



Insuring and Valuing
Research Library Collections

A SPEC Kit compiled by

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SURVEY



Executive Summary

Introduction

Research libraries have increased their attention to risk management in recent years and the events of September 11, 2001, further heightened the library community's awareness of how vulnerable the security of their resources—both people and objects—might be. Even before September 11, societal awareness of natural and human-caused security and environmental risks has driven librarians and other higher education administrators to focus on protecting and insuring institutional investments. The role of the institutional risk manager has expanded significantly and often has a major impact on the business processes of the university library. Even the replacement of lost books—once the sole purview of library administration—has become more visible and prone to investigation by risk management units and internal (or external) audit.

While there is considerable literature about risk management for library collections, to date, most of these writings have focused on disaster prevention, preservation and archiving issues, and the practical steps of planning for disaster recovery. Very few have focused on the logistics and politics of collection valuation, insurance, and replacement, although one article captures some of the complexity of the valuation process:

The first issue to be decided in assigning replacement values is whether to use a capitalization or unit cost approach. In a capitalization approach the dollar value of purchases year by year is added to update a figure that then constitutes the replacement value of the collection. This approach does not adequately compensate for appreciation and depreciation of collection components

over time. The dollar value of government documents, gifts, or other categories of materials may not be included depending on the thoroughness of the procedure. Subscriptions to remote electronic resources may inadvertently be included if the library has not specifically alerted the institution to this change in the nature of the product purchased with its "materials" budget. The increasing emphasis on remote electronic resources has eliminated the need to insure these information resources directly through institutional insurance policies since annual license fees do not result in tangible assets within the institution. De-accessions or transfers of materials from building to building may not be reflected accurately in the capitalization.¹

The concept for this SPEC survey arose from library directors' questions about calculating values for library materials and their desire to know more about current practices within research libraries in North America. Is it better for the university to show that it has a very valuable collection, or that it has the financial means to cover losses, whether anticipated or not? Collections can be appraised for their replacement value, or can be depreciated. If they are depreciated, and a loss occurs, will the library be able to replace the lost items, since replacement costs for books and other library materials very often increase over time? Related questions immediately became apparent. The survey expanded to include insurance, the replacement fees charged users for lost books, the ways in which libraries place value on their collections or on individual items, the manner in which libraries and their parent institutions deal with risks to electronic

resources, and—given the trend of the times—the extent to which food and drink are allowed in the library and their impact on insurance policies.

Survey Results

A survey covering these valuation and insurance issues was sent to the 124 ARL member libraries in the spring of 2002. Fifty-two (42%) responded to the survey. Upon analyzing the responses, further questions were sent to a subset of the respondents in November 2002 regarding the tools that their libraries use to assign values to books for purposes of replacement. Of the responding institutions, 30 (58%) are state-funded; 11 (21%) are private; 9 (17%) are Canadian; and 2 (4%) are non-university research libraries.

Insuring Library Collections

General Collections

The survey asked several questions about whether and how libraries insure their collections. Of the 52 responding libraries, 47 (90%) indicated that there is some kind of insurance coverage on their collections. Of the five that do not insure their collections, all are state university or non-university research libraries in the U.S.; none are Canadian.² Nineteen libraries (40%) carry only commercial insurance for their collections; thirteen (28%) do not carry commercial insurance at all, but are self-insured either by the parent institution or at the state level (twelve of the thirteen are state universities). One-third of the respondents (16) carries both commercial and self-insurance. It appears that self-insurance often is used up to a deductible established by the commercial insurance; beyond that deductible, the commercial insurance takes over. In two cases, state university libraries are covered by more than two kinds of insurance—the library's own self-insurance, supplemented by university self-insurance, and then commercially available insurance. Interestingly, these states are neighbors.

Insuring collections seems to be widely accepted and has grown to the point where a combination of self-insurance and commercial coverage is the most feasible approach for universities to take. Given

the fact that this survey was conducted well after September 11, one can assume that—absent major crises in the insurance industry—this structure should remain in place for most institutions for the foreseeable future.

Special Collections

Forty-seven libraries (90%) responded to the question about insuring special collections. Of these, only one (2%) indicated that it did not insure its special collections. Four (9%) responded that they did insure their special collections, but offered no details about the nature of this insurance. One commented that the library does not handle insurance, but responds annually to requests for information and collections counts from the University Treasurer, who makes the necessary assessments and tends to the policies.

