

Q&A Webinar | Wine Expert

Adding Bordeaux to the Bordereau: Insurance for Wine Collections



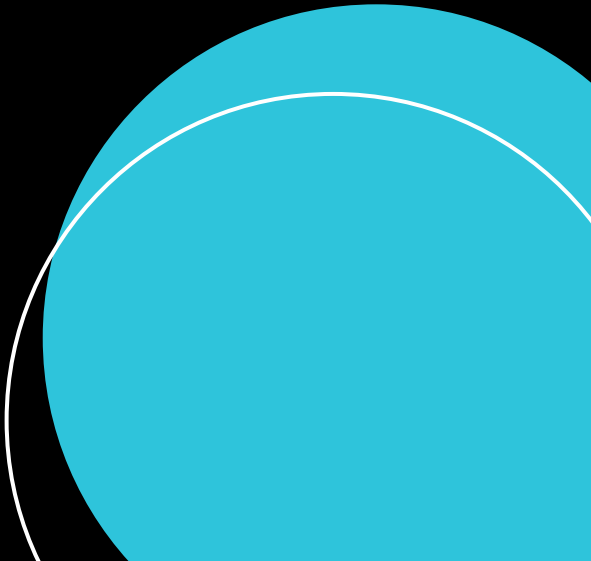
Michelle Stegmann

VP of Claims,
Fine Art & Collectibles Program



Neil Kaplan

Founder, Cork Counsel



Michelle Stegmann: Good afternoon, and welcome to today's webinar, "Adding Bordeaux to the Bordereau: Insurance for Wine Collections." My name is Michelle Stegmann, and I'll be your host today. I am the head of claims for Distinguished Fine Art and Collectibles. Joining me today is Neil Kaplan, attorney and founder of Cork Counsel, which offers a wide variety of services to wine and spirit collectors and their insurers, including appraisals, damage assessments, and advice in the building and sales of collections. Thank you for joining us, Neil. Can you give us a little bit of your background and what led you to founding Cork Counsel?

Neil Kaplan: I've been in the wine business for over 30 years. For most of my career, I spent six years practicing as an attorney in New York City, but other than that, I've been working in wine for a very long time. In about 2016, I started my own company. I'd been working with a friend, helping him with his wine appraisal business from about 2014, and then we decided that there was a lot of untapped potential out there that he didn't have time to work on because he's working elsewhere.

For a while, we worked together, and I was developing the business. We were doing the appraisals together. And then, as I became more qualified, I'm now a stage two candidate master of wine; I'm a certified appraiser with the Appraisers Association of America, and so I went out on my own. I started Cork Counsel, providing services, as I like to say, to wine collectors and the professionals who work with them.

Most recently, I've spent the past number of years developing a specialty in assessing damage to wine, particularly damage relating to heat. My work with insurance companies led me to get more involved in this aspect of the wine business and this aspect of appraising. I've found damage assessments to be really, really interesting, and it can be of great importance if there's anything that happens to a wine collection. We'll get into some of those details later.

Michelle Stegmann: Absolutely. Well, before we get started, a couple of housekeeping items. Distinguished Programs, for those of you who are here and are not familiar with us, we are a leading national insurance program manager providing specialized insurance programs for Real Estate and Builders Risk, umbrella community associations, obviously Fine Art and Collectibles, and a host of other business lines. For more information on our programs, please go to our website at distinguished.com.

And take note. We will be sending all registrants here today a copy of the slides, the webinar recording, and a PDF with the questions and answers from today's session. If anyone has a question during the presentation, please use the Q&A button on the bottom of your screen and we will be answering these questions later on once we've concluded the presentation. If we can't get to all the questions, not to worry, you will be seeing written answers in that PDF that you'll be receiving via email after the program.

