

**Summative Evaluation
of the
Canada Travelling Exhibitions
Indemnification Program**

**Evaluation Services
Corporate Review Branch**

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EXECUTIVE SUMMARY

This report presents the summative evaluation of the **Canada Travelling Exhibitions Indemnification Program (INDEM)**. The Program was established in 1999 by the Department of Canadian Heritage (PCH) following the adoption of the *Canada Travelling Exhibitions Indemnification Act*. This report is based on research conducted for PCH by Nordicity Group Ltd., in association with Bytown Consulting.

Context

Through INDEM, the government assumes financial risk for loss or damage to objects in eligible travelling exhibitions. Eligible exhibitions must have a minimum value of \$500,000 and can include international or domestic exhibitions¹ organized or hosted by museums, art galleries, archives, or libraries in Canada. The deductible on indemnity coverage ranges from \$30,000 for an exhibition with total fair market value between \$500,000 and \$3 million, to \$500,000 for an exhibition with a value between \$300 million and \$450 million.

The objectives for the initial five-year period (2000-2005) of INDEM were to:

- increase access for Canadians to Canada's and the world's heritage through the exchange of artifacts and exhibitions in Canada; and
- provide Canadian art galleries, museums, archives and libraries with a competitive advantage when competing for the loan of prestigious international exhibitions.

INDEM is delivered at a cost of \$200,000 per year for salaries and benefits (for three Full Time Equivalents). Program officers assess applications for indemnification based on external expert advice as required. Institutions hosting travelling exhibitions must have their facilities approved for security, fire safety and preventive conservation. Site visits and facility reviews are conducted for INDEM by the Canadian Conservation Institute, an operating agency of PCH with a mandate to promote the proper care and preservation of Canada's cultural heritage. "Indemnification Agreements"² are signed by the Minister or the senior official to whom authority has been delegated and by the owners of the artifacts (often governments of other countries).

Purpose and Methodology of the Evaluation

The summative evaluation covers the initial five-year start-up period of INDEM. It was undertaken to examine Program relevance, success/impacts and effectiveness/alternatives.

The evaluation draws from the following lines of inquiry: 1) a document review including administrative documents, Program data, an audit, and a draft Results-based Management and Accountability Framework (RMAF); 2) interviews with 14 key informants including government officials, experts, associations and lenders; 3) a survey of 93 eligible user and non-user institutions (resulting in a total of 45 responses – consisting of 11 INDEM users and 34 non-users); 4) analysis of institutions' insurance savings attributed to INDEM (conducted by an expert with actuarial experience); and 5) international benchmarking of INDEM with similar Programs in four other countries (Australia, New Zealand, the United Kingdom and the United States) based on Program parameters and results.

¹ International travelling exhibitions are those with more than 50 % market value in objects borrowed outside Canada and at least one Canadian venue, while domestic travelling exhibitions are those with more than 50 % market value in Canadian-owned objects and venues in at least two Canadian provinces/territories.

² An Indemnification Agreement is a contract between the Minister of Canadian Heritage on behalf of the Government of Canada and an owner, or an owner's designated representative, respecting loss or damage to indemnified objects and appurtenances under the authority of the *Canada Travelling Exhibitions Indemnification Act*. It pledges that the Government of Canada will pay the agreed upon amount, subject to the specified deductible, in the event of a valid claim for loss or damage to an indemnified object or appurtenance.

In interpreting the main findings of the evaluation, some constraints in the data and analysis should be noted. For example, the low response rate for the user survey meant that the survey captured data on only 19 of the 46 exhibitions that were approved for coverage under INDEM during the five-year study period. The analysis of insurance cost savings is based on commercial rate information obtained in June 2005. In addition, data on the incidence of use were not available for Canada or the benchmark countries.

Main Findings

(I) Relevance

There is evidence that INDEM addresses an actual need.

Prior to INDEM, the Government of Canada supported travelling exhibitions by paying a major share of the insurance premiums incurred by participating institutions. That form of support was provided under the Insurance Program for Travelling Exhibitions (IPTE) from 1985 to 1996. Under IPTE the Federal Government paid 72% of the total of \$6.6 million paid in premiums. However, the IPTE's direct cost for premiums (\$430,000 annual cost for the Government) quickly exceeded the claims, leading to the abolition of the Program in 1996.

Since the launch of INDEM, rising insurance costs have made the Program increasingly important to the participation of institutions in major exhibitions. In addition to insurance cost savings, beneficiary institutions indicated that the direct involvement of the federal government in the indemnification process is a key enabler for Canadian organizing institutions in dealing with lenders.

INDEM is relevant to the overall goals and objectives of PCH and the Government of Canada in the cultural field.

INDEM aligns with the broader context of government objectives, Canada's 1990 Museum Policy objectives, and the strategic objectives of PCH cultural policy. INDEM also complements other heritage support initiatives of PCH such as the Canadian Conservation Institute, the Movable Cultural Property Program, the Cultural Spaces Canada Program, and the Canada Museums Assistance Program.

(II) Success/Impacts

INDEM has played a key role in increasing access for Canadians to Canada's and the world's heritage.

In the initial five years of INDEM, 46 travelling exhibitions were approved for indemnification. These approved exhibitions involved a total of 13 organizing institutions, 29 hosting institutions and 89 venues. Over 5.7 million visitors viewed exhibitions covered under the Program. In addition, INDEM has also achieved national coverage with travelling exhibitions shown in 8 out of 10 provinces.

INDEM enabled world prestigious artifacts from China, Tibet, Peru, and art collections that featured Picasso, Renoir, Monet, and the Renaissance period, to be shown throughout Canada. Ninety percent of the survey participants hosting travelling exhibitions indicated they experienced an increase in visitors (i.e., over what would have occurred in the absence of the exhibition covered by INDEM). Approximately half of the survey respondents indicated that they would not have been able to organize the exhibitions without the Program. Also, there was a strong consensus among institutions and organizations that INDEM was essential to ensuring public access to Canadian and World's heritage.

INDEM has provided Canadian institutions with a competitive advantage for the loan of prestigious international exhibitions by providing a critical cost advantage.

Twenty percent of the participating institutions in the survey indicated that INDEM had increased the willingness of foreign lenders to lend their heritage objects. As noted above, approximately half of the

survey respondents indicated that they could not have organized the exhibitions without the Program. In addition, the evaluation estimated that INDEM saved approximately \$20 million in insurance costs over the initial five years of the Program, which would have contributed to the competitive advantage of the organizing institutions.

INDEM has contributed to a number of beneficial outcomes that are improving the long-term capacity of the heritage institutions.

The surveyed and interviewed institutions indicated that INDEM contributed to improving corporate knowledge and facilities of participating institutions, and has increased membership and community activities. The travelling exhibitions were also identified as being major tourism events that had a positive impact on the local economy.

(III) Effectiveness/Alternatives

INDEM has been very cost-effective.

With a record of no claims under the Program, the only costs to the Government of Canada have been staff costs. Comparing the estimated staff costs (\$200,000 per year) to the estimated savings in insurance costs indicates that participating institutions saved roughly \$20 for each \$1 spent by the Government (i.e., \$200,000 X 5 years = \$1 million spent by the Government versus estimated insurance cost savings of \$20 million). The claims record of INDEM is consistent with the experience of the indemnification Programs in the benchmark countries.

Administrative burden and response times were two areas identified for improvement – and steps have already been taken to improve these areas.

The general view was that the Program is delivered in a relatively efficient manner given the complexity of the tasks and high level of skills required. At the same time, however, some users (especially those dealing with multiple lenders) considered INDEM's administration process to be burdensome, costly or slow. INDEM Program administrators have already initiated a web-based application process and an improved communications strategy to reduce the administrative burden, improve response times and facilitate communications with institutions.

The financial risk to the Canadian taxpayer has been well managed, but consideration should be given to reviewing some of the design parameters.

The financial risk has been well managed through the design of a risk management strategy that includes a ceiling on total available liability (\$1.5 billion), a maximum for individual exhibition liability (\$450 million), a maximum of \$100 million per conveyance and exclusions to the insurance coverage (e.g., exclusions for acts of war, strikes and riots). At the same time, however, the evaluation found that some recent developments (such as the increasing value of travelling exhibitions, and requests from lenders for all-inclusive coverage) suggest that consideration should be given to reviewing these design parameters.