Fourteen (31%) libraries have policies for valuable papers or fine arts; two of these have both. Eight institutions (18%) carry *only* commercial insurance for their special collections; five (11%) carry *only* university self-insurance (of these, four are private universities). Seventeen universities, or 39%, have multiple insurers; sixteen of these are the same ones that have multiple insurers for general collections.

General and special collections are insured at approximately the same number of libraries, although often with differing kinds of policies. This came as a surprise to the author, who hypothesized that since the value of special collections is far greater, and the size of special collections considerably smaller than that of general collections, more libraries would expend an effort to insure those collections, and more institutions would find it important to protect these resources. Instead, some libraries take the approach that their holdings in special collections are irreplaceable and therefore uninsurable. Others simply insure their special collections in exactly the same way as they insure the general collections, and within the same policy or set of policies. Overall, however, since nearly 90% of the respondents indicated that their special collections were insured, there seems to be little or question about the validity of such insurance.

Electronic Resources

Not surprisingly, only seven (15%) of 46 respondents indicated that they carry insurance for electronic resources; six are state-funded institutions and one is Canadian. The focus of most of these policies is on insuring content stability; five libraries carry such a policy. Other areas that are insured are licensing and legal constraints (4); recovery from loss of or damage to data (4); documentation of change in format, structure or presentation (3); and format migration (2).

The security of electronic resources is likely to become a major issue of concern in coming years. To the extent that libraries use electronic resources held outside the institution, by either publishers or other non-university organizations, insurance of the resources themselves would seem to be out of the question. However, as libraries expend increasingly large sums of money on these resources, we may expect to see other approaches to managing the risk associated with guaranteeing the survival and usability of these resources. Similarly, as universities develop institutional repositories and as professional societies develop disciplinary repositories of scholarly output, there will need to be attention not only on technical access to these works but also on various models of preserving and securing them.

Insurance Coverage

Forty-five libraries responded to a question about the kinds of damage or liability covered by insurance. The vast majority of these respondents is covered for fire damage (96%), water damage (93%), equipment loss or damage (82%), litigation costs (76%), and materials in transit to and from other locations for exhibits (74%). Following these are coverage for personal liability (69%) and interlibrary loan loss or damage (60%). Several libraries reported that general university insurance policies cover them for such liabilities as litigation costs and personal liability. In a few cases, interlibrary loan insurance coverage depends on how the damage is sustained; if the library is not responsible for the damage, insurance may not cover the restitution.

Food and Drink

In recent years, university libraries increasingly have loosened their once-rigid policies of “no food or drink anywhere in the library.” These libraries have developed varying approaches to users’ needs for beverages and /or food while they study. Some libraries have established coffee bars, with the net revenue going to the library’s income stream. Others have merely changed their policies, often allowing “covered drinks only.” Still others have identified specific areas of the library in which food can be consumed.

Closely related to the food-and-drink policy are two other trends in academic libraries. The first is the decreasing emphasis on undergraduate libraries or undergraduate collections, as students are expected to make use of the university’s entire research collection. Second is the increasing number of hours that university libraries are open, often 24 hours a day during the academic term. With higher expectations on the part of the faculty, more computer labs in libraries, and more availability of study rooms, students spend more hours within the library building and consequently want more lenient food-and-drink policies.

Twenty-five (54%) of the responding libraries now allow food and /or drink within the library building. None appear to have found that their insurance policies have been affected, although at least one library must relegate food and drink to an area of the library where there are no collections. Seventy-two percent of the libraries that allow food and drink are state universities, though they are only 58% of the total respondents to this survey. Two-thirds of the responding state universities allow food /and or drinks, while fewer than half (44%) of the private universities and only one-third of the Canadian universities do. The survey responses do not reveal why this is so.

Collection Valuation

Eighty-seven percent of the responding libraries (45 out of 52) assign a value to collections for insurance or other purposes. This would seem obvious in light of the previous responses about insurance coverage, but in reality some

institutions do not determine the value of either whole collections or individual items until there is a need to provide reparation for damage or loss, or an item is loaned to another institution for an exhibit. The survey sought to ascertain how many libraries value collections on a regular or irregular basis for inclusion within the institution's risk management program and also to determine who within the university is most responsible for setting values—the librarian, the risk managers, or other administrators.

