

The Case of the Multi-colored Bear



The United Buddy Bears exhibition in Kuala Lumpur, Malaysia, featured 143 painted bears similar to the bear sold at the auction

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A contents specialist was recently asked to assist with a claim that revolved around damage to a sculpture. The sculpture was a stylized, life-sized bear made of fiberglass with a multicolored painted finish. This whimsical bear had been created for a festival parade. Painted blue with a flower power theme, it was sold at a charity auction to benefit the nonprofit sponsor of the event. The owner, who was smitten with the sculpture, was also a strong supporter of the nonprofit, and generously bid \$30,000 to win the sculpture. He immediately sent the receipt to his insurance broker to add the bear sculpture to his HO policy. It was insured for \$30,000. He then positioned the bear in his garden to dress up the back yard and to keep out animals.

When an Enservio contents specialist inspected the sculpture, the cause of the damage was apparent: animals gnawing the sculpture's paint finish had damaged the poor bear. Wild animals, unfazed by the bear replica, seemed to enjoy the taste of its paint job. The blue background was untouched, but the flowers were particularly popular.

The contents specialist researched the sculpture and identified the artist. It was determined that the artist had a very brief career comprising only one exhibit and had long ceased pursuing an art career. There were very few sales records for this artist and the sales which were uncovered did not remotely approach the winning bid of \$30,000. Ultimately, the fair market value was determined to be only \$4500.

This is not uncommon with charity auctions. The bid should always be considered a donation and not a true market transaction. The winning bids rarely reflect the true market value of the object being auctioned. A charity auction result should never be

used as a comparable when doing an appraisal of a similar object. Auctions to raise monies for schools, causes, non-profits and the like, should be viewed differently from a commercially licensed auction house during the underwriting process.

What happens when the market value is a small fraction of the insured value? That is completely dependent upon how the coverage is written. If the policy is an "agreed value policy," a total loss situation would have resulted in a payment based on the "agreed" full \$30,000. It would be far more appropriate for a charity auction purchase to be insured on a "stated value policy," which would base settlement on the actual market value at the time of a loss. In this instance, the settlement would result in a \$4500 payment in a total loss situation.

The issue did not come up as the sculpture could be restored for \$3500. The content specialist also concluded that the sculpture was primarily a contemporary decorative item so the repairs did not result in any diminution of market value, resulting in a recommended claim settlement of \$3500.

If the bear had not been restorable, and given this sculpture was written on an agreed value policy, the settlement recommendation would have been \$30,000 for a \$4500 sculpture.