



CORNERSTONE

Journal of the Accredited Gemologists Association

AN INTRODUCTION TO THE JVC GUIDELINES FOR INSURANCE DOCUMENTATION

by Thom Underwood

It has only been in the last two or three decades that technology and terminology have given us the ability to grade diamonds and colored stones with accuracy, while the education of the jewelry industry has enhanced our ability to communicate those results to one another. Terms like *Wesselton* and *AI* have been replaced with terms like *G* and *H* for grading color in diamonds and *Pigeon Blood* has been replaced with *medium strong very slightly purplish Red* for color grading Ruby.

Prior to these refinements, our industry allowed a far greater (and grayer) comfort zone within which we could represent our products to one another and to our clients. Items of jewelry were sold and described in broad and vague terms. Also, the profession of personal property appraising had yet to define itself and jewelers were expected to produce appraisals for the merchandise they sold. Gemologists were almost nonexistent.

As gems and jewelry terminology improved over the years our customers (and associated markets such as the insurance industry) have naturally come to expect comprehensive reports with accurate descriptions and sensible values.

For jewelers writing the appraisal report often had to take a back seat to the problems of staying in business. The appraisal had become a burden and more and more a potential liability. Jewelers often no longer understood the proper contents of an appraisal as the appraisal profession evolved along a mostly separate path. Yet jewelers

were fearful of denying this service to customers, believing they would turn elsewhere (to the competition) to fulfill this need.

Paralleling the growing dilemma for jewelers has been the development and refinement of appraisal theory and personal property appraising as a profession. Professional appraisal organizations flourished in the 70's and 80's. And in the 90's the development of the Uniform Standards of Professional Appraisal Practice (USPAP) further crystallized appraising as a profession.

All of this has led us to recognize that no longer does the retail jeweler have the birthright nor is she/he naturally qualified to appraise jewelry. Yet we are left with a quandary. Who better knows the cost to replace the jewelry they sell than the jeweler. Is a description of an item and the cost to replace it in one's own store such a difficult and abstract task? Might the jeweler be simply guided and trained to write reports for the sole intended use of securing insurance coverage? This is what the Guidelines are all about.

Yet there are many questions raised by the Guidelines. How will the courts view such a document? Will they see it as an appraisal and if so will they consider it adequate? Does such a document meet the needs of the client and the insurance underwriter? Do the Guidelines go too far when allowing for documentation of a jewelry item that a retailer did not sell but could replace within the context of her/his normal business practice.

Other questions naturally arise as well. How will the Guidelines affect the professional appraiser? Will jewelers start doing more appraisals thereby reducing the amount of work available for the professional appraiser? Or will the Guidelines help jewelers better understand their limitations and assist them in recognizing and referring work that is better left to someone trained as a professional appraiser?

These are questions that we will, no doubt, debate for some time to come as the Guidelines are promulgated within our industry. Having now had the opportunity to teach the Guidelines to small groups of jewelers three times over the past year, I have come to respect them for the simple yet effective collection of principles which they are. The Guidelines may confront both retailers and appraisers in our industry with truths that we may choose to embrace or we might prefer to ignore. Some will want more rigid and confining Guidelines (read appraiser) and others already feel constrained by the Guidelines as they are (read jeweler).

Nonetheless, we now have a starting point. A document form which we can discuss with one another and improve over time. And, I think, a document that will better our industry including ancillary effects we have yet to vision. I urge you to study these Guidelines, participate in the dialogue and put them into practice.

Editor's note: Thom Underwood was a jewelry retailer for sixteen years and currently works as an independent appraiser.

AGA is a nonprofit research, education and ethics organization, benefiting professional and avocational gemologists as well as the consumer interest. Membership programs include advanced gemological education seminars, professional computer software reviews and workshops, and the AGA-Certified Gemological Laboratory Program.



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President's Message

The AGA now has a computerized telephone answering system that will make communication easy and efficient. The system will work 24 hours a day so you can call/fax when phone rates are low! The new AGA phone/fax number is 423/584-4034.

The system is now on line, however, we are still working on the information systems (voice mail, fax on demand, etc.). General information about AGA; conference information; membership applications; AGA-CGL applications; AGA-CGL names, addresses and phone numbers; and other information still to be defined will be provided as fax on demand documents. What would you like to have included? Please fax or leave your suggestions in a voice message in the AGA mailbox.

At this time nothing is in the database. We are interested in hearing what members would like to have in the database regarding voice announcements, mailboxes, etc.

Please note: The AGA computerized phone system is part of JAS-CGL Laboratory. (We reduced the expense by sharing a line with the lab.)