Summary Of Key Conclusions

- The Indemnification Program continues to be relevant to the overall goals and objectives of PCH and the Government of Canada in the cultural field.
- Overall, INDEM has been successful in achieving the Program's objectives set out for the initial start-up period (April 2000 - May 2005). The evidence indicates that INDEM has increased access for Canadians to Canada's and the world's heritage through the exchange of artefacts and exhibitions, and that INDEM has provided Canadian art galleries, museums, archives and libraries with a competitive advantage when competing for the loan of prestigious international exhibitions.
- INDEM has led to a number of beneficial outcomes which improve the long-term capacity of the heritage institutions. Examples include increased capacity of Canadian institutions to host travelling exhibitions, facilitating the hosting of major international exhibitions, and other positive impacts such as improving collaboration with other institutions and building museum memberships and donations.
- The Program has been very cost-effective. There have been no claims submitted under INDEM, the only costs to the government to date being staff costs, estimated at \$200,000 per year in salaries and benefits for three FTEs, representing approximately 5% of the insurance cost savings generated by the Program.
- The financial risk to the Canadian taxpayer has been well managed.
- Although INDEM Program administrators had not set performance targets or developed indicators at the time of the evaluation, some institutions and associations have expressed the view that INDEM has effectively reached almost all of the current institutions with the technical and financial resources to qualify.
- INDEM Program administrators are already undertaking steps to reduce administrative burden and to improve response times for applications and approvals.
- Although institutions responding to the survey were generally satisfied with the design of INDEM, some suggestions for change were made such as removing certain exclusions (e.g., acts of war), increasing the available liability and adding a grant component to the Program. These suggested changes could impact the financial risk of the Program, however, and would need to be examined accordingly.
- PCH is the right home for INDEM in light of synergies, shared knowledge with other PCH Programs, and the consensus of industry players. No other Program currently provides a realistic alternative to INDEM.

Recommendations and Management Response

- 1) Review key Program design parameters to ensure the Program is effective in current market conditions.
 - Consensus among experts and beneficiaries is that the current Program maximum values for total liability and for individual exhibitions of \$1.5 billion and \$450 million respectively, would have to be reviewed periodically to reflect the market values in order not to limit accessibility to international exhibitions. To that end parameters that should be reviewed include minimum threshold, exclusions, total Program liability cap and the individual exhibition liability maximum.

Management Response: Recommendation accepted.

The Program will review the design parameters to ensure that maximum Program effectiveness balances with appropriate management of risk to the Crown. This review will take into account Parliament's review of the legislation (required in 2006). The agreement of the Department of Finance will be necessary if ceilings are to be raised. Legislative amendments would be required, either to the *Canada Travelling Exhibitions Indemnification Program Act* or through an appropriation Act (as provided for in article 3(3) of the legislation). In the first quarter of 2006-07, Parliament will be advised of the need to review administration of the Act, in accordance with Article 5.1.

Implementation Schedule: The target for any changes affecting program values would see implementation in 2007-08.

Specified perils excluded from normal indemnification coverage are included in the Program guidelines. These exclusions can be removed at the Minister's discretion on a case-by-case basis. The Program will analyse the implications of generic alterations to the exclusions from the perspective of risk management.

Implementation Schedule: 2007-08 fiscal year

- 2) Develop performance targets and indicators for the next Program cycle in conformity with Program objectives including cost savings under INDEM for benefiting institutions and long-term benefits from INDEM accruing to hosting institutions.
 - In order to undertake this process, it is suggested that administrators develop a reporting tool (e.g., questionnaire) based on the target indicators and require beneficiary institutions to report on performance (such as incremental attendance, cost savings, etc.) for each exhibition approved as well as the longer-term benefits of the Program. In addition, commercial insurance practices and rate data (differentiated by size of institution, type of exhibition, etc.) should be obtained by Program administrators from commercial insurance brokers on an annual basis.

Management Response : Recommendation accepted.

- An integrated RMAF/RBAF which outlines the performance targets and indicators to be used in meeting Program objectives and reporting requirements has been drafted.
- A Post-Indemnification Questionnaire has been developed to assist institutions in measuring and reporting on the impact of indemnified travelling exhibitions.
- Consultation with commercial insurance program administrators will be undertaken to develop a model to obtain data on commercial insurance practices and rates.

Implementation Schedule: The integrated RMAF/RBAF will be finalized by the end of February 2006. Data on commercial insurance practices and rates will be collected annually, program resources permitting.

1.0 Introduction

This report provides a summary of the summative evaluation of the **Canada Travelling Exhibitions Indemnification Program (INDEM)**. It has the following sections:

Section 1 provides a description of the Program and highlights the purpose and scope of the evaluation;

Section 2 discusses the evaluation methodology and constraints;

Section 3 presents the main findings;

Section 4 summarizes the key conclusions; and

Section 5 presents the recommendations.

1.1 Program Profile

The *Canada Travelling Exhibitions Indemnification Act* (Bill C-64) was approved on June 17, 1999 for travelling exhibitions hosted by museums, art galleries, archives, and libraries in Canada. Subsequently, INDEM was established by the Department of Canadian Heritage (PCH), with the Canada Travelling Exhibitions Indemnification Regulations coming into force on December 15, 1999.³ Through the establishment of the Program the Government of Canada assumes the financial responsibility for loss or damage to objects and appurtenances in eligible travelling exhibitions.

Two categories of travelling exhibitions qualify for indemnification under INDEM criteria:⁴

- **domestic exhibitions** have venues in at least two Canadian provinces/territories, and the total fair market value of objects borrowed from within Canada exceeds the total fair market value of objects borrowed from outside Canada; and,
- **international exhibitions** have at least one Canadian venue, and the total fair market value of objects borrowed from outside Canada exceeds the total fair market value of objects borrowed from within Canada.

To be considered for indemnification, travelling exhibitions must have a minimum fair market value of \$500,000. The maximum indemnification is \$450 million per exhibition, and the maximum total liability for the Program is \$1.5 billion per fiscal year.

Indemnification coverage for indemnified objects and appurtenances in a single conveyance may not exceed \$100 million CDN, because dividing an exhibition during shipping diffuses the concentration of risk. If the value of an individual indemnified object or appurtenance exceeds \$100 million CDN, commercial insurance must be purchased for the excess amount while the item travels.

³ *Regulatory Impact Analysis Statement* concerning the *Canada Travelling Exhibitions Indemnification Regulations*, *Canada Gazette*, December 22, 1999.

⁴ PCH (2000), *Canada Travelling Exhibitions Indemnification Program: General Information*, p.1.

The Indemnification Program provides for a deductible based on the total fair market value of the exhibition. This serves to transfer the risk and cost for lower-value claims to commercial insurers, and establishes a shared responsibility and partnership between host institutions and the Government of Canada in the Canada Travelling Exhibitions Indemnification Program. The deductible covers the entire exhibition, and is not per item or per venue. Commercial insurance equivalent to the deductible may be purchased for each exhibition, or an institution's existing in-house insurance may serve this purpose. If necessary, commercial excess insurance must be purchased to cover the value of objects and appurtenances in an exhibition in excess of the amount indemnified under the Program.

INDEM does not provide comprehensive coverage for various types of specified perils including strikes, riots and radioactive contamination. Although acts of war are not covered, exceptions in this area have been made so far on case-by-case basis⁵. The exceptions were based on the judgment of the Program about the nature of risk involved.

The Canadian Conservation Institute (CCI) is a special operating agency of PCH with a mandate to promote the proper care and preservation of Canada's cultural heritage and to advance the practice, science, and technology of conservation. CCI conducts facilities reviews at the request of INDEM.

The objectives for the initial five years of the Program (April 2000 to May 2005) were to:

- increase access for Canadians to Canada's and the world's heritage through the exchange of artifacts and exhibitions in Canada; and
- provide Canadian art galleries, museums, archives, and libraries with a competitive advantage when competing for the loan of prestigious international exhibitions.

1.1.1 Program Governance

INDEM is a Program within the Heritage Programs Directorate of the Heritage Group, which is part of the Citizenship and Heritage Branch of PCH. The operational responsibility for the Program lies with the Executive Director of the Heritage Group.

