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INSURING LIQUID ASSETS

Wine is different things to different people. To the wine maker, it's their creation. To the vineyard owner, it's product. To the restaurant or bar owner, it's inventory. To many, it's a beverage to be enjoyed with a meal. To some, collecting wine is a hobby, and for some it's an investment. Though it's hard to find statistics and information about how prevalent wine collecting is, news about the proceeds from fine wine auctions is available and the numbers are impressive: wine auctions held in Hong Kong¹ this January brought in U.S. \$25.5 million.²

Regardless of whether someone buys and keeps wine with the intention of eventually drinking it, or in hopes of selling it at a profit later, the question of whether to insure the collection is worth considering (and raising with a client).

What constitutes a collection that should be insured?

Just as beauty is in the eye of the beholder, what constitutes a wine collection that might warrant having insurance is in the eye of the person who owns it. Like any other collection of personal property (for example, fine art, stamps, coins, vintage automobiles, sports memorabilia, etc.), a wine collection is worth insuring if the collection is of value to the owner or if the owner feels the need to protect his or her investment.

So, just because a collection doesn't include famous vintages, like bottles of 1961 Chateau Petrus or 1959 Chateau Lafite-Rothschild, doesn't mean it's not worth separately insuring. (Given that, as of January 26, 2011, a 1961 Petrus is going for about \$9900/bottle and the Lafite-Rothschild for about \$5000/bottle³, not that many collectors can lay claim to owning such gems.)

Indeed, Melanie Shabotynsky, Assistant Vice President, Chubb Personal Insurance, says that anyone cellaring 50 bottles or more should consider insuring the collection. (To those who buy bottles one or two at a time, 50 bottles may seem like a lot. But, for example, wines acquired from wine agents typically are purchased by the case, and 50 bottles in just over four cases.) According to Shabotynsky, Chubb appraisers who notice a client has a wine cellar or a collection of 50 or more bottles typically recommend the client consider the benefits of Chubb's Wine Insurance Program.

¹ According to the Wine Spectator, in 2010 Hong Kong overtook the U.S. as the world's wine auction capital. (<http://www.winespectator.com/webfeature/show/id/44389>).

² For example, Andrew Lloyd Weber (the composer best known for hits like Cats, Evita, and Phantom of the Opera) sold part of his collection at an auction in Hong Kong on January 22, 2011 for U.S. \$5.6 million. For additional information see <http://www.winespectator.com/webfeature/show/id/44389>.

³ <http://www.wine-searcher.com/find/chateau+petrus+pomerol/1961>. Wine-searcher.com is a web site that offers price comparisons from over 21,000 wine sellers world-wide.

Shabotynsky noted that people often assume their wine is covered under their regular homeowners' policy as general contents or under provisions related to food spoilage. What they don't realize, however, is that doing so is risky because the limits on those provisions can be reached fairly quickly given the value of the wine and other home contents and given the relatively low limit on the amount that can be claimed for food, not to mention application of any deductible.

Cellaring wine

When people who have more than a few bottles of wine on hand talk about storing their wines they speak of "cellaring" it. People who enjoy wine often buy bottles and store them for relatively long periods, either because they cannot drink it all fast enough, or because many wines improve with proper aging. But, because wine is essentially a perishable foodstuff, care must be taken to prevent spoiling or degrading the wine.

Proper cellaring⁴ requires consideration of numerous environmental factors, including: temperature, humidity, odors, darkness and vibration. Two aspects of temperature are relevant: the optimum temperature (13°C - 15 °C) and stability. Fluctuations in temperature are particularly bad for wine because temperature changes can result in oxygen seeping into the bottle.⁵

Humidity levels are important because of their impact on cork. Natural cork deteriorates over time, allowing air to come into contact with the wine. Relative humidity should remain in the range of 50% to 80%. Low relative humidity can cause cork to dry. High humidity doesn't necessarily damage the wine, but it can cause mildew on the cork and labels, which will decrease the overall value of wines at auction or on resale.