Leo J. Schmied
AGA - President

AGA Education Conference

TUCSON CONVENTION CENTER,

JANUARY 31 & FEBRUARY 1, 1996

"A Travel From Geology to Gemology"

Instructed by University of Arizona Geology Department staff members

The tentative schedule for this year's education seminar is as follows:

DAY 1

- | | |
|-------------------------|---|
| 8:30 a.m. - 9:00 a.m. | Donuts/coffee, pre-workshop "get acquainted" time, etc. |
| 9:00 a.m. - 9:50 a.m. | Lecture: Foundations in Mineralogy 1: "Basic crystallography - how minerals are put together" |
| 10:00 a.m. - 10:50 a.m. | Lecture, Foundations in Mineralogy 2: "Basic crystal chemistry - how structure defines and limits mineral compositions" |
| 11:00 a.m. - 12:30 p.m. | "Hands on" laboratory format on crystallography and crystal chemistry |
| 12:30 p.m. - 1:30 p.m. | <i>lunch</i> |
| 1:30 p.m. - 2:20 p.m. | Lecture: "Physical properties of minerals as a function of structure and chemistry" |
| 2:30 p.m. - 3:50 p.m. | "Hands on" laboratory format on physical properties of minerals |
| 4:00 p.m. - 4:50 p.m. | Lecture: "Overview of the geology of gemstone deposits" |

DAY 2

- | | |
|------------------------|---|
| 8:30 a.m. - 9:00 a.m. | Donuts/coffee, pre-workshop "get acquainted" time, etc. |
| 9:00 a.m. - 9:50 a.m. | Lecture: "Geology of Arizona" |
| 10:00 a.m. - 5:00 p.m. | Field trip, local geology and mineral collecting |

Conference Fees

Both days - AGA Members \$195 • Non-Members \$250

One day - AGA Members \$100 • Non-Members \$125

Information & Registration

Contact Melinda Adducci 313/455/2856 voice, 313/455/2403 fax

Jewelers Vigilance Committee, Inc.
Appraisal Task Force
Recommended Minimum Guidelines
for
Insurance Replacement Cost Estimate Documentation
for Jewelers

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Preface

CAUTION

These are RECOMMENDATIONS only. Jewelers must take their liability into consideration. "Opinions" given by jewelers have been held to be expert, making jewelers legally responsible.

JVC, its Officers, Directors, Appraisal Task Members and/or anyone else connected with this publication disclaims any and all liability that might arise from its use as these are guidelines only and users must be certain their knowledge, training and ability are capable of meeting all challenges that might occur.

Cost estimates given by jewelers on jewelry they did not sell is a mine field. Complete agreement was not reached by JVC's Appraisal Task Force members regarding jewelers giving cost estimates on items they did not sell. Extreme caution must be exercised. Examples might be from the most simplistic jewelry to rare gemstones such as fancy color diamonds, alexandrites, etc. one-of-a-kind hand made pieces, designer jewelry, antique, and/or anything not sold by your store.

A summary checklist of Statements and Disclosures as well as a checklist of Descriptive Elements may be found on pages 6 and 7 of these Recommendations. JVC members are urged to photostat those checklists for use by their staff.

Foreword

The *Jewelers Vigilance Committee (JVC)* and its *Appraisal Task Force (ATF)* has developed these guidelines to address the needs of jewelers who want to provide their customers with insurance documentation for the type of items they regularly sell. They are intended as minimum requirements for providing an estimate of replacement cost for intended use in obtaining insurance, at the current actual selling prices of a particular establishment or seller. It is the opinion of the JVC ATF that following these minimum recommended guidelines will provide a broad and positive first step toward assuring fair insurance premiums and settlements.

The JVC ATF, having conducted a thorough study of the subject, recommends that any document represented as an "appraisal" or "valuation" should conform to the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation as a minimum standard (see Appendix B: "Sources of Appraisal Training and Information"). USPAP has been endorsed by several appraisal societies and government agencies and is rapidly gaining acceptance as the minimum standard for all types of appraisals. The task force recommends that sellers provide an insurance replacement cost estimate in lieu of an "appraisal" unless the documentation would at least qualify as an appraisal according to USPAP standards. Accordingly, these guidelines do not address the preparation of insurance "appraisals." While it is both proper and possible for the seller to provide an insurance appraisal for an item, a true "appraisal" requires formal training beyond the scope of these guidelines.

The preparation of the insurance replacement cost estimates described in these guidelines requires the ability to recognize, grade, and otherwise qualitatively rank and adequately describe the item involved. The preparer may consult with gemological experts or laboratories in order to accomplish this requirement. Formal gemological training is recommended in addition to familiarity with the metals and techniques of jewelry manufacture. The item must be of a type and quality sold by the preparer, who must be able to provide an appropriate replacement for it.

Point of Sale Documentation as an Express Warranty

Documents providing descriptions and/or any representation of quality and/or value to be used for the purpose of obtaining insurance and given by the seller at the point of sale have been interpreted as express warranties (guarantees), under the Uniform Commercial Code (Article 2, Sales, 2-313, Express Warranties by Affirmation, Promise, Description, Sample). (*Daughtrey v. Ashe*, Record #910054, Supreme Court of Virginia, 1992.) Accuracy and completeness of description and an accurate statement of replacement cost are of paramount importance to both the jeweler and the customer.