1.1.2 Program Delivery

Applicant institutions submit indemnification requests on behalf of all Canadian institutions that will host the exhibition for which indemnity is requested. PCH Program officers assess applications, using external expert advice as required to assess the level of risk associated with each application. Indemnification Agreements are signed by the Minister or delegated senior official and by the owners of the artifacts (often governments of other countries). Also, institutions hosting indemnified travelling exhibitions must have their facilities reviewed for security, fire safety and preventive conservation, including environmental controls. The Canadian Conservation Institute currently performs these reviews at the request of the Program.

⁵ A full list of exclusions includes normal wear and tear, gradual deterioration, vermin, inherent vice, pre-existing flaw or condition, radioactive contamination, wars, strikes, riots, civil commotion or repair, restoration or retouching processes other than those repairs, restoration or retouching processes undertaken at the request of the Minister, gross negligence of the owner or participating institution, and civil or criminal claims regarding ownership.

1.2 Purpose and Scope of the Evaluation

This summative evaluation covers the initial five-year start-up period of INDEM. The evaluation was undertaken to provide evidence-based answers to the Treasury Board Evaluation policy questions relating to:

- Program relevance (i.e., is the Program still consistent with departmental and government-wide needs, and does it realistically address an actual need?);
- Program success/impacts (i.e., is the Program effective in meeting objectives, within budget and without unwanted consequences?); and,
- Program effectiveness/alternatives (i.e., are the most appropriate and efficient means being used to achieve objectives relative to alternative design and delivery approaches?).

The summative evaluation also takes account of the seven tests for expenditure review announced by the Government of Canada on December 16th, 2003.

This report is based on research conducted for PCH by Nordicity Group Ltd., in association with Bytown Consulting.

2.0 Evaluation Methodology and Constraints

This section describes the approach and methodologies used to evaluate INDEM. It also highlights the main constraints and limitations of the analysis.

2.1 Methodology

The following types of data and methods were used to conduct the evaluation.

Document review – The review included the *Canada Travelling Exhibitions Indemnification Act and Regulations*, INDEM policy and procedures documents, INDEM Programming data, and a draft Results-based Management and Accountability Framework (RMAF). The review also included the following: *The Audit of the Canadian Travelling Exhibition Indemnification Program* (2003), and the Mori Arts Centre *Summary of International Indemnity Programs*, 2002.

Interviews with key informants – 14 key informants were interviewed, including government officials, experts, representatives from Canadian institutions and associations, and representatives of indemnification Programs in other jurisdictions. The list of key informants is provided in Appendix C.

Survey of Canadian institutions – Surveys were distributed by mail to 93 institutions. Responses were remitted either by fax or by prepaid envelopes provided to the target institutions. Of the 93 institutions surveyed, 45 institutions responded. Eleven of the responding institutions were users of INDEM and 34 were non-users.

Analysis of institutions' insurance savings due to INDEM – An outside professional actuary directed the analysis of the Program parameters of INDEM and the insurance rates paid by institutions for comparable private insurance coverage. Information on premiums was sourced from the survey and interviews, consultation with brokers, and INDEM Programming data. Insurance savings were estimated for the initial five years of the Program.

International comparison – Indemnification programs in four other countries (Australia, United Kingdom, New Zealand and the United States) were selected and used as a way to examine/benchmark Program parameters and results of INDEM. The indemnification Programs in the other four countries were selected because they share many of the characteristics of INDEM. For example, their goals include promoting public access to major travelling exhibitions and providing a competitive advantage for national heritage institutions. Their governance approach includes Program delivery by semi-autonomous agencies, use of outside experts/conservators to assess market value and evaluate risk, reporting to their finance or treasury departments on risk and claims, and Program review by their legislature or parliament.

2.2 Constraints

The evaluation study faced the following main constraints in data and analysis.

There was a low response rate to the survey questionnaire, with the survey capturing data on only 19 of the 46 exhibitions that were approved for coverage under INDEM during the five-year period examined by the evaluation. In addition, the information provided by respondents was sometimes incomplete and/or could not be verified.

Information and analysis regarding comparable commercial rates for insurance should be interpreted with some caution. Insurance rate data for corresponding commercial rates were obtained from Canadian and foreign insurance brokers in June 2005. These data are representative of the commercial rates paid at that time by institutions for the specific category of casualty insurance applicable to travelling artwork. The evaluation team was not able to determine whether the insurance premiums for participating institutions over the evaluation period were typical of those paid by other institutions, however, because:

- there have been significant increases in rates over the five-year period examined by the evaluation; and
- insurance rates tend to vary from institution to institution and by category of artwork.

An effort also was made to collect premium information through the survey. The data obtained from Canadian and foreign insurance brokers were preferred to the survey information, however, given the specialized expertise of the brokers and the low response rate to the survey.

Data on incidence of use were not available for Canada or the benchmark countries. Examples of data not available include the number of indemnified exhibitions as compared to the total number of travelling exhibitions, the number of institutions participating in INDEM as compared to the total participating in travelling exhibitions, and attendance for hosting institutions using INDEM as compared to the total attendance for travelling exhibitions.

3.0 Findings

This section presents the results drawn from the lines of evidence used to examine issues of relevance/rationale, success/impacts, and effectiveness/alternatives.

3.1 Relevance and Rationale

The relevance of INDEM was assessed against the existence of an actual need for the Program and whether the Program is aligned with government and departmental priorities.

3.1.1 Actual Need for the Program

There is evidence that INDEM addresses an actual need.

Prior to the creation of INDEM, the Government of Canada supported travelling exhibitions by paying a major share of the insurance premiums incurred by the institutions. This support was provided from 1985 to 1996 under the Insurance Program for Travelling Exhibitions (IPTE). During the period from 1997 to 2000, institutions paid their own costs. Under the IPTE (1985 to 1996), total premiums paid were \$6.6 million, and the government's portion of that total was \$4.8 million. Also, the direct costs of insurance premiums significantly exceeded the claims made under the Program. This experience provides direct evidence of what it used to cost without INDEM.

Since the launch of INDEM, rising insurance costs have made the Program increasingly important to the participation of institutions in major exhibitions. Eight of the 11 INDEM users who participated in the survey believe that INDEM is even more important today than during the past five years. This suggests that the cost of insurance would be even more than under the IPTE.

In addition to insurance cost savings, beneficiary institutions indicated that the direct involvement of the federal government in the indemnification process is a key enabler for Canadian organizing institutions in dealing with lenders – especially European lenders who are often also government-backed agencies.

In light of rising insurance costs and the value of having the federal government's direct involvement with the Program when negotiating with foreign institutions, it would appear that INDEM continues to be relevant and important to users.

3.1.2 Alignment with Government and Departmental Policy Priorities

An assessment of government policies, Canada's Museum Policy objectives, PCH strategic objectives, and various complementary Programs in PCH indicates that INDEM is relevant to the overall goals and objectives of PCH and to the broader context of government objectives in the cultural field.

Indemnification exists within a broad context of Government policies and support mechanisms designed to foster the preservation, care of, and access to Canada's cultural heritage. INDEM aligns with the broader context of government objectives in the cultural field.

INDEM is consistent with the Government's 1990 Museum Policy objectives, which are to foster access by present and future generations of Canadians to their human, natural, artistic and scientific heritage and to enhance their awareness, understanding and enjoyment of the richness of that heritage. INDEM is also consistent with current priorities identified by the museum community, including increased attendance in Canadian heritage institutions, a priority that is expected to be reflected in a new museum policy.

INDEM also aligns with the two strategic objectives underpinning PCH cultural policy as reported in the 2005-2006 *Report on Plans and Priorities* and Departmental Performance Reports. The two strategic objectives of PCH cultural policy are:

- 1) Canadians express and share their diverse cultural experiences with each other and the world; and
- 2) Canadians live in an inclusive society built on inter-cultural understanding and citizen participation.

The Canadian Conservation Institute conducts research, capacity building and preservation activities in the heritage community. A significant portion of the INDEM facilities review process is carried out by CCI.