Policy Determination and Data Gathering

Eleven libraries (24%) act alone in defining the policy for placing a value on their collections. Nineteen libraries (42%) work with the risk management officer to create this policy; three of these also work with the chief financial officer. In three cases (7%), the risk management office alone determines the policy; in one case (2%) the chief financial officer has sole responsibility. Nine respondents (20%) report that an outside agency, such as an insurance company, determines the valuation policy. In all of these cases this agency works in conjunction with either the library administration (3) or risk management (1) or both (5). Several respondents clarified that for special collections, valuation is the responsibility of librarians, curators, and/or the head of special collections. There seems to be no correlation between the type of institution and who has valuation policy responsibility. There is a mix of state, private, and Canadian institutions for each category of response.

Data collection, on the other hand, falls squarely into the bailiwick of the librarian. Of the 45 reporting institutions, 42 (93%) indicate that valuation information is gathered by the library staff for presentation to the appropriate university office using a mutually agreed-upon policy. In the remaining cases, an outside agency or the university's accounting department gathers the data.

Policy for Calculating Collection Values

The survey asked how collection values are

calculated. The five choices (plus "none" and "other") were: replacement plus processing costs; straight replacement value; value of item if purchased now; appreciated value if different from replacement value; and depreciated value. Finding patterns among the responses was difficult. One might suppose that each institution would select one of these ways of calculating values and apply that method to both general and special collections. Of the 46 institutions responding, 21 (46%) use a single method for both their general and special collections, with apparently no exceptions. However, the majority of respondents (54%) use multiple methods for calculating these values. One library uses replacement plus processing costs for its general and special collections, but also uses appreciated value for its special collections. Another uses the value of the item if purchased now for its general collections and replacement plus processing costs for its special collections. A third uses depreciated value for the general collections and appreciated value for its special collections. Several libraries use current value, replacement value, and replacement plus processing value, applying all methods to both general and special collections.

Of the five respondents that use a depreciated value for the general collections, four are state university libraries and one is a Canadian university library. The two respondents that use depreciated value for their special collections are both state university libraries. Of the ten institutions using an appreciated value for their special collections, eight are state universities and two are Canadian universities. It should be noted that no institution appreciates its general collection.

The libraries that reported they use replacement plus processing costs were sent follow-up questions to determine which tools they use to calculate replacement value and which processing costs are recovered. Their responses show that they use a variety of tools and include a range of processing activities. Eleven of the twenty-five respondents report that they use prices in the *Bowker Annual*; five use their own internal estimate; five use their prior year's acquisitions records; and others use information from Yankee Book Peddler, Amazon,

Barnes and Noble, *Books in Print*, Blackwells, and various resources for valuing out-of-print items. Of the 25 respondents, 19 (76%) use an average value—usually for the discipline or format—for replacement purposes; 6 (24%) use the actual current value or an approximation thereof. The library activities that factor into processing fees are: acquisitions (12); cataloging (12); marking and shelf preparation (11); binding (9); preprocessing (8); searching (6); and tracing (4). Five libraries assign a service charge that includes elements of all these activities.

Frequency of Valuation

Libraries are considerably more predictable when it comes to the frequency with which they calculate the value of their collections. Of 46 responses, 28 (61%) calculate the value of general collections on an annual basis and 28 calculate the value of special collections on an annual basis. Of these, 25 libraries calculate both general and special collections' value annually. In the other three cases, one calculates general collections annually and special collections irregularly; another calculates general collections annually and special collections regularly but not annually; and the third calculates special collections' values annually and general collections irregularly.

Generally, it appears that state and Canadian university libraries are more likely to calculate the values of their collections annually, while most of the private university libraries participating in this survey seem to go through the exercise either regularly but not annually, or on an irregular basis.

How Collection Values are Determined

Libraries have various techniques at their disposal when attempting to determine the value of their collections. In some institutions, the decision is made to assign an average value per item and calculate the value of the entire collection by performing a simple multiplication. In other libraries, a "tiering" of the collection is performed to subsets by discipline or by format to recognize the inherent differences in value between, say, a novel and a science textbook, or between a book and a piece of software.

Once again, it is clear from the results of this survey that many, if not most, libraries use multiple strategies to determine the values of their collections. Of the 46 responding libraries, 22 (48%) devise a whole-collection value for their general collections, and 23 (50%) do the same for special collections. But, 14 of these 23 libraries also use other methods for their special collections—typically disciplinary and/or collection-wide, but only over a certain dollar threshold.

The three libraries that determine general collection values on an item-by-item basis are all Canadian university libraries; and the twelve that calculate special collections values on an item-by-item basis are either Canadian or state university libraries. Otherwise, the survey results are fairly predictable. General collections are most often valued as a collection, followed closely by format of material and/or discipline, though one library does not calculate a value for general collections at all. Every library calculates the value of its special collections in one or more ways. Special collections are typically valued as a collection, but a significant number of libraries provide values for individual items over a certain dollar threshold, such as \$1,000.