Michelle Stegmann: Now, let's get to it. What is wine insurance? Through our Fine Art and Collectibles program, Distinguished offers insurance for wine collections that cover all of the most common wine exposures, including accidental damage, damage in transit, and equipment breakdown. For example, if you have climate control, which you should if you have an extensive wine collection, and something goes wrong under certain circumstances, that can be covered. Natural disaster damage and coverage for related accessories. It's not even just the wine, but things such as wine containers, storage units, or, as I said, the climate control systems.

Now, some people may believe that wine collections would be covered under a regular homeowner's policy. Most often, that's not the case if it is a collection of any substantial value. Also, the importance of having your standalone wine insurance policy is that it can be tailored and customized. It can have varying deductibles. It can have specified limits that really match what you need for your collection. Let's face facts. In today's market on the regular homeowner's insurance side of the house, it's getting increasingly difficult at times to place homeowner's insurance in certain states based on climate change, natural disasters, and other issues, whereas a standalone policy may be much easier to put into place. Just some of the items that are important to note with respect to wine insurance in particular.

Now, let's turn to the wine itself. Neil, what makes wine a collectible?

Neil Kaplan: It's really a combination of a number of factors. One of them is that the wine has to be of high quality, but everything that's high quality is not necessarily going to be collectible. It's based on scarcity, supply and demand, and the history of the wine. How long has this wine been around? Does it have a reputation? When you're dealing with some Bordeaux Chateau, you've got wines that have been held in high repute literally for centuries, and that is important. It's going to be less likely to have a collectible wine.

Michelle Stegmann: Neil was really getting at the fact that there is a market available for these wines that sets a standard for valuation, etc., and makes them more attractive as a purchase. Not just for the aesthetic value, not just for the enjoyment of the wine, but also, to some degree, as an investment.

I see here, Neil, you're detailing that Bordeaux was the most popular, but now we're moving into Burgundy. As I said, frankly my favorite, to be honest, is the Italian wines, although I am starting to branch into French, but I also see Napa there. Even a domestic area is still becoming more prominent in terms of collection.

Neil Kaplan: Absolutely, and that was unheard of 50 years ago. But starting in the '70s, there started to be a growing awareness of the quality of California wines. As decades have progressed, they've gotten better, but also there's more history there. And you've got some wines like Screaming Eagle, Harlan, Colgin, and some wines now that are really at the pinnacle of the collectible world and do very well in the secondary market.

But Burgundy is interesting because, 20 years ago, Bordeaux dominated the secondary market, but Burgundy has become better. Well, the wines have become better, it's become better known, and there's just more demand, and that's that last bullet point. The commercial demand for Burgundy now is so great that it's driven up the prices, it's heavily traded, it's heavily collected. But Bordeaux is still important. You go back hundreds of years; Bordeaux was the aristocrats' wine, and that's what was most present in the auctions and most present in collections.

Michelle Stegmann: Got it. Now, once you've determined that a wine is a collectible, how is it valued?

Neil Kaplan: The best way is to be able to find examples of the same wine in the market, whether it's an auction or retail. Whatever the relevant market is for the standard of value you're using is finding the same wine with current sales data or retail offers.

If that can't be done and, ironically, most collectible wines are often the easiest to value because they're actively and frequently traded. When we get into some of the obscurity, some of the second-tier wines or really old wines, then you might not find relevant data. You have to find comparables, and that's where you need to either get the same wine from a comparable vintage or a comparable wine from the same vintage.

And so, for instance, I had a situation where I had a 1929 classified Bordeaux. Fantastic year, but this wine was not often traded. There was no current data for it. There aren't a lot of vintages of that quality. You'd have to go to '45, '61, 1900, and those wines are so much older or younger that it wasn't really a comparable value. But I was able to find a similar wine from the same 1929 vintage that had been traded recently, and I used that as the basis for my valuation.

Michelle Stegmann: That's fantastic.

Neil Kaplan: That's where it gets interesting, but also a little trickier.

Michelle Stegmann: You mentioned 1900. Is that the oldest wine that you ever researched?

Neil Kaplan: No, I've had to research some 19th century wines as well. Not frequently, but 1870, 1874, these were great vintages that sometimes do appear in collections.