Indemnification is highly complementary to other heritage support initiatives of PCH. As noted above, the Canadian Conservation Institute works with INDEM. Other examples include the designation component of the Movable Cultural Property Program (MCP), the Cultural Spaces Canada Program (CSC), and the Canada Museums Assistance Program (MAP).

3.2 Success and Impacts

Success was assessed against each of the two objectives set out for the initial five years of INDEM (see Section 1.1).

3.2.1 Increasing Access for Canadians to Canada's and the World's Heritage

INDEM has played a key role in increasing access for Canadians to Canada's and the world's heritage as evidenced by the number of exhibits covered by INDEM and their regional distribution. In addition, the available evidence suggests that the incremental impact of INDEM exhibitions on attendance figures is substantial.

In the initial five-year period of INDEM, 46 travelling exhibitions were approved for indemnification. These approved exhibitions involved a total of 13 organizing institutions, 29 hosting institutions and 89 venues.

INDEM enabled world prestigious artifacts from China, Tibet, Peru, France, U.S.A., U.K., Syria, Israel, Russia, Germany, Italy, Mexico, Egypt, Hungary, Belgium, Bulgaria, Spain and Switzerland, and art collections that featured Picasso, Renoir, Monet, and the Renaissance period, to be shown in Canada. The number of exhibitions under INDEM (46 in total over the five-year period, or an average of approximately 10 per year) is comparable to the level of activity in the benchmark countries of Australia, Britain, New Zealand and the United States. While data on incidence of use were not available for Canada or the benchmark countries, it would appear that indemnification programs cover a relatively small portion of the total number of travelling exhibitions, but represent a significant portion of the total value of the travelling exhibitions.⁶

INDEM has facilitated access by Canadians to major art collections outside the major metropolitan areas and the National Capital Region. Dissemination of art and major art collections to smaller centres is also a priority in the benchmark indemnification Programs.

⁶ Source: Interviews with indemnification Program administrators, associations and major organizing institutions.

During the initial five-year period of INDEM, over 5.7 million visitors viewed exhibitions covered under the Program, as shown in Table 1. Ninety percent of the host institutions participating in the user questionnaire said they had experienced an increase in visitors as a result of their INDEM exhibit (s). In general, these institutions reported a 17 % increase in visitors over the five years (i.e., from 1.5 million visitors in 2000/2001 to 1.8 million in 2004/2005), which can be attributed at least in part to public interest in the travelling exhibitions covered by INDEM ⁷. However, in the absence of research which targets the motivational aspects of the visitor's decision to visit, it is difficult for institutions to identify the incremental impact of the indemnified exhibition on museum attendance.

Table 1: Number of venues approved for indemnification and number of visitors by province (January 2000 to April 2005)

Province	Total venues approved for indemnification	Number of visitors *
Ontario	32	2,562,048
Quebec	19	2,017,802
Alberta	12	559,699
British Columbia	12	415,828
Manitoba	5	96,901
Nova Scotia	4	63,288
Saskatchewan	3	44,879
New Brunswick	1	N/A
Newfoundland and Labrador	1	N/A
Total	89	5,760,445

* Note: the number of visitors is understated, as data for some exhibitions were not complete at time of report

Source: Program data.

INDEM has achieved national coverage, with the travelling exhibitions being showcased in all regions (but not all provinces and territories) in Canada. This is shown by the following summary of the locations of venues approved for indemnification between 2000 and 2005:

- Western Region: 27 %;
- Prairies and the North: 9 %;
- Ontario: 36 %;
- Quebec: 21 %; and
- Atlantic Provinces: 7 %.

In part, this distribution reflects the policy of the national institutions such as the National Gallery of Canada. The national institutions are major users of INDEM, and this is stimulated by their policy to ensure that their collections are available to citizens in all regions of the country.

⁷ Actually the attendance figures are based on INDEM data as of July 2005. Updates since that time indicate that the final figures are likely to be even higher because some exhibitions are still open to visitors.

⁸ Source: NGL analysis of PCH INDEM Program statistics over the five-year period of the Program.

As noted earlier, a total of 13 institutions organized travelling exhibitions under INDEM during the study period⁸. Among the organizing institutions, a relatively small number of top provincial and national institutions were responsible for a larger part of the activity. Le Musée des beaux-arts de Montréal, the Art Gallery of Ontario, and the National Gallery of Canada were responsible for organizing 53% of the total number and 79% of the total value of travelling exhibitions covered under INDEM. The other ten institutions were responsible for 47% of the total number of exhibitions, representing 21% of the total value of artwork indemnified.

Similarly, the benchmarking analysis indicated that the indemnification programs in the four benchmark countries tended to involve relatively few organizing institutions - although certain differences in Program parameters between Canada and the benchmark countries should be noted in this area. In Australia, for example, two institutions have been designated as managing institutions and are in effect 'gateways' for the other institutions.

Incrementality is a key issue in evaluating the impact of INDEM on access by Canadians to domestic and foreign cultural heritage. 'Incrementality' refers to the changes that occurred as a result of INDEM, but would not have occurred in the absence of the Program. In the case of several of the major international exhibitions (e.g., Renoir, Matisse, Jade, and Eternal Egypt), the number of visitors reported during the exhibition period was several times higher than for comparable periods. This suggests that most of the increased attendance can be attributed to INDEM. Approximately half of the survey respondents indicated that they would not have been able to organize the exhibitions without the Program. In addition, there was a strong consensus on the part of institutions and associations that INDEM was essential to ensuring accessibility and competitiveness. The issue of competitive advantage is discussed below.

3.2.2 Providing Canadian Institutions with a Competitive Advantage

The evidence indicates that INDEM has provided Canadian institutions with a competitive advantage for the loan of prestigious international exhibitions by providing a critical cost advantage.

Information regarding users' perceptions provides one indication of the value of INDEM in the area of competitive advantage. Twenty percent of the participating institutions in the survey indicated that INDEM had increased the willingness of foreign lenders to lend their heritage objects. In addition, as previously noted, approximately half of the survey respondents indicated that they could not have organized the exhibitions without the Program.

The cost of insurance is a major expenditure item for a travelling exhibition. The evaluation estimated that INDEM saved approximately \$20 million in insurance costs over the initial five years of the Program, which would have contributed to the competitive advantage of the Canadian organizing institutions. This estimate of insurance cost savings was derived from an estimate of the premiums that participating institutions would have paid for private insurance corresponding to the risk category of artworks in the travelling exhibitions. Specifically, the estimate of insurance cost saving was developed using an estimated insurance rate of \$2.859 per \$1000 value of artwork⁹. The estimated rate was consistent with information provided to INDEM Programming by certain institutions. Research conducted by an independent professional actuary for the evaluation study confirmed that the estimated insurance premium rate of \$2.85 per \$1,000 value of artwork was a reasonable estimate for this risk category of commercial insurance in 2005. Given that the total value of indemnification was \$7 billion over the last five years, the total insurance cost savings generated by INDEM was about \$20 million.

⁹ PCH INDEM Programming based on information submitted by the institutions.

It should be noted that this estimate of insurance cost savings should be viewed as an approximation because it is based on a single insurance rate (i.e., \$2.85 per \$1,000 value of artwork). Commercial insurance rates for travelling exhibitions have varied considerably over the five-year evaluation period, however, particularly after the events of 9/11. In addition, insurance rates paid by individual institutions in any period can vary considerably. Further details can be found in Appendix B¹⁰.

3.2.3 Other Long-Term Impacts

The evidence indicates that INDEM has contributed to improving the corporate knowledge and facilities of participating institutions, and has increased their membership, community activities and economic impact.

Improved Corporate Knowledge and Facilities

In a number of cases, the Canadian Conservation Institute has worked with the hosting institutions to advise on facilities upgrades over a number of years. In doing so, the Institute has been able to qualify hosting institutions in the interim for specific types of travelling exhibitions.¹¹ Institutions successful in this process typically had the following characteristics: a common vision of their institution's potential, strong management, Board support in fund-raising over multiple campaigns, and broad-based community support.¹²

Many host institutions interviewed indicated that INDEM was the key factor in triggering significant investment to upgrade facilities (e.g., security, fire control and preventative conservation) to enable the hosting of major travelling exhibitions. Organizing and hosting institutions also indicated they gained significant knowledge and experience in organizing for major travelling exhibitions – and that this experience was a key element in staff training and has helped to bring the institution up to international standards.

