theft.

Note also that premium credits are allowed for various types of records protection. When accepting these credits, bear in mind that they must be strictly adhered to, if penalty is to be avoided in event of loss. ■



Paul O. Dudey

CASE STUDY

Interpretation of Coverage — Defining Valuable Papers

Ethan Gross, JD, Adjusters International – Detroit

In 1998 an arsonist attempted to burn down the campaign headquarters for a U.S. congressman. Outside of the headquarters were several large campaign lawn signs stacked against the building which were set on fire. The fire quickly spread to the building and its contents. Unfortunately, the contents at the headquarters were

significantly underinsured.

After thoroughly reviewing the policy, a claim was made to the insurer for the lawn signs as well as the other campaign literature destroyed by the fire under the valuable papers extension of coverage. The insured (who was a former insurance agent) was skeptical of



Ethan Gross

the chance of success. However, a detailed coverage opinion was written on the issue which resulted in a successful recovery under the valuable papers extension.

The following points were made to the insurer:

- The insurance policy provides the following coverage:

Valuable Papers and Records – Cost of Research

“You may extend the insurance ...to apply to your cost to research, **replace** or restore **the lost information on lost or damaged valuable papers and records ...**” (emphasis added)

- The insurance policy does not define “Valuable Papers” or “Records” anywhere in the policy and terms that are not defined in an insurance policy must be given their plain meaning. See *Heniser v Frankenmurth Ins. Co.*, 449 Mich 155 (Mich 1995).
- Webster’s Ninth New Collegiate Dictionary defines the following terms:

▶ **Valuable:** “having monetary value”

▶ **Papers:** “a (1): a felted sheet ... a similar sheet of other materials (as plastic) ... 2 a: a piece of paper containing a written or printed statement ... b: a piece of paper containing writing or print.”

▶ **Records:** “a: something that recalls or relates to past events. b: an official document that records the acts of a public body or officer.”

- Based on the plain meaning of the word papers, as defined above, clearly, the literature destroyed in the fire fits into the plain definition of “Valuable Papers.”



The following “Question and Answer” from the *Fire Casualty & Surety Bulletins* supports this opinion:

“**Question:** One of our businessowner’s insureds recently filed a claim for valuable papers and records coverage that was subsequently denied by the insurer. The insured’s business, a financial planning firm, was covered under a businessowner’s special form (BP 00 02) and suffered a total fire loss to both structure and contents. The

limit of coverage for the building and contents has been reached. Included among the destroyed contents were the insured’s important (and expensive) reference books. We think these should be covered under the extension of coverage for valuable papers and records, but the insurer denied the claim for the reference books, stating they were not “papers.” Is there coverage?”

“**Answer:** the businessowners policy defines “valuable papers and records” as “inscribed, printed, or written documents, manuscripts, and records, including abstracts, books, deeds...”

Since “books” are not specifically defined within the policy, the word is given its common, everyday meaning, which, according to Webster’s Collegiate Dictionary (Tenth Edition) is “a set of written sheets of skin or paper or tablets... a set of written, printed, or blank sheets bound together into a volume... a long written or printed literary composition...” This definition obviously fits the destroyed property in question. The insurer seems to be focusing on a lesser used meaning of the word which refers to “a set of financial records” in order to deny the claim. But, because “books” are not specifically defined in the policy, the insured is entitled to the broadest possible meaning of the term. Your insured’s reference books should be covered.”

CASE STUDY

Determining the Scope of Coverage

Pasquale Cuccaro, LPA, Adjusters International – Melbourne



Pasquale Cuccaro

Valuable Papers coverage can provide coverage when, if not investigated fully, would otherwise not be paid. One particular insured was underinsured on their business personal property coverage. A claim was made for work manuals that were destroyed under the valuable papers extension. The insurance company denied cover-

age and the adjuster's position was that the manuals were not valuable papers and that they were basically part of the insured's contents loss. Again, defining the terms used in the policy are crucial to obtaining coverage. The following opinion was provided to the insurance provider and as a result, the insured was paid \$50,000 under the extension of coverage:

The insurance policy, form SS 00 07 97, states that "Valuable Papers and Records means inscribed, printed

or written documents, manuscripts or records, including abstracts, books, deeds, drawings, films, maps or mortgages."

