art&antiques

Insure Like an Expert

Eileen Gunn

07/02/2007

Children take crayons to valuable canvases, pets damage 19th-century Oriental rugs, climate control systems fail and damage vintage wines, priceless vases get knocked over and poorly placed elbows puncture famous paintings. These are the everyday perils of living side-by-side with a valuable collection—and they are why you have insurance.

But as prices for certain types of art have spiraled upward, premiums have risen, too, because insurers are trying to adjust policy values to keep up with the items they cover. This means collectors need to shop more carefully for policies and take better advantage of the services insurance companies offer along with their high-end policies, such as consulting on ways to mitigate the risks associated with a particular collection.

PINNING DOWN INSURANCE IN A FAST-MOVING ART MARKET

There are two basic types of policies available for insuring fine art and other collections. One, a blanket or loss-limit policy, assigns a value to the collection as a whole, which serves as a cap on how much you can be paid for a total or partial loss. Separately, it caps the amount you can collect on any single item based on the worth of your most highly valued piece. So, for example, if you owned several dozen vintage posters and you knew the whole collection was worth about $300,000 and that your most valuable one was worth about $10,000 at the time you insured them, those would be the caps on your policy.

The other, a scheduled policy, lists every item in your collection and assigns a value to it (based on a recent purchase price or a third-party appraisal). Should you make a claim, the insurer will pay you based on that agreed-upon value. Some policies combine these two approaches, scheduling particularly valuable pieces and using a blanket policy for the rest.

But Charles Dupplin, chairman of the Art & Private Client Division at Hiscox in London, observes that “the difficulty in a fast-moving market is not having the option to insure for full value," because the value of a piece might change substantially just a few months after you've purchased your insurance. "We're all Bacon-minded this week," said Dupplin in early February, soon after a Francis Bacon painting was sold at Christie's London for a record $27.5 million—far more than expected. Anyone who owned a work by the artist very likely was instantly underinsured as a result of that sale and then again by Sotheby's May auction of Bacon's "Study of Innocent X," 1962, which reached a new record of $52.6 million.

There are cushions you can build into your policy to guard against these rapid moves in the art market. Most typically, the insurer promises to pay whatever the current market value is for a piece of art, regardless of the agreed-upon value when you bought the policy. Often, but not always, insurers will cap this "mark to market" policy at 150 percent of that agreed-upon value. For example, if you insured a painting for $1 million, and it was subsequently stolen, the insurer would pay up to $1.5 million, if you can prove the painting had appreciated that much since the policy was written. "These are more expensive products," Dupplin notes, and the onus would be on you to prove the appreciation had occurred, but these options are becoming more common in response to a faster-moving art market.

IMPROVING YOUR APPRAISALS

The simplest thing you can do to make sure you aren't underinsured is to have routine appraisals. Every five years is often enough for those collectibles whose market does not change quickly. But for modern and contemporary art, whose valuations have been climbing, you should plan on appraisals at least every three years or sooner if events, like the Bacon sales, occur that could affect your pieces. Dupplin says there are services that will alert you when something happens that might change the your collection's value, so that you can get a reappraisal sooner than planned or investigate additional insurance.

Remember that valuations also can go down, leaving you over-insured. At the same auction in which the Bacon painting sold, several pieces fetched less than their estimates. There's no point in paying for $50 million in insurance when your art is only worth $30 million.

FINDING THE MOST VALUE

"The insurance market is definitely profiting from the increase in art prices," notes Carl Schweitzer, the head of UBS Art Banking in Basel, Switzerland, which advises clients on issues related to their collections, including insurance. "When they redo their valuations, they collect more premiums." When you consider that fine-art insurance is a high-end product to begin with, you can see that it's important to ensure you're getting the most value you can for your insurance dollars.

One way to get more out of your premium dollars, says Jim Kane, president of insurance broker HUB International in Chicago, is to use the services insurers often offer for free alongside their policies. "You can get a lot of advice on things like loss control, and it's something that customers don't use often enough," he says. He urges clients to seek their insurer's input on security systems, proper lighting and climate control systems, or to ask for help cataloguing a collection or creating a professional-quality digital archive of it.

SHOPPING AROUND

Another way to get good value is to find a broker you feel comfortable with, one who has a great deal of experience buying insurance for your type of collection. "This is a profitable line of business for insurers—they all like this market—so there is more movement and flexibility in this area than in other types of insurance," Kane says.

A good broker can work with insurers to tailor a policy to your needs and concerns. He might even draft a policy for you and ask several insurers to bid on it so you can take the best offer. "It's like flying first-class, where you get the big cushy seats because you pay more," Kane says. "You are a valuable client to the insurers, so they'll do extra things that are beneficial to you." In an expensive and fast-moving market, it's worth letting them.

Eileen Gunn is the author of Your Career Is An Extreme Sport. *She writes about the personal side of business for* Worth, The Wall Street Journal *and others*.

5 Questions for Dorit Straus, Worldwide Specialty Fine Art Manager for Chubb Group of Insurance Companies

WHAT ARE THE BIGGEST ISSUES FACING THE ART INSURANCE MARKET?

One issue is the rising value of certain types of art and keeping up with proper insurance valuations. Also, people are buying art as an investment more often, and buying quickly. This means they need more room, and we're seeing more art stored off-site. This makes insuring it and handling a loss more complicated than when people bought art mostly to display in their homes.

WHAT IS DRIVING THIS INCREASE IN VALUE?

New capital is coming from places like China and Russia, but the amount of art is limited. There is also a lot more media and hype today about art and art prices.

WHAT'S THE MOST IMPORTANT THING COLLECTORS CAN DO TO MAKE SURE THEY AREN'T UNDER- OR OVER-INSURED?

They need to have a good sense of the market. If not, they should work with an advisor who knows that market and whom they trust. Independent appraisers will charge a fee for their work but supposedly have no conflict of interest. A dealer or someone from an auction house might appraise works for free, but you have to make sure he gives a true and honest opinion and not a sales pitch.

HOW CAN COLLECTORS MAKE SURE THAT IF THEY HAS A LOSS, IT WILL BE SETTLED QUICKLY AND TO THEIR SATISFACTION?

They need to know where the pieces in your collection are, have a good inventory system, condition reports and up-to-date appraisals. Also, they should keep off-site records.

WHAT DO COLLECTORS NEED TO THINK ABOUT IN TERMS OF INSURANCE THAT THEY MAY NOT HAVE HAD TO FIVE YEARS AGO?

They need to make sure their insurer is financially sound. They have to know who they are doing business with and that they have a healthy surplus for paying claims. Prices are climbing, claims are bigger and they need to make sure their insurer can handle that. A.M. Best lists financial ratings for insurance companies. It's a good resource. —*E.G.*