All organizing (13) and hosting (29) institutions participating in the Program over the five-year evaluation period demonstrated their enhanced capacity to house and manage major travelling exhibitions by meeting the assessment criteria of the Canadian Conservation Institute.¹³

Increasing Membership, Community and Economic Impact

Host institutions indicated that INDEM had a number of secondary benefits that improved the overall sustainability and viability of their institution. For example, 60% said their membership increased, 70% said their revenue increased, and 40% reported an increase in gifts as a result of the travelling exhibitions covered by INDEM.

The survey results indicated that INDEM increased collaboration between institutions. Most (90%) of the respondents indicated an increase in collaboration with other institutions and all indicated that INDEM exhibitions improved their image in the museum community.

The survey results suggested that museums gained a more positive image in the community as a result of INDEM. In some cases, partnerships were formed with local communities (e.g., Italian, Syrian and Tibetan) and created awareness of ancient cultures and existing religions and cultures.

¹⁰ Appendix C provides further details on trends in commercial insurance.

¹¹ Source: Interview with CCI management.

¹² Source: Interviews with institutions. The Art Gallery of Greater Victoria and the Winnipeg Art Gallery are cited within the museum community as two such institutions, which have successfully upgraded their facilities with the cooperation and assistance of CCI.

¹³ In most cases the organizing institutions also were hosting institutions.

The survey results also indicated that INDEM has had a positive impact on visitors' appreciation of Canadian and world heritage.

The travelling exhibitions were also identified as having had a positive impact on the local economy. A number of the institutions surveyed or interviewed indicated that the travelling exhibitions were major tourism events in their cities and attracted significant numbers of out-of-town visitors.¹⁴

3.3 Effectiveness and Alternatives

The consideration of effectiveness and alternatives included an assessment of the efficiency of Program delivery, cost-effectiveness, risk management, performance measurement, and alternatives for Program delivery and design.

3.3.1 Efficiency of Program Delivery

Although some users (especially those dealing with multiple lenders) considered INDEM's administration process to be burdensome, costly or slow, the general view was that the Program is delivered in a relatively efficient manner given the complexity of the tasks and high level of skills required.

During the initial five years of the Program, an average of nine travelling exhibitions were indemnified per year (i.e., a total of 46). The activity levels during this period were comparable to the activity levels of the indemnification Programs in the four-benchmark countries, after adjusting for population and other factors.

Departmental data indicate that a total of 62 applications were submitted during the evaluation period, and 49 of these were approved for indemnification coverage. The other 14 were either withdrawn or rejected. Comparable data for the indemnification programs in the benchmark countries were not available.

The duties of INDEM staff are complex. Also, the decisions have a significant impact on owners of the cultural objects loaned to specific exhibitions, the organizing institutions, and the host institutions. For example, the assessment of indemnification requests and the related facilities assessments require a high degree of professional competence. Staff also needs in-depth knowledge in a number of areas including museum operations, museum conservation practices, fair market value assessments, and logistics of travelling exhibitions. In addition, each decision is based on unique circumstances and professional judgment. Although the factors are similar, very little information can be carried over as relevant from one application to the next.

In spite of the complexity of the decision process, the survey results indicated that most institutions were "completely" or "mostly" satisfied with the administration of the Program.

Five of 11 institutional users who participated in the survey were "completely satisfied" with INDEM Program delivery, four were "mostly satisfied", and one was "mostly dissatisfied".

Most respondents to the survey (nine out of 11) were satisfied with the clarity of the Program criteria, the application process, the facilities review, and the Program staff.

All of the respondents (11) were satisfied with the information they had about the Program. At the same time, however, some users considered the administration process to be burdensome,

¹⁴ Source: Survey of institutions and interviews with institutions.

costly, or slow. This criticism arose especially in cases involving multiple lenders, and also from institutions applying for the first time to the Program. The evaluation study found that INDEM had been able to administer all applications for INDEM coverage. Due to the absence of some administrative data, however, the efficiency of Program delivery could not be fully evaluated. For example, data were not available on the application process, including processing time (i.e., from the receipt of an application through to approval or rejection, and the communication of the final decision to the applicant). The circumstances for applications may vary considerably. For example, an application from an institution whose facilities have previously been approved may be able to be processed more rapidly than an application from an institution whose facilities must be evaluated.

3.3.2 Cost-Effectiveness

With a record of no claims, low administrative costs and substantial cost savings for users institutions, INDEM has been very cost-effective.

No claims were submitted in the first five years of INDEM. Where damages occurred, they were less than the amount of the deductible – so individual institutions absorbed the costs. Typically, the damages occurred in preparation for or in transit, and the cost was minor. The absence of claims under the Program is an indication that the INDEM approach of co-managing risk with the institutions has been very successful.

The claims record of INDEM is consistent with the experience of the indemnification Programs in the benchmark countries. Therefore, INDEM compares well internationally.

Since there have been no claims submitted under the Program, the only costs to the Government of Canada have been staff costs. These costs are estimated at \$200,000 per year in salaries and benefits for three Full Time Equivalents (FTEs). Comparing the estimated staff costs to the estimated savings in insurance costs indicates that the museums and art galleries saved roughly \$20 for each \$1 spent by the Government of Canada (i.e., \$200,000 / year X 5 years = \$1 million spent by the government versus the estimated insurance cost savings of \$20 million).

3.3.3 Risk Management

The evidence indicates that the financial risk to the Canadian taxpayer has been well managed. At the same time, however, the overall available liability under the Program appears to require an upward adjustment as a result of the increasing value of travelling exhibitions. Also, the \$450 million threshold for the maximum insurable value for individual exhibitions is proving to be a potential barrier for some high-value exhibitions.

The financial risk management strategy underpinning the Program is based on the balance between assumption of financial risk and prudent management of that risk. On one side, by assuming a major share of the financial risk, the government reduces insurance costs for travelling exhibitions, enabling institutions to present domestic and international exhibitions which otherwise might not have been possible. On the other side, exposure to risk by the government is prudently managed in three ways:

- i. rigorous approval process for hosting institution facilities;
- ii. program restrictions (such as the sliding-scale deductible imposed on indemnity coverage and exclusions) which make participating institutions partners with government in managing risk; and,

- iii. rigorous review and analysis of all aspects of the travelling exhibition for which indemnification is requested.

The financial risk to the Canadian taxpayer has been managed through the design of a risk management strategy, which includes a ceiling on total available liability, a maximum for individual exhibition liability, a maximum per conveyance during transit, and exclusions to the insurance coverage (e.g., exclusions for acts of war, strikes and riots). The risk management strategy has been effective in minimizing potential financial draws as certain categories of risks are mitigated or the risk is shared or 'co-managed' with the organizing institutions. As a result, there has never been a claim submitted under the Program. The indemnification Programs in the benchmark countries have only experienced very few and very small claims. However, one foreign administrator cautioned that one major loss could change perceptions.

Available liability: The Program statistics indicate that between April 2000 and May 2005, the overall cumulative liability reached as high as \$1.44 billion, which is just under the maximum total liability ceiling of \$1.5 billion for INDEM. At those times, the available financial capacity was just \$60 million, and the liability cap was in danger of jeopardizing new indemnification applications. Furthermore, demand for available liability has been increasing.¹⁵ This trend would appear to be driven by a number of external factors including higher insurance costs and increased values in the global art market. While the Program has never had to refuse an individual exhibition because of an insufficient level of available liability, the consensus is that this situation will arise sooner rather than later.

Exclusions: In order to mitigate the risk associated with providing indemnification, certain limits to coverage were set out in the Program. Examples include acts of war, strikes and riots. These limits are termed 'exclusions'. After the events of 9/11, the perception of risk has increased significantly (although actual heritage claims have been virtually nil) and lenders have asked organizing institutions for all-inclusive coverage. Many of the surveyed and interviewed Canadian heritage institutions suggested that these exclusions should be removed to reassure international lenders.¹⁶ In spring 2002, the federal government's *Anti-terrorism Act* resulted in the removal of acts of terrorism from specified exclusions under INDEM and the Minister has authorized the removal of acts of war on a case-by-case basis for specific travelling exhibitions. The evaluation found that available data are contradictory and insufficient to support a definitive conclusion on the incremental impact of exclusions on the viability of exhibitions in Canada. Accordingly, further study would be required to determine the quantitative impact of changing the exclusions and the potential impact on risk management.