Subjectivity of Descriptions

Descriptive elements which are subjective in nature should be *clearly* and *prominently* stated as subjective in any form of insurance replacement cost documentation. (See Appendix A: "Sample Disclosure Statements" for an example.) In addition, any limiting conditions that hampered the grading or identification of a particular gemstone should be specifically disclosed.

Representations of Replacement Cost

Any insurance documentation prepared by the seller (or their agent) for the buyer should clearly and prominently disclose any variance between the actual price paid and the estimated replacement cost, and the reason for the discrepancy should be explained (see Appendix A: "Sample Disclosure Statements"). Failure to do so may result in cancellation of insurance even after a loss has occurred. Insurance practices allow for cancellation of policies if any fact that might have caused the insurer to refuse the application or charge a higher rate was omitted at the time the policy was issued. Use of an "independent" (non-employee) preparer does not waive the seller's responsibility in this regard. The replacement cost estimate should always approximate the seller's usual selling price. It should not be based upon unrealized asking prices, prices prior to discounts or manufacturer's recommended retail prices.

In the opinion of the JVC Appraisal Task Force, the preparation of any insurance documentation containing over stated replacement cost estimates is misleading and does not serve the best interests of the consumer, the jewelry community or insurers. Preparers of such documentation might be held liable. The JVC ATF recommends not adding any percentage or buffer against anticipated inflation to the estimate.

Proper Practice

Certain obligations and responsibilities are accepted by those preparing any type of insurance documentation. Preparers of such documentation are holding themselves out as experts, and the law holds experts to a higher degree of care. Preparers of insurance documentation bear full responsibility for content and accuracy.

In the opinion of the JVC ATF:

It is improper to report false or misleading replacement costs in order to close sales.

It is improper to misrepresent quality or exaggerate replacement costs.

It is improper to provide an insurance replacement cost estimate without being reasonably certain the item could be replaced for an amount at or near the stated replacement cost at the time it is provided, either from the seller's own inventory or through suppliers normally accessible to the seller.

Known past, or present, or contemplated future interest in the subject items must be disclosed in the document.

It is improper to misrepresent one's appraisal or gemological credentials.

It is improper to disclose the identity of customers or confidential information obtained from customers unless required by law to do so.

Records of all documents and relevant work sheets should be retained indefinitely.

Reliance on representations of quality or quantity made by third parties such as gemological laboratories, manufacturers, or suppliers must be disclosed. (See Appendix A: "Sample Disclosure Statements.")

Legal Considerations and Supplemental Requirements

If any part of these guidelines is found contrary to the law or public policy of any jurisdiction, the JVC ATF recommends that preparers defer to such law or public policy. Insurers may have additional or supplemental requirements for documents to be used by their agents and underwriters. In addition, organizations endorsing these JVC Appraisal Task Force recommended guidelines for their members might require more exacting standards as these guidelines are a minimum, and not a substitute.

Documentation Guidelines

Recommended Statements and Disclosures

It is recommended that every insurance replacement cost estimate based on the selling prices of a particular establishment contain the following statement or one with the same meaning:

"This document was prepared to provide an estimate of replacement cost through (NAME) Jewelers for the intended use of obtaining insurance. Any other use of this document is invalid and likely to mislead others who might rely on it."

Insurance documentation of items you do not normally sell and that could not be replaced through your store requires advanced gemological and appraisal training outside the scope of these guidelines and should not be attempted without that training.

The date the insurance replacement cost estimate applies should be stated. This may be the date of sale (if recent) or the date of examination. If the date of examination is different from the date the replacement cost applies, both should be stated.

Every document should state the anticipated method of replacement (with a new item of like kind, with a similar used item, with an identical item from the original manufacturer, by reproduction, etc.). If there is more than one feasible method of replacing the item, it is sometimes advisable to report more than one possible replacement cost. The circumstances pertaining to each insurance replacement cost estimate should be clearly explained. This gives customers and insurers the option to agree in advance, and may prevent future conflicts.

The Statements and Disclosures Checklist on the following page is intended to provide a partial list of those elements that are often important in the description of gemstones and jewelry.

Statements and Disclosures Checklist

Does your customer intend to use the document only for insurance purposes?

Yes: Include a statement that obtaining insurance is the only valid use of the documentation.

No: Preparation of documentation for any other use requires advanced appraisal training outside the scope of these guidelines and should not be attempted without that training.

Can the item be replaced through your store?

Yes: State your ability to replace and the anticipated method of replacement.

No: Preparation of documentation for items you do not regularly sell requires advanced appraisal and gemological training outside the scope of these guidelines and should not be attempted without that training.