Michelle Stegmann: Interesting. Proper storage as we know is critical for wine. What storage advice do you have to share?

Neil Kaplan: You need to have a good temperature control system and some kind of backup. Wine doesn't need to be at 55 degrees, but that's considered the standard. Not coincidentally, when you're having a temperate climate, the kind of climates where wine is produced, and you go about 10 meters to three meters underground, you get down to a temperature of about 55 degrees. That's where a winery's cellars might be, where the caves would be. It was discovered that the wine aged very, very effectively in those temperatures, and that's kind of become the gold standard.

But anywhere from 55, 50, 55, 60, it's all good as long as it's constant. Because if you get fluctuations, especially rapid fluctuations, that air pocket in the bottle can heat and cool and expand and contract and it creates a vacuum effect, which can compromise the cork seal.

We're going to come back to that perhaps numerous times. Compromising the cork seal is the source of a lot of problems for wine because then it can lead to oxidation. You're going to get damage to wine, either by the wine becoming oxidized or if it gets hot enough, you get some changes to the chemical composition of the wine, which also compromise it. But anything that can compromise the cork seal has to be avoided, so those fluctuations are really, really important.

As is proper humidity because if that cork dries out, then, again, we're compromising the seal, oxygen gets in, the wine's ruined. 75% is considered ideal. Wine is not going to be damaged by being in a too-humid environment. Mold particles cannot penetrate a cork, but it can create cosmetic damage to the wine. You don't need 90% humidity, and you will get damaged labels at that point. 75% is sufficient to maintain the elasticity of the cork but without causing undue damage to the labels.

Michelle Stegmann: Now, let's assume something does go awry. How can you tell if the wine has been damaged?

Neil Kaplan:

Sometimes you can tell visually. If the temperatures get high enough and the wine expands, it can start to push the cork out of the bottle. It can also, again, we're back to compromising the cork seal, break that seal, and the wine expands, some of it will push past the cork and seep out of the bottle, and we call that seepage. If the cork gets pushed out of the bottle, we call that a protruding cork. Heat damage is not the only reason that could happen, but it produces some pretty good evidence of it.

Also, if you get a sunken cork, that can be interestingly evidence of heat damage as well. Because that, again, that vacuum effect, where the air heats up and cools down, that can break the seal and draw the cork into the bottle. If you see a depressed cork, and that could be an issue, that can happen for other reasons as well.

So what we look for is some reported incident that created elevated storage temperatures and more of these conditions than you would expect in a normal cellar. Cork is a natural product. Some of them are going to fail, and so you might get some compromised cork seals. But if you start to see a lot of them and there's been a report of elevated temperatures, then we can be confident that something might be afoot.

If there is no physical evidence, then we have to see if there's any organoleptic evidence, and that's a word I love to say. All wine people love to say that word. It's a \$10 word for "what does it taste like?" And so what we're doing then is we're tasting the wine. Interestingly, of course, you can't taste them all for practical reasons. Because wine is an interesting collectible asset, it's the only one I know where if it's used for its intended purpose, you destroy its value.

It's strange how it becomes a collectible, but it is. And so, at that point, I would taste a representative sampling of the wines because different wines have different levels of resiliency, different levels of what you would call resiliency and natural protection against heat damage. I would try different styles of wine and then extrapolate. If the sampled wines are sound, then I'm going to say that all similar wines in that category are sound. Or the wines are damaged, I'm going to say the others are damaged. We look for there-

Michelle Stegmann:

I believe we have pictures of what the damaged bottles might look like.

Neil Kaplan:

Yes, these are some of the physical evidence we're talking about.

Now, the one on the left that is an old wine, but it's in great condition. If you look at the bottle next to it, you can see, especially if you look above and below the level of the wine, how much that wine has browned. You can see the color of the glass, but then you can see that the wine is really turning brown. That wine's red and whites start picking up brown hues as they get old and oxidized.