As noted in Section 1.1, the maximum fair market value is \$450 million for individual exhibitions. This threshold is proving to be a potential barrier for some high value exhibitions. Since the inception of the Program, five exhibitions have exceeded the maximum value, and two of these maximum-value exhibitions occurred in late 2004. A number of exhibitions greatly exceeded the Program's limit of \$450 million, and the hosting institutions needed to use alternative insurance (private) to cover the value exceeding the Program's limit. Most indemnification Programs in the benchmark countries have increased the overall liability cap on a periodic basis to reflect new external factors and to ensure ongoing participation by leading heritage institutions.

3.3.4 Performance Measurement

No performance targets or corresponding indicators had been developed at the time of the evaluation to monitor the achievement of the Program's objectives.

¹⁵ Source: NGL analysis of INDEM Program data. At the other extreme, overall utilization reached as low as \$60 million.

¹⁶ See the Interview Report and Survey Report, which were prepared as technical reports for the summative evaluation.

Indemnification programs in the benchmark countries report on results to their funders/administrators. Their results are reported on the basis of key parameters such as attendance, visitors, savings, etc. However, the programs generally do not set hard objectives or targets, because of:

- uncertainty due to external factors such as fluctuations in global art and insurance markets, incidences of terrorism, etc.; and,
- a perception that the programs are well managed and successful in light of the absence of major claims.¹⁷

Some institutions and associations expressed the view that INDEM has effectively reached almost all current institutions with the technical and financial resources to qualify. In the absence of significant new funding for capital facilities, they believed there is little scope to greatly expand INDEM beyond the current base of hosting institutions. While this evaluation uncovered no data to substantiate this view, lack of adequate facilities would obviously inhibit the expansion of INDEM to other institutions.

While INDEM Program administrators cannot control major external factors affecting the success of the Program, PCH should consider setting performance targets for INDEM and developing indicators to measure the achievement of those targets (e.g., extent of national coverage; capacity building; scope of exhibitions, cost savings, outreach, etc.).

3.3.5 Alternatives

The alternatives examined concern Program delivery, Program design, and the appropriate government agency to oversee INDEM.

Program Delivery

Current and potential users of the Program and their associations suggested that the delivery of the Program could be improved by:

- targeting potential institutions with better information and assistance to guide them through the initial application process;
- scheduling application reviews more often than the current two application dates; and
- making it possible for applicants to use the Internet to apply online, obtain quicker notification, and exchange information during the application process.¹⁸

In weighing suggestions to improve Program delivery, it is important to keep in mind the context of program delivery and that INDEM Program administrators have undertaken steps to improve delivery.

Based on information provided by both the institutions and INDEM, it appears that a significant portion of the delays is inherent to the complexity of the requests for coverage. Typically, major exhibitions involve multiple institutions and lenders located in jurisdictions with various legal frameworks, indemnification program parameters, lender requirements, logistical and insurance

¹⁷ One administrator indicated in the eventuality of a major claim, that budgeting, reporting and setting of Program parameters would all be more closely scrutinized. Australia's Program - which must pay commercial insurance rates, is heavily scrutinized. Source: Interviews with foreign administrators.

¹⁸ Source: Interviews with Canadian heritage institutions and associations.

issues, etc. In addition, various types of objects require assessment by different experts. Also, at start-up of the Program, all facilities had to be reviewed and approved

In some cases, it appears that potential hosting institutions lacked information and/or were not knowledgeable about the requisite approval process, timeframes and respective roles of the Canadian Conservation Institute and INDEM. Some issues may be attributable to the fact that this was a new program.

INDEM administrators have already undertaken steps to reduce the administrative burden, improve response times and facilitate communications with institutions. For example, a web-based application process and an improved communications strategy have been initiated.

Program Design

A number of institutions made suggestions to improve the Program efficiency and/or convenience from the viewpoint of their institutions. As in the case of Program delivery, the suggestions in these areas need to be placed in the context of actions taken or reasons for not readily adopting certain suggestions.

One suggestion for improving Program design was to remove acts of war from the exclusions, to make Canadian institutions more competitive with foreign institutions. INDEM administrators have in fact removed this exclusion on a case-by-case basis in the past according to circumstances. Blanket removal would require the approval of the Department of Finance and also Parliamentary review of the *Canada Travelling Exhibition Indemnification Act*.

A second suggestion was to increase both the overall liability cap and maximum liability for eligible exhibitions in order to better accommodate current users. INDEM has initiated a review of the liability cap and maximum liability for eligible exhibitions.

A third suggestion was to replace both the multiple contract system with lenders and the signatures procedures with the issuing of certificates, to follow the current practice when private insurers provide coverage to museums. INDEM Program administrators point out that they must balance the desire for administrative efficiency with the due diligence obligations for the management of financial risk.

A fourth suggestion was to add a grant component to INDEM and simplify the application/qualification process to reduce administrative burden on smaller hosting institutions and/or for exhibitions in the \$500,000 to \$3 million range. The suggested changes to favour smaller hosting institutions would significantly modify the nature of INDEM. It might be more appropriate to consider the creation of a separate Program to cover their needs, or to use other existing Programs that are already focused on small institutions, such as the Museums Assistance Program.

3.3.6 Administrative Home for INDEM

The consideration of the administrative home for INDEM indicated that PCH should remain the sponsor of the Program in light of synergies and shared knowledge with other PCH Programs. This view is supported by a strong consensus of industry players. Also, no other Program currently provides a realistic alternative to INDEM.

There is a strong consensus among key heritage sector stakeholders that PCH is the right home for INDEM in light of synergies with other PCH Programs and other heritage stakeholders.

There are significant synergies between INDEM and related PCH Programs or agencies such as the Canadian Conservation Institute, the Movable Cultural Property Program, and the Museums Assistance Program.

The INDEM staff, the Canadian Conservation Institute, and staff in other PCH Programs share their specialized knowledge of the museum world.

There seems to be no other Program that provides a realistic alternative to INDEM.

The Canadian Museums Association group insurance Program is designed to serve the exhibitions below the INDEM threshold of \$500,000 and institutions whose facilities would not qualify through the Canadian Conservation Institute review process.

There are no substantial overlaps and duplications with Programs of other federal or provincial agencies. National and provincial institutions are not generally covered under federal or provincial general insurance.

There was a strong agreement by industry players that no other agency or association could administer the Program as effectively as PCH. This consensus of key stakeholders is invaluable in itself in obtaining Program participation and co-operation in program development and improvements.

4.0 Summary of Key Conclusions

- The indemnification Program continues to be relevant to the overall goals and objectives of PCH and the Government of Canada in the cultural field.
- Overall, INDEM has been successful in achieving the Program's objectives set out for the initial start-up period (April 2000 - May 2005). The evidence indicates that INDEM has increased access for Canadians to Canada's and the world's heritage through the exchange of artefacts and exhibitions, and that INDEM has provided Canadian heritage institutions with a competitive advantage when competing for the loan of prestigious international exhibitions.
- INDEM has led to a number of beneficial outcomes, which improve the long-term capacity of the heritage institutions. Examples include increasing the capacity of Canadian institutions to host travelling exhibitions, facilitating the hosting of major international exhibitions, and other positive impacts such as improving collaboration with other institutions and building museum memberships and donations.
- The Program has been very cost-effective. There have been no claims submitted under INDEM, the only costs to the government to date being staff costs, estimated at \$200,000 per year in salaries and benefits for three FTEs, representing approximately 5% of the insurance cost savings generated by the Program.
- The financial risk to the Canadian taxpayer has been well managed.
- Although INDEM Program administrators have not set performance targets or developed indicators, some institutions and associations have expressed the view that INDEM has effectively reached almost all of the current institutions with the technical and financial resources to qualify.
- INDEM Program administrators are already undertaking steps to reduce administrative burden and to improve response times for applications and approvals.
- Although institutions responding to the survey were generally satisfied with the design of INDEM, some suggestions for change were made such as removing certain exclusions (e.g., acts of war), increasing the available liability, and adding a grant component to the Program. These suggested changes could impact the financial risk of the Program, however, and would need to be examined accordingly.
- PCH is the right home for INDEM in light of synergies, shared knowledge with other PCH programs, and according to the consensus of industry players. Also, no other program currently provides a realistic alternative to INDEM.