Are you reasonably certain of the identity, quantity and quality of the item and its component parts?

Yes: State the methods used to determine the above, including any reliance on the representations of others, such as outside laboratories or gemologists, manufacturers and suppliers.

No: Do not provide documentation.

If the item contains gemstones:

Include a statement disclosing the existence of an acceptable range of accuracy in gemstone grading (see Certification, page 8; and Appendix A). The limitations inherent in grading mounted gemstones should be explained if the gemstones are mounted unless they were graded and weighed prior to setting.

Disclose any assumptions made as to identity, quality or quantity of the item or any of its components and explain why they were appropriate.

Indicate the potential impact on replacement cost. If the impact would be significant, you should not make the assumptions and should not provide the documentation without somehow verifying identity, quality and quantity. (See Descriptive Guidelines, page 5).

Include a certification as described on page 8 of these guidelines.

Some of the statements and disclosures elsewhere in this checklist can be covered in a standard certification section. The words "unless otherwise stated," can be used to disclose the most common situation, and deviations from the norm can be disclosed by "otherwise stating" when appropriate elsewhere in your document. The certification includes other important but standard information in concise form.

Did you sell the item?

State whether or not you sold the item and disclose any other past, present or anticipated future interest you may have in the item.

If you sold the item, is the replacement cost estimate the same as the actual price paid?

Yes: State that they are the same.

No: Explain why the item could not be replaced through your store for the price paid. Unless the item was not sold directly to the current owner, disclose the actual price paid. (See Appendix A.)

If you did not sell the item:

State that you regularly buy and sell this type of item, and could provide a replacement for it in the event of a loss. You are responsible for correct identification and evaluation of any gemstones and should be able to judge the relative quality of workmanship in any mountings and recognize any other significant characteristics impacting the type, quality or replacement cost of the item. Consultation with other experts may be necessary. Copyrighted designs and designs made by famous makers should not be documented unless they are available through your store.

State the date the replacement cost estimate applies and the date the item was examined.

If you sold the item, the date of the sale should be stated.

Give a description of the item sufficient to replace, repair or identify it after a loss.

(See Descriptive Guidelines, page 5; and Descriptive Guidelines Checklist, page 7)

Describe the condition and note any damage, particularly damage that might threaten durability or lead to the loss of the item or any of its components.

Sign the documentation.

Descriptive Guidelines

All preparers of insurance documentation should aspire to provide the most complete description possible, as this is the single most important source of problems for insurance companies and their clients. Omission of any important element can seriously affect the quality of any eventual replacement, as well as the identification or reproduction of the item if there is a loss. Quality, condition, relative value or importance, and anticipated method of replacement are some of the factors that must be considered in deciding what constitutes an adequate description.

In some cases, identification, treatment or some other quality factor cannot be reasonably determined without damaging the item. At other times, the amount of effort required to determine such factors as metal fineness and gemstone identity, grade or origin is not justified by their potential effect on replacement cost. When it is reasonable and warranted, the preparer may assume these things to be as they appear or as they are represented to be, but any such assumption, the reason it was made, and its potential impact on replacement cost should be stated prominently.

Any damage or wear affecting durability should be noted. In particular, note any conditions such as missing prongs, broken clasps, chipped or fractured gemstones; or any other damage that threatens future durability and might contribute to a loss or partial loss. Most insurance policies contain an exclusion of risks due to such "inherent vice" in the articles insured.

Photographs are recommended. Scale should be indicated either in the photographs or by reference in the description. Disclose that the colors in the photographs are not necessarily accurate and that elements of quality and condition may not be visible. (See Appendix A: "Sample Disclosure Statements.")

The Descriptive Elements Checklist on the following page is intended to provide a partial list of those elements that are often important in the description of gemstones and jewelry.

Descriptive Elements Checklist

A general description of the style, motif, dimensions and type of item (medium weight solitaire ring, large cluster pendant, etc.) should be given.

Provenance and period should be stated (Art Deco, Victorian, 1950's, etc.)

The name of an important designer or jewelry house should be specified.

The condition of the item should be described; the condition of component parts should be described separately when appropriate.

Metal color(s) and fineness should be stated, including a description of any stampings or markings.

The weight of the item should be stated. (Indicate inclusion or exclusion of component parts like gemstones, straps, etc.)

The apparent or known method of manufacture should be stated (cast, die-struck, handmade, etc.)

Copyrights, patents and trademarks should be described.

The name of the manufacturer should be stated if known or discoverable and any hallmarks should be described. If prepared by the seller, the manufacturer and style number should be disclosed, or alternately, the store's inventory number, or both.

Serial numbers should be noted.

The natural or laboratory origin of gemstones should be disclosed. In the absence of sufficient gemological knowledge or equipment to make such determinations, and when significant, the services of a gemologist with the necessary knowledge and training should be secured.