Odors and fumes can seep into wine along with air, so it's important that wine storage areas be odor-free. It's worth noting that it doesn't matter whether the odors are man-made (for example, from paints or chemicals) or natural (for example, from food like garlic or herbs). Most wine bottles are dark glass because light harms wine by breaking down the complex molecules. Though the bottles themselves provide protection, wine should not be subjected to excessive amounts of light.

Though most experts agree about the impact of temperature, humidity, odors, and light on wine, whether vibration damages wine is subject to debate. (When wine experts talk about damage from vibration they're not talking about bottle or barrel breakage that might occur from an earthquake, such as the one that struck many Chilean wineries in February 2010. The types of vibrations they're talking about are more like vibrations from nearby subways and railways.) Some insist vibration can affect a wine's flavour and bouquet (the wine's aroma), others disagree.

Security from theft is not a concern unique to wines, but by comparison to other valuable collectables, like fine art or automobiles, bottles of wine are relatively easy to move, both physically from the cellar and on the market, and relatively hard to trace. As a result, the fact that someone has a wine collection on their premises is worth taking into account when considering the need for, and configuration of, a security system.

Insuring private wine collections

Wine an individual has on hand at their home, apartment, or condominium can be covered by contents provisions in homeowner-type policies. But, not all perils that can cause damage to a wine collection are covered by most homeowners' policies. For example, if the power is out for an extended period causing the temperature and humidity regulator in a custom-made wine storage cabinet to

⁴ Much of the information included here about proper cellaring comes from an excellent article entitled "The Basics of Wine Storage" at http://www.finewinereserve.com/basics_wine_storage.htm.

⁵ It's not just expansion and contraction of the cork that is an issue with temperature fluctuations. According to "The Basics of Wine Storage", as the temperature increases the bottle warms up and the wine expands. The expansion of the wine can cause the cork to move out slightly or, if the bottle is stored on its side, can cause the air to push past the cork. When the temperature drops, the wine contracts, drawing oxygen into the bottle.

malfunction resulting in damage to the wine, chances are a regular homeowner's policy will not cover the entire loss (it might cover a limited amount under a food spoilage provision). As well, claims made under general provisions in a homeowner policy are subject to deductibles, not to mention the fact that many underestimate the value of their contents and are, as a result, often underinsured in this regard.

Collectors who want to insure their wine collection separately from their other household possessions typically do so under a rider on their homeowner policy, or as separately listed property. Stand alone policies (mono-line policies) are also available for wine collections, but typically only if the collection is valued at greater than \$100,000.

Features and coverage of benefit to wine collectors

Because of the unique characteristics of wine, policies designed for wine collections generally cover protection in cases of fire, theft, vandalism, and breakage.⁶ As well, some policies will also protect against extremes in temperature, humidity changes, vibration and light damage.⁷ Accessories, such as wine racks and climate control systems should also be included in the coverage. Another important coverage wine collectors should look for is damage to labels, since such damage can significantly reduce the value of the bottle.

Because the market for fine wines is world-wide, many policies will also cover off-site storage up to a certain dollar amount or percentage of the policy coverage, as well as coverage for wine in transit. Such coverage is important for collectors who, for example, buy wines at auctions overseas and who then want to get it home, or for collectors who maintain residences in multiple locations.

Individuals can choose blanket coverage or individual bottles can be scheduled, or a combination of the two. Blanket coverage generally covers a whole collection, though many insurers have a maximum per-bottle value that can be included under a blanket policy. For example, a blanket policy may require that all bottles over \$1,000 be separately scheduled.

Generally there is no deduction for depreciation and no deductible. For itemized bottles the insurer pays the agreed value. Policies can cover the replacement cost of the wine or the agreed value. Under a blanket policy the insurer pays the total blanket amount if the entire collection is destroyed or no more than the bottle limit if only one bottle is destroyed.