5.0 Recommendations and Management Response

- 1) Review key Program design parameters to ensure the Program is effective in current market conditions.
 - Consensus among experts and beneficiaries is that the current Program maximum values for total liability and for individual exhibitions of \$1.5 billion and \$450 million respectively, would have to be reviewed periodically to reflect the market values in order not to limit accessibility to international exhibitions. To that end parameters that should be reviewed include minimum threshold, exclusions, total Program liability cap and the individual exhibition liability maximum.

Management Response: Recommendation accepted.

The Program will review the design parameters to ensure that maximum Program effectiveness balances with appropriate management of risk to the Crown. This review will take into account Parliament's review of the legislation (required in 2006). The agreement of the Department of Finance will be necessary if ceilings are to be raised. Legislative amendments would be required, either to the *Canada Travelling Exhibitions Indemnification Program Act* or through an appropriation Act (as provided for in article 3(3) of the legislation). In the first quarter of 2006-07, Parliament will be advised of the need to review administration of the Act, in accordance with Article 5.1.

Implementation Schedule: The target for any changes affecting program values would see implementation in 2007-08.

Specified perils excluded from normal indemnification coverage are included in the Program guidelines. These exclusions can be removed at the Minister's discretion on a case-by-case basis. The Program will analyse the implications of generic alterations to the exclusions from the perspective of risk management.

Implementation Schedule: 2007-08 fiscal year

- 2) Develop performance targets and indicators for the next Program cycle in conformity with Program objectives including cost savings under INDEM for benefiting institutions and long-term benefits from INDEM accruing to hosting institutions.
 - In order to undertake this process, it is suggested that administrators develop a reporting tool (e.g., questionnaire) based on the target indicators and require beneficiary institutions to report on performance (such as incremental attendance, cost savings, etc.) for each exhibition approved as well as the longer-term benefits of the Program. In addition, commercial insurance practices and rate data (differentiated by size of institution, type of exhibition, etc.) should be obtained by Program administrators from commercial insurance brokers on an annual basis.

Management Response : Recommendation accepted.

- An integrated RMAF/RBAF which outlines the performance targets and indicators to be used in meeting Program objectives and reporting requirements has been drafted.
- A Post-Indemnification Questionnaire has been developed to assist institutions in measuring and reporting on the impact of indemnified travelling exhibitions.
- Consultation with commercial insurance program administrators will be undertaken to develop a model to obtain data on commercial insurance practices and rates.

Implementation Schedule: The integrated RMAF/RBAF will be finalized by the end of February 2006. Data on commercial insurance practices and rates will be collected annually, program resources permitting.

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Websites of Indemnification Programs in some benchmark countries:

Australia: [www.dcita.gov.au/arts/collections/art_indemnity_australia/art_indemnity_australia -_history](http://www.dcita.gov.au/arts/collections/art_indemnity_australia/art_indemnity_australia_-_history)

New Zealand: www.mch.govt.nz/publications/indemnity/index.html

UK: www.resource.gov.uk

US: www.arts.endow.gov

Appendix A: Trends in Commercial Insurance Industry

Baron Insurance Services provided the following information in support of the analysis of the success of INDEM provided in the main text. Additional information on commercial insurance trends and their impact on premiums paid were provided by heritage institutions, associations and foreign indemnification Program administrators.

Trends in Commercial Insurance Premiums

Both commercial liability and property markets saw significant rate increases from 2000 to 2003 although there has been some easing of the situation today. For museums and art galleries, which is a subcategory within the commercial casualty market, the industry statistics indicate that rates increased by approximately 24% per year in 2001, 2002 and 2003 with an easing of 11% in 2004. This still leaves rates well above the 2000 level. These rate increases are higher than for the commercial property market as a whole. Rates for commercial property increased by approximately 13% a year during the same time frame and fell back 15% last year. Further rate reductions are expected in 2005. The general consensus is the commercial property rates will decrease by a further 10% to 15% and liability rates by 5% to 10%.

Loss Experience, Availability and Management of Risk

Loss experience for the past five years for museums and art galleries have been excellent with the loss ratios (losses divided by premiums) ranging from 10% to 60%. Institutions like museums and galleries were hit not only by rate increases but also, in some cases, by availability of coverage problems. The values involved for these types of risks can be substantial and there can be a perception that the contract is not in balance, i.e., while the rate may be sufficient to cover the mean or the expected losses, the rate is not sufficient to cover the additional risks due to the high values involved. In times when insurance is harder to obtain, risks where there are a low number of claims but the individual claims can be quite high have the greatest difficulty getting insurance and tend to see the highest rate increases.

There was a significant shift in the market, particularly the reinsurance market, following the September 11th, 2001 terrorists' attacks. Reinsurers, such as Lloyds, took the brunt of the substantial losses from this event and, subsequently, refused to underwrite terrorism risks. Primary companies were left with the option of taking the terrorism risk themselves or excluding this coverage from their policies. Most chose to exclude terrorism. The reinsurance market is critical to the commercial property market due to the high values involved. Almost all commercial insurers make significant use of reinsurance and the costs of reinsurance will be reflected in the price that they charge the end consumer. When terrorism or acts of war coverage is sold

separately, premiums for the coverage are much higher than they would be under a comprehensive policy. This is due to the low number of claims but high average loss nature of the risk. Much like earthquake exposure, insurance companies must limit their exposure to these types of events, as all of the claims tend to happen at the same point in time, potentially bankrupting the company.

There can be significant differences in premiums charged by private insurers to a given institution depending on the risk that the insurance underwriters determine that a given institution represents. The rate charged for each \$1,000 of insurance coverage purchased is dependent on many factors including the construction type of the building in question, the location of the building and its proximity to fire protection (such as a fire hall), the type and quality of security system, the effectiveness of the security management, the deductible selected, the presence or absence of sprinklers and the institution's claims history. Frame buildings pay premiums that are, on average, about 3.5 times as high as buildings constructed of fire-resistive materials. Similarly, buildings that are in remote areas with little access to fire fighting are charged rates that are 3.4 times higher than those in urban areas close to fire fighting facilities.

Heritage institutions, associations and foreign indemnification Program administrators provided additional information on sources of uncertainty in the insurance market which impact on determination of insurance premiums and thus cost savings under INDEM:

There is significant variation in market assessments of individual travelling exhibitions.

There are significant variations in insurance rates paid by individual institutions. Over and above differences based on actuarial calculations (quality of installation, management and claim history), it would appear that institutions, which actively pursued lower rates through competitive tendering and / or intensive negotiations with their broker, were most successful in obtaining lower rates.

There are significant year-to-year fluctuations in insurance premiums paid by institutions based on losses in other categories of commercial insurance rather than specific claim by museums in Canada or elsewhere.

Appendix B: Profile of Other National Indemnification Programs

Information on other national indemnification programs was captured from interviews with program administrators in four countries: US, UK, Australia and New Zealand. These countries, selected in consultation with the INDEM Program were considered to be most relevant to the Canadian case. Most indemnification Programs in those countries were launched prior to the Canadian Program. Therefore, their administrators have considerably more experience (e.g., the program has operated for 30 years in the US and for 26 years in Australia). The following provides an overview of key points and differences/similarities with the Canadian Program, followed by comparative tables.

Overview of Key Issues in the Benchmark Countries

In Canada and the benchmark countries, the museum community share the same key external drivers:

Significant and sustained increases in the underlying market value of fine arts collections and in insurance costs in the post 9/11 world.

Private insurance premiums constitute a major cost component in the organization of major exhibitions.

In the absence of a public program, the ability of national institutions to attract these exhibitions would be significantly reduced and accessibility to world cultural heritage would be diminished.

The indemnification programs in the four benchmark countries share a number of common characteristics, which appear to have become the de facto 'norm' for such programs:

Primary objective is to facilitate access to major travelling exhibitions of world heritage outside the major metropolitan areas and / or capital cities.

