

Q & A

EPIC Insurance's Daley details new way to insure art collections

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Sep 02, 2025 | 1 day ago

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Kevin Daley is president and private-client leader at EPIC Insurance Brokers & Consultants, which delivers tailored risk management strategies for high-net-worth individuals and families. He spoke with Crain Currency about how the industry is adapting to climate change and a new type of coverage for valuable art and private collections.

Insuring property has become even more of a priority after last January's wildfires in Los Angeles. What steps are people taking to protect assets such as art collections?

insurance market and the insurance market in general is regulated by states, so there are very few national regulations. That creates all sorts of challenges for insurance carriers in how they file policies with individual states, set their rating structures and all of that. With everything going on with climate change and the increase in natural disasters, it is more and more challenging for carriers. In many cases, they're publicly traded companies, and they're trying to do their best to charge the exact right amount for the risk they're taking.

These challenges have created opportunities for firms like EPIC to find alternative and creative solutions for successful families as they build homes and maintain these collections in areas that may be prone to climate risks. If you look at the concentration of wealth in this country, you see that people want to live in the Hamptons and in Los Angeles and San Francisco and Miami and places where fires are more prevalent and hurricanes are more active. So we have to continue to innovate and work with our carrier partners to create solutions that meet their needs. That was really the impetus for our recent announcement around fine-art coverage and high-wildfire-exposed areas.

How is your coverage different from traditional policies for fine art?

What's really going on in the market right now is that there is this emphasis on individual risk management. In order to preserve some semblance of capacity, more emphasis is being placed on individuals to manage and mitigate the risk exposure on their properties. The best example I have is — think about how 40 years ago, you could walk into a million-dollar house, and you may or may not see a burglar and fire alarm centrally monitored. Now you see it in every home you walk into.

Now it's becoming far more sophisticated. People are installing water flow devices to measure how much water is going in and out of their home on a daily basis, particularly if they have unoccupied homes. There's all sorts of interesting technologies being created regularly that enable consumers to be more active in that risk-management indication process. Fortress Fire is one of those companies that focuses on such risk management. They have really interesting biophysics-based technology that examines the combustibility of a structure such as a home and identifies where the greatest potential for combustion exists. Then they try to engineer that and make recommendations around mitigation and management.

qualify for the insurance capacity, meaning coverage that carriers are willing to provide. They may come in and tell you they have available capacity, but you may have to spend X amount of dollars to clear defensible space or change something on your home or something that will make it less susceptible to wildfire and that makes the underwriters more comfortable and so they can get more competitive pricing and free up that available capacity.

It is a data-driven risk evaluation to concierge mitigation planning, on-site inspection and year-round property monitoring — including seasonal service visits, extreme-weather-triggered inspections and wildfire event response options.

Did recent climate disasters, such as the LA wildfires, prompt these policies and this level of coverage?

Even prior to the wildfires in January, insurance companies were pulling back and in some cases pulling out altogether from the state of California, particularly on the admitted side, meaning among state-licensed insurers. We were seeing fewer insurance carriers coming into the state — almost none — and more of them leaving. And if they weren't leaving, they made a considerable effort to limit their exposure and manage their aggregates. That doesn't necessarily mean that the art collectors were leaving.

We knew that we had to sort of respond to the needs of these individuals and create opportunities for additional capacity to come into the market. What really prompted it is the last 10 years of wildfires and the move by insurance carriers to pull out of the state. There are also regulatory issues in California that make it difficult for insurance carriers — the system by which they're allowed to increase rates or charge what they determined to be adequate rates is pretty restrictive. It is a very consumer-friendly insurance environment.

Are you seeing a lot of interest from wealthy families for this type of coverage?

We just recently launched this particular product, so it's a little early. But in all the conversations that we've had with various family offices, there seems to be a lot of interest. It's really designed for collections worth \$10 million and above. It is a very specific product for a very specific client. Folks that we've talked to seem to be excited about it.

Also, beyond the indemnification or the insurance for fine-art collections, they're excited about the technology that will enable them or their clients to really understand fire physics

and mitigation beyond it being a cost-effective way to insure your collection.

We have had conversations with people who have what I would consider fairly extensive collections with a value north of \$40 [million] to \$50 million that in some cases are currently uninsured. That's because the economics of transferring the risk at that time didn't make sense to them. So to bring in something that's economically effective, meaning that the dollars around the risk transfer make sense and that it is making their homes and their entire properties safer. There's a pretty strong value composition there.

Was it difficult to insure such valuable collections?

In some cases, the capacity was not available; and in other cases, it may be available, but it's just not cost-effective.

In a larger sense, how do you think the insurance industry is addressing the challenges of climate change?

Generally speaking, I think the industry is extremely responsible and responding fairly well. I think there's a lot of time, energy and money being spent on understanding the impacts of climate change, particularly on property risks. Florida is a good example. The building codes change on a regular basis. There is lots of science around the idea that newer, better-built and larger homes do better in a hurricane. And that has a lot to do with the progressive nature of some of their building codes — things as simple as hurricane-proof glass and roof installations and what you can and can't build in certain areas. They've learned a lot and continue to evolve, and I think the insurance industry is at the center of a lot of those changes.

Wildfires we're only beginning to understand. In just the last 10 years, the severity has been unbelievable. If you haven't experienced it firsthand, it's hard to understand the devastation. I live very close by the Palisades, and it'll be a long time before that's back. It'll come back, but it'll be a long time.

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