Formulae used to Determine Value of Special Collections

Of 46 respondents, 10 (22%) use only one method to place a value on their special collections; these 10 split evenly between selecting the average value per item or groups of materials within the collection and an institutionally agreed-upon value of the collection.

The remaining 36 respondents (78%) use at least two and sometimes six different methods to arrive at the value for their special collections. Five libraries (11%) use all six methodologies identified in the survey for one aspect or another of the collection.

What can be gleaned from this data? Apparently, this practice depends on a wide variety of information located in a number of places; to successfully place a value on special collections, librarians need to turn to several resources. Perhaps special collections simply have characteristics that make them difficult to assess with one single

approach. If this message can be effectively conveyed to the risk managers and chief financial officers in the parent institution, the process of managing these highly idiosyncratic collections will be made easier.

Impact of Auction Records

At one point, there was some concern that the increasing availability of materials through online auctions would reduce the information accessible by librarians to assess their special collections. In response to the survey question on this topic, 42 of 43 libraries, or 98%, indicated that there had been no experience to indicate that the special collections valuation process had been hampered. One library did indicate a problem with online auctions, but there is insufficient information to be able to describe the attributes of the problem.

Use of Collection Valuations

Based on the supposition that there might be a use for collection valuations *other than* for insurance purposes, libraries were asked to indicate how their institutions actually use these data. Of the 45 institutions responding, 43 (96%) use the information for insurance purposes. Some of these respondents also use the information for other purposes: the two most common are for capital asset accounting for the university and to demonstrate the value of donations to the external university and library community.

At least one institution uses this information to calculate the rate of return on its assets to the university, for managing library collections, and for developing library budgets. This institution is highly unusual; a few institutions manage to derive *one* other benefit from this exercise, but for most it is a straightforward exercise in insuring the collections.

Institutional View of Library Collections

Libraries were asked directly whether their institutions regard library collections as capital assets, depreciating, capital assets, appreciating, or current assets (consumables). Compared to the responses above on the institutional policy for

calculating collection values, these answers are an eye-opener. In the question about calculating values, 5 out of 46 institutions (11%) depreciated general collections and 10 (22%) appreciated special collections. In response to this question, 21 (44%) of 48 respondents reported that general collections are seen as depreciating assets; 7 (15%) regard special collections as depreciating assets. The good news is that 12 (25%) perceive general collections as being appreciating assets and 22 (46%) consider special collections to be appreciating assets.

Although it is difficult to understand how a collection of books that could be several hundred years old can be a consumable, 13 respondents (27%) report that their institutions perceive general collections as consumables and 6 (13%) see special collections as consumables. There are also others ways to regard collections. Several libraries report that their institutions regard collections as capital assets, non-depreciating. This term suggests that they are also non-appreciating. One library explained that for purposes of insurance, the collection is considered appreciating, but for capital asset purposes, it is defined as depreciating. "Interesting situation" was the remark accompanying that comment. Another institution regards the collections as "inexhaustible capital assets, neither appreciating nor depreciating."

Further discussion is clearly required between librarians and those in the parent institution who control the insurance structures. The differentiation between appreciating and depreciating may not be important to some, but the implications are staggering when attempting to calculate the difference in value of a collection using the two approaches.

How Depreciation is Determined

The 25 institutions whose collections are perceived as depreciating were asked what method of depreciation was used. Fourteen (56%) reported using straight-line depreciation; four (16%) use the physical life of the material; four (16%) use the relevance or intellectual life of the material. None considered loss of service potential or half-life of the material. Of the remainder, three respondents did

not know how the university treated the collection; two institutions depreciate the collection over a 10-year period; one does so over a 40-year period; and one depreciates the collection by 100% in the year that the item is acquired.

Replacement of Lost Books

Related to the question of valuation of collections is that of replacing lost books. Of the 52 responding libraries, 100% charge for replacement of lost books. Most charge for replacements in just one way, but where an institution reported multiple ways of charging, one must assume that one or more branches or department of the library charge fees separately from the main library.