Governance structures: indemnification programs are run by semi-autonomous agencies which report back to a Department of Finance and / or Treasury on risk and performance, and back through a line department to the legislature on the relevance and importance of the Program to the heritage community. Oversight by central agencies has been relatively light – both in the annual budgeting process and in the instances of requests for increases in Program liability (e.g., U.S. and U.K.) as programs are seen to be successful in enabling major travelling exhibitions and the Programs have not had significant claims. However, one foreign administrator cautioned that a major loss and corresponding claim were inevitable, which would result in increased scrutinizing of the programs. Australia, on the other hand has seen its indemnification Program heavily scrutinized, due in part, to the indirect involvement of the private insurance industry in providing coverage.

Most indemnification programs adjust program parameters (e.g., overall liability cap) on a periodic basis – subject approval of the higher-level bodies, to reflect changes in external factors.

Use of outside experts/conservators: as is the case in Canada, most programs employ outside experts to assess market value and evaluate risk in each category.

Activity Profile/Outcomes

Foreign program administrators agreed that the programs were considered to be a success by their local heritage institutions as the primary objective of facilitating access to major exhibitions has been attained and this would not have happened in the absence of such a program.

In the four countries the number of exhibitions facilitated by these programs was relatively modest.

While the foreign administrators did not have data on incidence of use (as measured against the total number of travelling exhibitions, number of institutions which participate in travelling exhibitions), their overall impression was that their programs covered a relatively small portion of the total but a significant portion of total value.

Organizing activity is typically dominated by a few large, well funded institutions which have amassed important collections of fine arts, have financial resources and large professional staff knowledgeable in program administration, mounting and marketing of major travelling exhibitions. Exhibitions tend to be based on fine art objects of European origin.

Hosting activity is dominated by a relatively few larger national / regional institutions located in urban centres. The programs were not designed to meet the needs of the small and medium-sized hosting institutions as relatively few have the quality of facilities required to adequately host the major exhibitions.

However, this was not seen as a program failure and it was agreed that the needs of the smaller institutions would have to be addressed in another program. Most jurisdictions have some form of 'mentorship' wherein the larger institution sponsors the participation of a limited number of smaller institutions.

Cost-effectiveness Outcomes

The four indemnification programs are considered to be cost effective due to the fact that there have been only a few claims and these were relatively minor.

This appears to be due to effective risk management: close cooperation with heritage institutions to build professional competence, upgrade facilities and co-management of risk through coverage limits, thresholds and exclusions. As noted above, perception of success could change in the eventuality of a single major claim.

Individual National Indemnification Programs

United States

The United States the Indemnification Program is particularly important to the efficient functioning of Canada's INDEM Program, as many of the international exhibitions which come to Canadian institutions are on a North American circuit.

The incidence of use of the US Program is very low – just 40 to 50 exhibitions per year. The Program is based on parameters that restrict accessibility and usage

Only international exhibitions are covered,

Only a very small portion of the approximately 20,000 museums in the US qualify,

Only some categories of objects are eligible.

As in the Canadian Program, most (70%) of the exhibitions are European in origin and fine arts in nature. There is a concentration in usage of the Program by a few, large museums located in major metropolitan areas. However, there is a developmental Program for B Category institutions which can come in with the A category.

The US Program has similar features of a cumulative liability cap – currently set at \$8 billion and individual exhibition maximum liability of US \$600 million and a sliding scale deductible. The total liability cap has been increased significantly over the last decade due to increased value of the collections in the art market.

A key difference with the Canadian Program is that there is no national equivalent to CCI in the US, thus each institution is responsible for ongoing upgrading to conform to the standards set for HVAC, security, and fire protection by the various professional associations. While the US indemnification Program does not audit institutions, individual board members and upper managers would be potentially liable in the event of a claim. Only the very large, rich institutions can afford the liability insurance.

United Kingdom

In April 2005, the national and international indemnification programs were consolidated under the responsibility of the Secretary of State. The operating board is the Council for Museums, Archives and Libraries.

The United Kingdom (UK) Program differs in that there is no maximum value set for individual exhibitions but it must respect the overall maximum outstanding Program liability at any one time of £1.1 billion for non national and £3 billion for national exhibitions. It is assumed that the individual exhibitions would not exceed the £400-£500 million range in value. Instead of a sliding scale liability there is a minimum liability: £300 for each object value up to £4,000; £300 plus 1 % if object is valued at £4,000 and above.

Increases in total liability require a business case justification to the UK Treasury, the last being in 2000.

There has been no comprehensive estimate of cost savings under the Program. While savings for international exhibitions are in the £5-6 million range per year, the Program uses a notional (rather than actuarial calculation) estimate based on total value covered over the year times 0.05 %.

The UK museums receive a multiple-year certification of standards set by national bodies such as the National Security Advisor. Contrary to Canada, the UK uses defined standards rather than guidelines, which are subject to interpretation. However, as in Canada, the larger organizing institutions set their own standards, which the hosting institutions must also meet in addition to the national standards.

Australia

The Australian indemnification Program, with a 26-year track record, has resulted in a total value of \$10 billion in exhibitions indemnified and over 94 exhibitions organized.

It has similar objectives to Canada's in enabling the sharing by Australian citizens of cultural treasures. As well, the Program seeks to enable bilateral cultural relations. The measurement parameters are similar as well: attendance, number and type of exhibitions, and geographic distribution – sharing within Australia but no quotas by region. Insurance cost savings have not been calculated on an actuarial basis.

The Australian Program is run by Arts Indemnity Australia (AIA), within the Department of Communications and Technology. While the financial program parameters are similar to Canada: e.g., a \$1.5 billion cumulative program liability, a \$20 million minimum value for an exhibition is considerably higher. The program director explained that the value was set high because the Australian Indemnity Program targets only very large exhibitions.

All applications are managed through two institutions or "managing organizations" which take responsibility for hosting institutions, i.e., the National Museum Australia (NMA) and the Arts Exhibitions Australia (AEA) for all other institutions.

The Program targets principally international exhibitions, which are on the "Asian circuit". International exhibitions must be hosted in at least two venues in two different states but could accept a single venue if of particular incidence.

Instead of Commonwealth Government coverage, Comcover, the Australian national insurance agency, purchases private insurance and provides coverage for all government agencies based on the pooling of risk. There were two claims early in the program's history (early 1980s) but none since.

The incidence of use of the Program is very modest with only 12 exhibitions qualifying over last 4 years.

Facility evaluations are based on a mixture of standards (e.g., security assessment by Australian Protective Services – arm of federal police service) and guidelines.

New Zealand

The New Zealand (NZ) Indemnity Program was founded in 1986. The key objective of the Program is to foster accessibility by citizens to cultural heritage. It focuses on international exhibitions only and, similar to Canada and Australia, seeks to ensure that the major NZ institutions are cost competitive on the regional exhibition circuit.

While there is no limit on the total value of program liability, the government limits its financial liability by setting "*a limit of \$150 million of risk that can be indemnified at any one time*". There is a sliding scale deductible very similar to INDEM. The minimum value of the NZ \$2.5 million for eligible exhibitions is higher than INDEM, but still comparable considering that INDEM focuses both on domestic and international exhibitions, whereas the NZ Indemnity Program focuses only on international exhibitions.

Appendix C: List of Key Informant Interviewees

Institution	Name of interviewee
Canadian Heritage	Lyn Elliot Sherwood, Executive Director. Chantal Fortier, Director.
Canadian Heritage	Keith Wickens, INDEM Administrator.
Canadian Art Museums Directors Organization	
Canadian Museums Association	
Canadian Conservation Institute	Charles Costain, Director.
Power Corporation	
NGC	
Canadian Museum of Civilization	Sylvie Morel, Director General, Exhibitions and Programmes Branch.
Art Gallery of Ontario	
Musée des beaux-arts de Montréal	
Arts and Artifacts Indemnity Program, National Endowment for the Arts, US.	
Art Indemnity Australia, Dept. of Communications, Information Technology and the Arts.	
Government Indemnity of Touring Exhibitions, Ministry for Culture and Heritage, New Zealand.	
Government Indemnity Scheme (GIS): the Council for Museums, Archives and Libraries.	