All treatments and enhancements that are detectable by currently available gemological means (including oiling, heating, irradiation, laser drilling, coating, fracture filling, etc.) should be fully disclosed. The stability of any treatments noted should be indicated. If country of origin is known or determinable and affects replacement cost, it should be stated.

Diamonds and colored stones should be graded and described using published systems and nomenclature generally understood by members of the trade and generally accessible to members of the trade and the public. The system used should be stated.

As appropriate, gemstones should be described in terms of their shape, color, clarity, cutting quality, measurements and actual or estimated carat weight.

Gemstones with significant impact on replacement cost should be individually described. A plot or photomicrograph is recommended.

Gemstones with less impact on replacement cost can be described in groups by stating the range of size and quality and an estimate of the total weight of the group.

The character and quality of the phenomena in phenomenal gemstones should be described.

Certification

“Boilerplate” paragraphs prepared in an effort to abdicate all responsibility (like those often found as small print on preprinted “Appraisal” certificates) should be avoided. Each estimate of replacement cost should contain a signed certification similar in content to the following:

I certify that, to the best of my knowledge and belief:

The statements in this document are true and correct including representations of quality and quantity.

I have made a personal inspection of the property unless otherwise stated. (If more than one person signs the document, it should be clearly stated which of them made personal inspection of the property.)

Although neither my compensation nor the consummation of any sale is contingent upon the reporting of any predetermined replacement cost, this document may have been provided as evidence of the quality of a purchase made from [Name] Jewelers.

Unless otherwise stated, the subject property was sold by [Name] Jewelers and the replacement cost stated is the actual price paid. In any case, the replacement cost estimate is the most common actual sales price of the same, identical or fully comparable property if sold by [Name] Jewelers at this time.

I am competent to identify and determine the relative quality of the subject property, which is within the range of properties normally bought and sold by [Name] Jewelers. All significant characteristics affecting the replacement cost have been reported.

Every effort has been made to grade any gemstones described in this document as accurately as possible within normal, reasonable and acceptable gemological ranges. Opinions of quality and grade may vary upon reexamination or examination by another qualified grader.

Every effort has been made to determine the metal identity and fineness of any mountings described in this document as accurately as possible without the use of damaging tests.

This document has been prepared in conformity with the Recommended Minimum Guidelines for Insurance Replacement Cost Documentation as published by the Jeweler’s Vigilance Committee, Inc.

[SIGNATURE]

[SELLER/PREPARER’S NAME AND TITLE]

Note: It is the content of the certification that is important, not the exact wording or format. This certification can be adapted to the preparer’s preferred document style provided the meaning and intent are retained.

Appendix A: Sample Disclosure Statements

Disclosure statements should always be made in a positive manner. When done properly, they demonstrate your care and professionalism and assure your customer that, to you, their welfare comes first. Some sample disclosure statements follow:

Reporting the Actual Price Paid

It is the opinion of the JVC ATF that the actual price paid should always be stated in insurance documentation that has been prepared by a seller for use by the purchaser of the item.

“This ring was sold during our semiannual inventory reduction sale for \$800. Our usual actual selling price is \$1,000. Replacement cost through XYZ jewelers is \$1,000.”

“Mr. Smith is our frequent and valued customer and received a special price consideration from XYZ jewelers in purchasing this ring for only \$800. Unfortunately we are not always able to offer such considerations and our most common actual selling price for this ring is \$1,000. Replacement cost through XYZ jewelers is \$1,000.”

“This ring was sold by XYZ jewelers for \$800. Due to the current cost of restocking the ring through our usual supplier, it could not currently be replaced for that amount. Our actual selling price would, of necessity, be adjusted to reflect our higher wholesale cost. Replacement cost through XYZ jewelers is now \$1,000.”

"Although Mr. Smith just purchased this ring for \$1,000 from XYZ Jewelers, it was a special order design. A wax model had to be specially hand carved and fitted to Mr. Smith's gemstones. Since XYZ jewelers retains the pattern for this one-of-a-kind item in our files, much of the handwork necessary to provide a replacement would not be needed. For this reason, XYZ Jewelers could provide an identical replacement at this time for only \$800. Notice to the insurance adjuster: This design (#TIO001) is copyrighted by XYZ Jewelers and any attempt to replace it through reproduction elsewhere may result in legal action."

There are a few times when the actual price paid need not be stated. There is no need to disclose the actual price paid if the item was sold, for example, to an insurance company for use in replacing a lost item. The insurance company was not dealing in the retail market and the price they paid has no relevance to the insurance contract. Omission of the price paid by the insurance company therefore would not be considered as withholding a material fact. It should be disclosed, however, that the insurance company was the actual purchaser and that the replacement cost stated reflects the **insured's** cost of replacement through the seller's store. For example:

"This ring was purchased by Acme Insurance company as a replacement for one previously owned by Mr. Smith. The replacement cost stated represents Mr. Smith's current cost of replacement through XYZ Jewelers. Acme Insurance paid a different amount based on standing agreements between Acme Insurance and XYZ Jewelers. Replacement cost through XYZ jewelers is \$1,000."