Alternatives for Collectors

Rather than cellaring their collections at home and worrying about (and insuring against) the risks involved in maintaining their own cellar, more and more collectors are turning to professional wine storage facilities.⁸ For collectors who live in regions that are prone to things like earthquakes and flooding, cellaring their wine in such a facility located in a region that is not subject to such dangers is a great alternative.⁹

⁶ Note that spoilage (typically described by wine lovers as "corked" wine) is not covered by insurance, unless it can be shown that the spoilage was caused by extremes in temperature, humidity, vibration, etc., that resulted from a loss of power or other disaster that is covered by the policy.

⁷ Under CHUBB's Wine Insurance Program, for example, clients can choose between the Vintner Package and the Sommelier Package. The Vintner Package covers theft, breakage, fire, vandalism and off-site storage (with some limitations). The Sommelier Package includes all the coverage offered under the Vintner Package, plus coverage for extremes in temperature, fluctuation in humidity, vibration and light.

⁸ Toronto's Fine Wine Reserve is a good example of such a facility. Their web site (www.finewinereserve.com) contains detailed information and provides lots of ideas about the types of security and temperature control features a collector might look for when considering off-site storage.

⁹ Marc Russell, president of the Fine Wine Reserve, notes that such facilities also work with insurance industry professionals who often have to deal with moving and storing a wine collection in the event of a fire or flood a client's home.

Such facilities are growing in popularity because they provide top-notch, high tech, climate-controlled secure facilities designed specifically for cellaring wine. The Fine Wine Reserve, for example, offers customers 24/7 access and customers can choose options ranging from more-or-less a self-storage to “custodial cellaring,” which includes pick-up and delivery of wines.

The specific security features and climate control back-up systems employed by such facilities vary, and collectors should assess for themselves the quality of the facility and its reputation. Insurance brokers knowledgeable about insuring wine collections can provide referrals to reputable storage facilities.

In some cases the facility’s systems are so sophisticated, collectors who use them do not feel the need to carry their own insurance on their collection. As well, some facilities have insurance coverage that allows them to offer their customers the option of being added as an “additional insured” under their policy.

Conclusion

Regardless of whether someone is collecting wine purely for their own pleasure, or as an investment, they should consider (and insurance brokers should discuss with them) whether to insure their collection. For wine collectors – both recreational and serious – their overall insurance package should include coverage of their collection, given that it can represent significant value. Brokers and appraisers should be on the lookout for this exposure and should be in the habit of raising the issue of wine collection insurance coverage – doing so could produce a win.

Side Bar

Are your clients covered?

Insurance brokers and appraisers should ask clients whether they have any collections of valuable goods, such as wines, that might warrant special consideration. It’s a good idea to get in the habit of asking because clients often believe they have sufficient coverage under their homeowners’ policy or they think special coverage is quite probably costly, or that they’ll have to go through too many hoops to get such coverage. Here’s a handy checklist for clients who have wine collections that probably should be insured:

- **Determine the value of the collection** – You won’t need to know the value of each and every bottle, but to determine the amount and type of coverage, you should have a good idea of the value of the collection. You can determine the value any number of ways including maintaining receipts and records from purchases and consulting on-line sources, such as *wine-searcher.com* and even eBay. As well, there are wine experts who appraise wines.
- **Consider the manner of cellaring the wines** – If you have wine special wine storage facilities (the cellar’s structure and equipment related to maintaining the proper environmental conditions for the wine), such accessories will be covered along with the wine. If you don’t have such equipment or facilities, perhaps you should, given the amount of wine you have.
- **Assess your coverage needs** – Decide on the perils you wish to cover (for example, whether covering fire, theft, vandalism, and breakage is sufficient, or whether perils such as fluctuation in temperature, humidity, vibration and light changes is required).

- **Discuss your needs with your broker** – Your broker can offer invaluable advice regarding the optimal coverage for your situation and can obtain a quote for you.

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