But "Valuable Papers and Records" does not mean money and sureties, converted data, programs or instructions used in your data processing operations, including the materials on which the data is recorded.

The New Webster's Dictionary



Valuable Papers coverage can provide coverage when, if not investigated fully, would otherwise not be paid.



offers the following definitions for clarification and support.

- *Documents* – An official paper containing information, giving instructions or establishing facts.
- *Manuscripts* – A written or typed by hand; n. a book written by hand; an author script or typewritten copy for perusal.
- *Records* – A register; authentic copy of any writing.
- *Books* – A number of sheets of

paper, etc., bound together; a literary composition or treatise, written or printed.

Because of the above definitions, the manuals that were claimed under the Valuable Papers and Records coverage in fact fit the description in the policy “as printed or written documents, manuscripts or records, including books.” If the policy intended to exclude such documents it would be part of the exclusionary language and therefore not part of the coverage language.

Confidentiality Issues Concerning Valuable Papers

Barbara Hoffner, SPPA, Adjusters International – Detroit



Barbara Hoffner

One of the challenges with valuable papers can be the confidentiality of the information on the papers, making reproduction of them a security risk. Medical records, for example, cannot be treated cavalierly. Financial institutions' records can contain sensitive information on loan documents, mortgages, etc.

During reproduction after a loss, identity theft is a real threat to the person whose personal information may be documented on the forms. Also, bank routing numbers, account numbers, and other similar information can be illicitly used by unscrupulous people to commit check fraud, transfer funds from accounts, and more.

During the handling of water damage losses for major banks, which involve valuable papers, there will be specific protocol for destruction of damaged documents. Even if the documents consist of incomplete pre-printed blanks, the financial

institution may need to ensure that the forms are destroyed so that they can't be used to create new fictitious accounts, or otherwise defraud the bank.

Typically a highly placed person inside the institution would supervise the document recreation and subsequent destruction of the damaged papers at a premium labor rate. Often, a special shredding operation will be set up to ensure the security of all parties is being protected.

Conversely, there are some documents that must be retained by law for a period of years, and the originals cannot be destroyed. Freeze drying is a possible option in this case, to eliminate the problems with mold, odor, and so on, but the documents are not restored to pre-loss condition because they retain evidence of water exposure. Even the type of ink used on the papers can exacerbate the problems with wet papers. If water based ink is used, it can bleed, run, or even fade into illegibility after water inundation. Recapturing the information can be challenging and sometimes impossible in this situation.

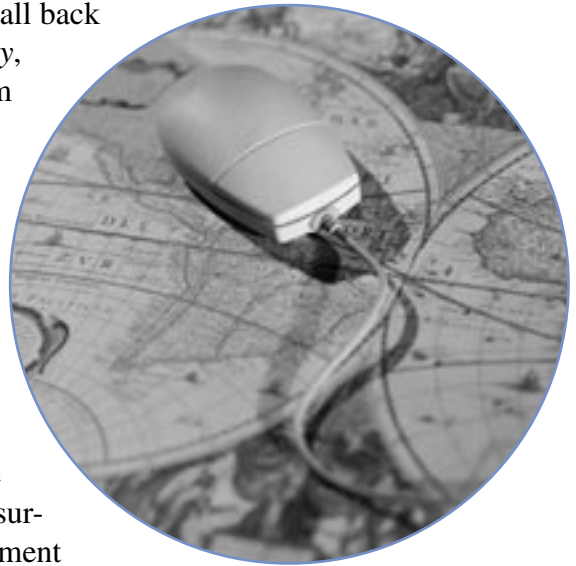
Whether you choose to purchase additional valuable papers and records coverage, or rely on existing coverage extensions, it is recommended to review your exposure to these potential losses and make sure you are adequately insured with each yearly review.

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