It may also be deemed acceptable to merely report the existence of a discrepancy between the actual selling price and reported replacement cost in cases where the item was purchased as a gift and the purchaser does not wish the actual sales price to be disclosed to the recipient. In this case, confidentiality takes precedence and the existence of a discrepancy can be disclosed without stating the actual amount of the difference. Use caution in doing this, however, as this situation should not be used as an excuse to puff or inflate the value. The replacement cost stated should still be the most common actual selling price for the item in the preparer's store.

"This ring was purchased from XYZ Jewelers by Mr. Jones as a gift for Mr. Smith. Due to the current cost of restocking the ring through our usual supplier, it would not currently be replaced for the amount paid by Mr. Jones. Our actual selling price would, of necessity, be adjusted to reflect the changes in our wholesale cost. Replacement cost through XYZ jewelers is now \$1,000."

Disclosing Reliance on the Representations of Others:

Reliance on representations of quality or quantity made by others, such as gemological laboratories, manufacturers, or suppliers must be disclosed. Here are some examples:

"The quality and total carat weight of the diamonds in this tennis bracelet is stated as represented by the manufacturer, Manufacturer's Name (Serial #). We believe these representations are accurate, and it would be impractical to remove the diamonds for weighing and keener grading."

"This replacement cost estimate for this diamond was based on the qualitative information presented in Some Gemological Laboratory (SGL) Report #XXXXX dated _____. Therefore, we limited our inspection to verification that the diamond is the one described in that report."

Disclosing Acceptable Ranges of Accuracy in Grading

To protect yourself from claims of misrepresentation, it is important to disclose that gemstone grading is done subject to an acceptable range of accuracy. This does not relieve the preparer from using due care nor excuse instances of gross error or deliberate misrepresentation.

"Every effort has been made to grade the gemstones described in this document as accurately as possible within normal and reasonable gemological ranges. Legitimate opinions of quality and grade may vary upon reexamination or examination by another qualified gemologist."

"Mounted diamonds can be graded only to the extent permitted by the mounting, and an accurate determination of grades and measurements may be prevented by certain types of mountings. Different types of settings have various impacts on grading accuracy. In addition, some grades are more easily distinguished than others when mounted. Unless otherwise stated, the carat weight of mounted gemstones was determined or confirmed by measurement and volumetric formula and should be accurate within accepted limitations of that method. Unmounted gemstones are physically weighed, allowing much greater accuracy."

Disclosing the Accuracy of Photographs

To avoid misinterpretation and possible allegations of misrepresentation, the shortcomings of photographic representations should be disclosed.

"The photographs included serve to document design and general appearance and are not necessarily accurate reproductions of scale, color, quality or condition."

Appendix B: Sources of Appraisal Training and Information

The JVC ATF recommends that every preparer of insurance documentation obtain more information about the preparation of appraisals and the developing appraisal profession. The organizations and companies listed below publish information and/or offer classes in the appraisal of gemstones and jewelry. This list is not all inclusive, and should not be considered as endorsement by the JVC. Those seeking additional training and information should carefully investigate the various sources available to them to determine which will best serve their particular needs.

American Gem Society
1050 East Flamingo, Suite 130
Las Vegas, NV 89119
(702) 225-5500

American Society of Appraisers
P.O. Box 17265
Washington, D.C. 20041
(703) 478-2228/(800) ASA-VALU

Appraisal Foundation
1029 Vermont Avenue, N.W., Suite 900
Washington, D.C. 20005
(202) 347-7722/FAX: (202) 347-7727

Appraisal Information Services
1578 East 21st Street
Brooklyn, NY 11210-5036
(718) 692-1975/FAX: (718) 692-3720

Appraisers Association of America
60 East 42nd Street, Suite 2505
New York, NY 10165
(212) 867-9775
FAX: (212) 599-1128

Gemological Institute of America
1660 Stewart Street
Santa Monica, CA 90407
(800) 421-7250
FAX: (310) 453-7674

Gemological Appraisal Association
658 Washington Road
Pittsburgh, PA 15228
(412) 344-5500/FAX: (412) 344-4910

International Society of Appraisers
Riverview Plaza Office Park, Suite. 320
16040 Christensen Road
Seattle, Washington 98188
(206) 241-0395/FAX: (206) 241-0436

Master Valuer Program
P. O. Box 1844
Pearland, Texas 77588
(713) 485-1606/FAX: (713) 485-1606

National Association of Jewelry Appraisers
P.O. Box 6558
Annapolis, MD 21401-0558
(301) 261-8270 (Call first for fax)

Editor's note: AGA is not an appraisal organization but offers the Guidelines to our members for the purposes of informed professional discourse and education. Both "pro" and "con" points of view were sought. Though we contacted several of the most dissenting voices, none was willing to provide us with a discussion of their point of view. We invite your comments.