Neil Kaplan:

The center pictures are showing some pretty serious protruding corks along with signs of seepage. Those dark stains on the capsules on the middle, and bottles on the right are remnants of tacky wine that has seeped past the cork.

But every time you see stains it doesn't mean that you've got damage. The bottle on the right has clearly a stain label, but if you could zoom into it or when I examined that one in person, the cork was intact, the fill level was fine, the wine hasn't been seeping out of the bottle, which made me conclude that the staining on the bottle was from an exterior source and had nothing to do with anything that went awry with that bottle.

Michelle Stegmann:

So then circling back to the actual damage assessment, once you see that there may or may not be damage to the bottle, what are the next steps in the process? You're going to go sample the wine. I guess it depends on whether you're going to go through the cork, et cetera?

Neil Kaplan:

Well, even if you access, when you go through the cork, I'm assuming you're talking about using a Coravin, which is a device that can access wine from a bottle without removing the cork. But once you do that, even if you only take a tablespoon of wine out of the bottle, you've now destroyed its value. It has no commercial value in the secondary market.

The reason for doing that would be couplefold. You might do that if you have a strong suspicion that the wine is sound and you don't want to start pulling corks on ten bottles. If you use a Coravin, then the wine owner can still retain the wine and enjoy it. Because what happens for those who don't, the Coravin draws wine out and replaces it with argon. Argon is a non-reactive gas. So, the danger of taking wine out of a bottle is opening the cork because you're allowing oxygen in, and the wine will degrade. But if you top off the headspace with argon, then you're preventing that from happening, and you can preserve the wine for an actual rather long period of time.

The other reason to use a Coravin might be is if there are questions down the road, you still have the bottles, and you can revisit the sampling and either if you want a second opinion or if I, for instance, wanted to double check myself. But usually we don't do that. Usually we just pull the corks, and especially in situations where you're pretty sure the wine is going to be damaged. Because if you're seeing a lot of wines like in that center photo, you can taste the wines almost as a formality, but you'll pretty much know if you're seeing that...

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Neil Kaplan:

There was a situation in Connecticut where a do-it-yourself wine storage gone grievously wrong, where this gentleman had his wine stored in a location that got hot in the summer but cold in the winter. We had a heating unit, and a cooling unit, and a thermostat, which would determine which one turned on when. It malfunctioned, the heat turned on in the summer, he was, of course, away because it always happens when people are away, and the temperature reached 105 degrees in that wine room for five days. Most of the wines had protruding corks. Some of them had had so much pressure and expansion that the corks were completely out of the bottle, and wine had just poured all over the place. It was terrible.

I did taste some of the wines just out of curiosity, but one look at that cellar and you knew this was a total loss. But when you don't have a lot of damage or you don't have any damage, then we need to taste it and see has the wine lost vibrancy? Has it picked up cooked flavors? Has it lost freshness? Those are the things we look for because at different temperature levels, you're going to get different changes to the chemical composition and taste of the wine.

If you see low levels of this kind of damage, physical evidence, but more than you'd expect, that's when you also have to be very careful to taste the wines. In some situations, I guess a situation in Dallas not long ago, where some of the young delegate wines, especially the whites, were damaged. But the sturdy or more robust red wines tasted just fine, and so we called that a partial loss. Certain categories of wine were deemed to be damaged, others not, and there was a partial payout on the claim.

Michelle Stegmann:

Would you then designate the entirety of the specific category of wine as being a loss, or would you say a percentage of that category is a loss but other percentage should be fairly sustainable?

In other words, let's say you did a tasting and 50% of the specific kind of white wine that you were looking at had damage, but 50% seemed fine. Is that the percentage you would carry forward to estimate?

Neil Kaplan:

That would be difficult because then if there's a salvage situation, which wines are kept and which aren't? But it's unusual that I'm going to taste a number of similar wines and find some damage, some not. It's usually going to be all or nothing.