Fifty-one libraries responded to a question regarding the method of charging. Twenty-four (47%) charge the actual replacement cost of the item plus processing; nineteen (37%) charge a flat fee based on discipline or format, plus processing; sixteen (31%) charge a flat fee plus processing, without taking discipline or format into consideration; thirteen (25%) accept user-purchased copies and waive the processing fee. Smaller numbers of libraries charge the actual replacement cost of the item, assess a flat fee varied by discipline, charge a flat fee per physical volume, or have another way of charging. Most of the other ways are variations of the standard methods. The most common variation is to accept a user-purchased copy but *not* to waive the processing fee.

Risk Managers

Most academic and research libraries do not have their own risk managers. Of the 52 libraries reporting, 43 (83%) do not have a risk manager. Of the nine libraries that do, the only commonality is that none of them is a private academic library; they are either state or Canadian university libraries, or non-academic research libraries.

Most university libraries appear to be satisfied with the institutional policies for insuring and valuing the library's collection. One reported being very dissatisfied, but did not indicate what the problem was. In other cases, a lesser degree of satisfaction seemed to be limited to state academic

institutions. Even more striking, most libraries seem satisfied with their relationships with the institutional risk management office or other unit responsible for valuation and insurance.

Conclusion

One of the major discoveries of this survey is that, while considerable differences exist among ARL member libraries in the ways that they and their institutions conceive of the insuring and valuation process, there are significantly more commonalities than was thought the case prior to the survey.

Librarians are clearly making the case successfully that their collections—especially special collections—are assets to be regarded as important and appreciating and not to be relegated to the category of depreciating or current-use asset, although the latter is still the case in many universities. Librarians also seem to have control over much of the valuation process and, where they do not have direct control, they have a positive relationship with the offices in the parent institution that are administratively responsible for these efforts.

Since this topic was last surveyed in 1991,³ insurance coverage of library collections, both general and special, has increased to nearly 100% from approximately 90%. In 1991, the most common method of determining replacement cost was a simple replacement-cost value; now the importance of including processing costs has been understood by university administrators and included in the formula. Also at that time, almost 25% of the libraries had no insurance coverage for their special collections items; this contrasts significantly, and positively, with the current survey's finding that 98% of special collections are covered by insurance.

The question of how to value a collection is at the heart of this study. It has presented librarians with headaches for years, as they attempt to rationalize policy with reality to ensure that in case of a disaster they really would be able to replace the collections that serve their academic and research communities. The responses gained from this survey are partially helpful. It is useful to know that almost 20% of ARL

member institutions allow their special collections values to appreciate—a reflection of the real world. On the other hand, it is puzzling to learn that libraries use so many different ways to value their collections, all within the same library, and it is obvious that the survey did not anticipate the need to follow up aggressively on this issue.

Further research should be done to identify and analyze the determining factors for using one methodology versus another in valuing collections, and thus to provide additional guidance to librarians and their colleagues. However, the results of this survey will give support to those librarians who are trying to convince their institutions that collections appreciate, and don't depreciate, and that the growing amount of electronic materials will soon need attention within the academic environment to protect the investment made by the university on behalf of its students and scholars.

It had been hoped at the outset that a survey of research libraries and their parent institutions would provide a "magic bullet" for those seeking assistance and advice on approaches to insuring, valuing, depreciating, and/or appreciating collections. Perhaps not surprisingly, the results of the survey show that while there may be some general trends, particularly in the area of fees charged for replacing lost books, in most areas libraries vary considerably in their practices, in the philosophies behind these practices, and in the locus of responsibility for insuring and valuing collections. It is likely that the best advice for a librarian seeking answers in this area is to study the various practices and the rationales for these practices, and to attempt to craft for his or her own institution a set of policies and procedures that are the most sensible for that particular institution.

(Endnotes)

¹ Susan A. Cady, "Insuring the Academic Library Collection," *Journal of Academic Librarianship* 25 (May 1999): 211–15.

² The insurance environment for the Canadian respondents warrants further description. In 1988, the Canadian Association of University Business Officers (CAUBO) formed the Canadian Universities Reciprocal Insurance Exchange (CURIE). This self-

insurance mechanism secures long-term, stable, and economical property and casualty insurance coverage that addresses the specific needs of 50 of Canada's universities. CURIE creates for these subscribing universities an insurance and risk management environment that does not exist to such an extent in the United States. The National Association of College and University Business Officers (NACUBO) may make recommendations regarding insurance, liability, and related administrative matters, but does not appear to have the same kind of focus within the U.S. as CURIE does in Canada.

³ Marcia J. Myers, *Insuring Library Collections and Buildings*, SPEC Kit 178 (Washington, D.C.: Association of Research Libraries, 1991).