THE IMPACT OF THE JVC GUIDELINES FOR INSURANCE DOCUMENTATION ON THE PROFESSIONAL GEMS & JEWELRY APPRAISER

by Larry Phillips G.G., I.S.A., A.S.A.-Master Gemologist Appraiser

The full moniker of the new document recently approved by the Jewelers Vigilance Committee's Appraisal Task Force is "*Recommended Minimum Guidelines for Insurance Replacement Cost Estimate Documentation for Jewelers.*" This unwieldy title has been discomfiting for some appraisers and retailers alike. Rumors have been flying. During the two year formulation of the guidelines, many compromises were made. Every member of the task force has seen concepts removed or added that they were not entirely comfortable with. Reviewers included appraisers from every relevant appraisal organization, retailers from several different market levels and geographical areas, gemologists, educators, insurance company representatives, at least two lawyers, and trustees of the Appraisal Foundation. Many AGA members participated.

The final document represents a consensus that should benefit appraisers, retailers and those who wear both hats. More importantly, it should benefit the public, assuring much more accurate and complete insurance documentation.

Still the rumors fly. I have tried to answer the most common questions in this article. I'm sure that there are more questions to come. The guidelines will soon be published by the trade press and become more generally available. The guidelines include a "Statements and Disclosures Checklist," a "Descriptive Elements Checklist," and a sample certification. There are also sample disclosure statements.

Do the JVC Guidelines require the use of a specific form?

No. Providing that the content is accurate and complete, the guidelines

require no particular format. Some folks are developing forms for use with generic items and computer programs that will produce documents in compliance with the guidelines. Many retailers will continue to use a limited narrative format. One thing is certain. Those who buy the old familiar preprinted "Appraisal" forms and continue to do substandard laundry list appraisals will *not* be in compliance with the guidelines.

Do the JVC Guidelines give retailers the O.K. to write insurance appraisals without further training?

No. The guidelines recommend that any appraisal or valuation be performed in accordance with USPAP, which is admittedly outside their scope. While many people might still consider the documents resulting from the guidelines to be "appraisals," the

guidelines themselves make a clear distinction. They recommend further training for those who aspire to be professional appraisers. They clearly state that, without further training, retailers should document only the type of items they sell, and only for insurance purposes. ISA, ASA, AGS, NAJA, AAA and others are cited as sources of additional training. Retailers are urged to seek the services of professionals for all appraisals with any intended use other than insurance. If asked to document items they cannot adequately identify or grade or could not replace, they are encouraged to turn down the assignment or seek the services of a professional appraiser or gemologist. This should increase work for professional appraisers and gemologists as honest but untrained retailers begin to use more of their services and recommend them to their customers.

Do the JVC Guidelines give retailers the O.K. to document items they didn't actually sell?

Yes, but only with extreme caution. This was one of the hardest questions for the Task Force to resolve. Although many appraisers felt that retailers should not document anything but their own actual sales, this approach is really illogical. The key concept is not whether the retailer actually sold the item. The important things are the ability to accurately identify and qualitatively rank the item and the ability to replace the item through the store's accustomed suppliers. The Preface warns strongly against documentation of anything the retailer did not actually sell. However, if a retailer is competent to document his own sales, it is illogical (and self-serving) for appraisers to denigrate his ability to document items with comparable sales from his own store's records.

Will the JVC Guidelines stop the crooks that use "appraisals" to misrepresent quality and value?

No, probably not. That isn't really their purpose. The intent of the guidelines is to help the honest retailers do a better job. It isn't a law, and any retailer that follows the guidelines will do so voluntarily. It may eventually help to reduce incompetence if more trade

organizations subscribe to the guidelines and recommend or require compliance from their members. Insurance companies will be presented with the guidelines and encouraged to recommend them to their agents as minimum requirements for jewelry insurance documentation. Over time, they may even become a recognized "standard of care" for retailers. Meanwhile, the crooks will continue to be crooks and the honest folk will continue to be honest folk.

Do the JVC Guidelines give retailers the O.K. to write documentation without primary market research?

Yes. This is based on the following logical assumptions:

- 1) Customers usually go to the same retail level at which they customarily shop when looking for insurance documentation.
- 2) If the item is available through the store's regular lines of supply, then they deal in at least one market for the item. This actually entails ongoing research of that specific market and market level just to stay "afloat" as a retailer.
- 3) The insurance companies are not particularly concerned if documentation is representative of a single market level. Most do not require that the market used be the most common market for the item. In fact, most prefer the documentation to reflect the usual shopping habits of the insured.

The guidelines further state that the store providing documentation should be certain of their ability to properly replace the item.