In the event that it was mixed, I would then need to taste more wines until I got to the point where I felt I had a statistically significant number that were either damaged or undamaged. Because as I said before, wine is a natural product. Wine corks are natural. Some wines can suffer even if there has been no adverse incident, so I'd need at that point to taste enough to become comfortable with a conclusion. But that has not happened in my experience.

Michelle Stegmann: That tasting, that's a tough job, but somebody's got to do it. Next slide, please. I think we touched on most of this in what you just described. Can you take a moment and just briefly describe salvage in this space? How does that work?

Neil Kaplan: Right, so that was going to happen if the wine is determined to be damaged, it has no commercial value at that point. It probably needs to be destroyed. It's good for cooking, but how many bottles of wine do you really need for cooking? Wine, especially in large quantities, and it depends on the jurisdiction, cannot simply be thrown out.

There are environmental considerations and practical ones as well. If you've got 1,000 bottles, you're just not going to throw those out. At that point you bring in some kind of a disaster remediation company, and they can remove the wine and dispose of it in accordance with environmental regulations.

Michelle Stegmann: Got it. Got it. All right, thank you. I think we can move into our Q&A. First question was, what about off-site storage? What can you tell us about that?

Neil Kaplan: It's got significant advantages and disadvantages.

I mean, the best advantage of off-site storage, there's two: security, and also backups for the temperature control systems. A professional warehouse is going to have outstanding backups because they can't afford to lose all the one that's just stored for their clients. That is the best advantage.

Conversely, when you're storing at home, you need to have some kind of backup for your temperature control system. But that can have limitations. If you've got a serious natural disaster, some kind of major storm, there could be supply chain issues, you might just not have enough gas or propane or batteries storage to maintain temperature control if the situation gets to be one of these long-term problems.

The advantage of having your wine at home is it's there, and if you want something, you have access to all of it. The disadvantage of having it off-site is that you have to plan ahead for what you want. Sometimes the bottle you want is not necessarily in the house. But for those people who don't have space, especially if you're an urban collector, off-site storage is critical.

Michelle Stegmann: Sounds good.

All right, I have two more questions. I'm going to actually take them in tandem, but I'll read them separately. The first one, is how can you determine if the client drinks some and buys frequently? To break that down, how can you determine if the client drinks some? Take them out to dinner. You will soon see whether they drink some wine. Just kidding, drinks some, sells and buys frequently.

And then the other question is, do inventories of collections help with insurance claims?

I think these do dovetail with each other. I think that the first question is really addressing how do you know how much you really need in limits and the value of your collection if it's constantly changing and shifting. I think inventories speak to that. What do you think, Neil?

Neil Kaplan: Yeah, inventories are critical. First of all, every collector should want to know what you have so that if you forget about some wines and just say, "Oh my gosh, I should have drunk these ten years ago."

But the major reason is in the event of a serious disaster, without an inventory, you might not be able to submit a valid claim. If the wine's just heat damaged, great. We can go in and we can take an inventory. But if there's a fire, and this happened in a claim I was working on, there was a fire in the house, the wine was destroyed, so there was no way to inventory it, and the client did not have an inventory. Tried to piece together what they had through receipts, but they didn't have very many. There was no photographic evidence of the amount of wine that they reported they did.

It was very, very difficult for this insured to validate the claim. I don't know what happened in that case, but based on the information I was given in my analysis, I could not conclude that the insured had as much wine as they said they purportedly did.

Michelle Stegmann: Understood. It can be challenging and difficult sometimes to put together an inventory. We see this also on the arts side of the house, especially if you have numerous bottles filling your cellar.

Another question that was submitted was, do you recommend any apps on phones for keeping track of wine inventory?

Neil Kaplan:

The best one is CellarTracker. It's what most people use. It's a good app. It's really good from the computer.

Related to what I didn't say about the inventory before, is once you create it, you have got to maintain it. If you do maintain, it's obviously the least enjoyable aspect of wine collecting. But if you stay on top of it and you add things as soon as you get them and you delete them as soon as you get them and drink them, then it's really not too burdensome. Creating the initial inventory is a lot of work, and I can help with that. We can find other people who can help with that. But at some point, if it hasn't been done, it really does need to be done.