The guidelines result in a document that says, in essence, "I know what this is, I regularly sell similar items, and this is my most usual and uninflated selling price for this item."

Do the JVC Guidelines give retailers the O.K. to continue the common practice of inflating values and exaggerating quality? What about the depth of description needed for good insurance documentation?

The guidelines require disclosure, disclosure, and disclosure. If the

replacement cost estimate is different from the sales price, the difference should be stated and justified. Descriptions should include all information with an impact on the replacement cost. Treatments must be disclosed. The guidelines also include a certification statement similar to the one USPAP requires. Except for eliminating broad market research, they differ very little from the requirements of most professional appraisal organizations.

Do the JVC Guidelines prevent professional appraiser/retailers from doing appraisals of items they sell?

Absolutely not. Professional appraisal standards take precedence, and most appraisal organizations would require retailer/appraisers to write *all* appraisals to USPAP standards. The guidelines may allow professional appraisers who are also retailers the option of writing a document based only upon the prices in their own store, providing that fact is disclosed. Professional appraisal groups will determine whether or not this is ethical – not the JVC.

Will industry acceptance of the JVC Guidelines take jobs away from professional appraisers?

No, the opposite should result. By most counts, there are between 30,000 and 50,000 individuals currently writing insurance documentation for jewelry and gemstones. These include sales clerks, pawn shops, retailers at every level, auction houses, professional gemologists, profession appraisers, and every conceivable combination of the above. If you add up all the accredited gems and jewelry members in AAA, AGS, ASA, ISA and NAJA, you get less than 1,000 individuals. Ladies and gentlemen, we are already severely outnumbered! The JVC Guidelines should help to raise retailers' level of awareness of appraisal organizations and education. They specifically exclude documentation of any item the retailer does not regularly sell or cannot properly grade and identify. The guidelines recommend that the retailer seek the services of appraisal and gemological professionals in these situations. They also give several sources for additional training.

Some retailers will seek professional assistance more often. Some will stop providing documentation altogether. A few will decide to get training from one or more professional organizations and become an accredited appraiser. A few will opt to train employees or hire those already holding appraisal and gemological credentials. Of course, some will continue to misrepresent quality and value. Some will insist on using their "appraisals" as sales tools. Thankfully, the two latter practices are becoming less acceptable to the public and the industry.

The JVC guidelines have already helped raise the industry's acceptance of professional appraisers. They are positive in tone. They address what can be legitimately done rather than scolding for past transgressions. They encourage further education and networking with professional gemologists and appraisers. The guidelines boil down to three simple recommendations:

- 1) Be sure you know the truth,
- 2) Tell the truth, and
- 3) Tell *all* of the relevant truth.

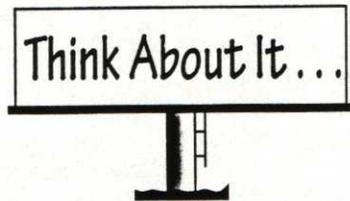
If all those tens of thousands of folks providing appraisal documentation would do just those three things, there would be no "appraisal mess."

For the first time, we have a codified, consensus opinion of what is ethical and necessary for retailers providing insurance documentation. Over thirty top professionals participated. Many of those participating had long histories of non cooperation. Everyone brought their own agenda to the table. It hasn't always been pretty, but the steady and fair stewardship of Harold Tivol has kept the task force from deteriorating into the internecine wars that scuttled similar past efforts. Everyone who wanted to contribute (and has been willing to listen to the opinions of others) has been welcome to participate. Hopefully, the JVC guidelines will become the minimum standard for retailers the same way that USPAP has evolved as the bottom line for appraisers - through the acceptance and endorsement of the industry and the users of the documentation.

MEMBER NEWS

Anna M. Miller, G.G., invites interested AGA members to enroll in the Master Valuer workshop, February 2-3-4, 1996, in Tucson. Enrollment in the jewelry appraising workshop is limited and early registration is urged. Classes will be held from 8:00 a.m. to 5:00 p.m. daily at the Courtyard Marriott.

For more information and to register, call Anna Miller, 713/485-1606.



"He has the right to criticize who has the heart to help."

Abraham Lincoln

Please send me a membership application for Accredited Gemologists Association

Name _____

Address _____

City _____ State _____ Zip _____

Phone # _____

Application Guidelines

Membership with full voting privileges is available to professionals holding gemological diplomas from accepted institutions. Associate Membership is available to students of gemology and avocational gemologists. Supplier Membership is available to providers of goods & services to the gem & jewelry industry.

Membership Dues & Fees

\$25 Processing Fee (one-time, non-refundable) will be retained by AGA.

\$125 Initial Voting Member Dues.

\$75 Initial Associate Member Dues.

\$175 Initial Supplier Member Dues.

**AGA will not discriminate
against any applicant**