One of the things that's good about CellarTracker is there's a huge database of wines. So, chances are what you buy, especially if you're a collector, is already in their database. Adding the wine to the inventory is not difficult at all. You'll start to type in, it'll prompt you the rest of the way. Yeah, you got to go pretty obscure to stump CellarTracker.

Michelle Stegmann:

Sounds wonderful. Thank you for that recommendation and thank you for your participation today.

Based on our presentation, if you are wondering out there, how do I submit business to Distinguished Fine Art and Collectibles, please register your agency on our website. Submit a completed application to submitFAC@distinguished.com. The application is available to download on our webpage. If you have any questions along the way, please don't hesitate to reach out.

Don't forget to follow us on social media. We are on Facebook, we are on X, we are on LinkedIn, we are on Instagram. Please follow us. We'd love to have you.

That concludes our program for today. We want to once again thank you all for attending. You will be receiving that follow-up email with our materials. Have a wonderful day and enjoy your next wine tasting.

Fine Art & Collectibles Insurance

Below are attendee questions from the webinar session.

General Questions

Q: What about storing your wine off premises?

A: The advantages of off-site storage is: security, and backups for the temperature control systems. A professional warehouse is going to have outstanding backups. The disadvantage of having it off-site is that you have to plan ahead for what you want.

Q: Do you recommend any apps on phones for keeping track of wine inventory?

A: The best one is CellarTracker. One of the things that's good about CellarTracker is there's a huge database of wines. So, chances are what you buy, especially if you're a collector, is already in their database. Adding the wine to the inventory is not difficult at all. You'll start to type in, it'll prompt you the rest of the way.

Coverage Details

Q: Any requirements needed to insure a wine collection against earthquake damage?

A: We will typically underwrite and price for earthquake coverage, and may not be able to offer it in all areas, but that is primarily dependent on geographical location. If you'd like to review a quote with earthquake, please feel free to submit to submitfac@distinguished.com and we can take a look for you!

Q: Could you provide information on how wine faults, such as smoke taint or TCA, that develop over time and cause wine spoilage are handled?

A: These types of faults are what we'd consider "inherent vice", or an issue that existed prior to you taking ownership of the wine. Inherent vice is not covered under our policy as our policy covers direct physical loss to wine.

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Below are attendee questions from the webinar session.

Coverage Details

Q: Do you assess the bottle's value based on the original purchase price, or do you adjust the valuation based on your own research?

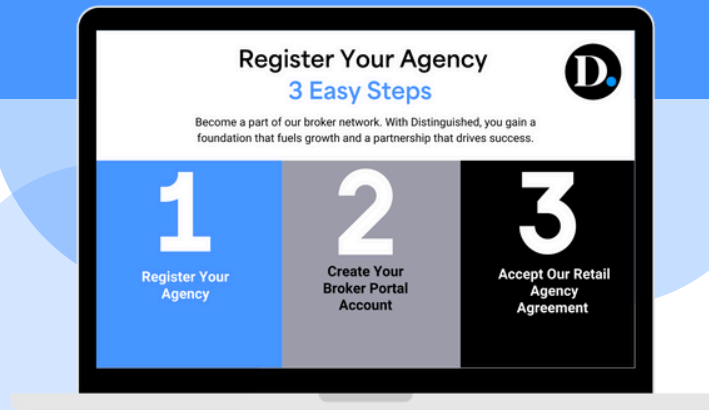
A: We will value the bottle based on purchase price or appraised value. That means that if the client believes that the bottle is worth more than it was when it was purchased, we recommend the client seek a third-party appraisal to substantiate the new value. At that point, we would be able to insure to that appraised value.

Claim Details

Q: Do inventories of collections help with insurance claims?

A: Yes, inventories are critical. In the event of a serious disaster, without an inventory, you might not be able to submit a valid claim.

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