

Buyer Beware:
Art and Collecting in a Global Economy



Executive Summary

Fueled by the rapid expansion of global wealth, the market for fine art and collectibles continues to climb – along with prices. The recent explosion of interest in the art and collections market creates new threats and complex challenges. This paper provides an overview of the changing state of the global collections market, describes the emerging risks, and offers advice on what the savvy collector can do to manage and reduce these increased risks.

The global collections market continues to grow despite the current economic challenges. The record-breaking sales reported by Christie's and Sotheby's in 2008 represent a new breed of super-rich collectors from emerging economies such as China, the Middle East and Russia. These new patrons of the arts are often less experienced buyers who are willing to pay inflated prices. This buying behavior has impacted the valuation of art and increased the risks associated with collecting.

Along with less experienced buyers comes greater potential for fraud, theft, and counterfeit sales. The Federal Bureau of Investigations estimates the black market for art to be around \$6 billion per year. Recent art thefts at well-known institutions illustrate the desire to possess works of art that are not available through legitimate avenues. Wine collections can be misrepresented by re-labeling or re-filling bottles. This paper offers suggestions on how to reduce the risks associated with authenticity and title fraud.

The inclusion of art, wine, or other valuable articles in one's investment portfolio is a newer trend fueled by expanding global wealth. This article will examine the risks associated with purchasing art for investment purposes. It will also provide advice on how to assess value, evaluate insurance options, develop an estate planning strategy, and protect a collection from physical damage.

Building a valued collection can be an exciting and rewarding experience, if one understands and takes the appropriate steps to manage the risks. Whether it is the result of a lifelong passion or simply a means to diversify an investment portfolio, a collection needs to be protected with the same focus given to other highly valued assets and investments. Proper diligence, expert advice and close attention to market changes are critical success factors in building and protecting a valued collection.

The rapid expansion of wealth can count among its many unintended consequences an explosion of interest in the art and collectibles market. In his 2006 book *Mind Set*, John Naisbitt writes that contemporary art has become the chic world's most coveted commodity.¹ The rise in global wealth has increased the demand for art and collectibles. The July, 2008 market report posted on www.artprice.com noted that despite record oil prices, a crisis in the credit market and the real estate bubble bursting, the market for art has exhibited a resilience that defies a wobbly world economy.²

As the demand for fine art and collectibles continues to climb – along with prices – so have the risks. We will review the changing state of the global collections market, examine the emerging risks, and offer recommendations on what the savvy collector can do to manage and reduce these increased exposures.

Economics 101: Supply Meets Demand

The global collections market continues to grow with record-breaking numbers despite the current challenges in the U.S. economy, fears over the rising cost of fuel, and the weakened value of the dollar. Sotheby's and Christie's, two of the leading auction houses, reported brisk sales through the first two quarters of 2008. Sotheby's cited a 4.9% increase in sales over the same two quarters in 2007. Christie's reported a 7.7% increase for the same period. In her June 25, 2008 article titled "A Monet Sets a Record: \$80.4 million," *New York Times* writer Carol Vogel reported that *Le bassin aux Nymphéas* sold for \$80.4 million at Christie's London. This was just one month after another Monet set the then record at Christie's New York with a \$41.4 million price. Only a week later, Vogel would advise readers about the sale of Francis Bacon's *Three Studies for Self-Portrait* for a record \$344 million.³

The 2008 Barclays Wealth Insights: *Evolving Fortunes* forecasts the wealth trends through 2017. While all indications are that the United States will maintain its dominance in the household wealth index ("based on the cumulative net worth in U.S. dollars held by the household sector in a country"), the report describes the most significant development as "the rapid escalation in household wealth" in Brazil, Russia, India and China. Experts attributed the 18-20% growth in the sale of art in 2007 to several factors, not the least of which was the expansion of world wealth.⁴ Financial analyses of auction house sales repeatedly attribute the seemingly limitless sales expansion to a more diverse clientele. Recent reports in *The Wall Street Journal* have documented the listing of prices at New York auction houses in Euros and the acceptance of Russian currency as further evidence of the new diversity in the art collecting constituency.

Barclays references the six countries of the Gulf Cooperation Council (GCC) among the other markets to watch. With recession looming in Western markets, these oil-rich countries continue to experience significant growth in gross domestic product. The economies of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates have expanded. The need for resources in Asia as well as the repatriation of wealth after 9/11 has helped drive the economic boom in these emerging markets. These factors, along with competitive rates on borrowing and efforts to diversify their economies, have positioned the GCC states for noticeable increases in private wealth. This economic forecast, coupled with an escalating interest in American Modern Art, only strengthens an already bullish outlook for art sales.

A new breed of super-rich collectors has emerged from Eastern Europe, Asia, and the Middle East. A weakened U.S. dollar is attracting more aggressive clients in record numbers. These new patrons of the arts are often less experienced buyers who are willing to pay inflated prices.

Household Wealth Index* Top 10 countries			
2007		2017 (projected)	
USA	1	USA	1
Japan	2	Japan	2
UK	3	China	3
France	4	UK	4
Italy	5	Germany	5
Germany	6	France	6
China	7	Italy	7
Spain	8	India	8
Canada	9	Canada	9
Australia	10	Spain	10

*Rankings of 50 countries in order of overall net wealth held by the domestic sector in US dollars.

You can't tell the art by its title

Along with less-experienced buyers comes greater potential for fraud. Where there are high premiums at stake, crime is likely to follow. The Federal Bureau of Investigations estimates the black market for art to be at around \$6 billion per year. Here are just a few examples of the risks inherent in today's art market:

- The Getty Museum purchased a kouros. Despite a cautious and painstaking effort to verify its provenance, the statue is examined by a seasoned expert in ancient Greek art who, in a matter of seconds, determines that something is amiss. The statue turned out to be a very

fine replica. Like the Getty, the private collector can be fooled. Owning and investing in art has always carried the prerequisite of knowledge, experience, and knowing when to consult with the appropriate outside experts.

- In 2004 a grand jury charged Ely Sakhai, a New York art dealer, with multiple counts of fraud relating to the sale of copies of impressionist works of art. The scheme included a plan to sell the copies commissioned by the dealer to buyers from Asian markets. Mr. Sakhai anticipated that the copies would not easily re-enter the American or London markets. Federal officials also believe his plan calculated that his victims would remain silent to avoid public embarrassment.⁵
- In early 2008, Martha Lufkin and the Green Party in Austria accused the Leopold Museum in Vienna of housing and lending art that had been looted by the Nazis during World War II. The first case involved an Egon Schiele work loaned to the New York Museum of Modern Art. The second charge involved the work of Albin Egger-Lenz. The museum has argued that privately owned institutions are not subject to restitution laws.
- The now infamous case regarding a Rockwell painting acquired by Steven Spielberg highlights the issue of impaired title. After purchase, Spielberg's staff found the painting on the FBI's stolen art list.

Many happy returns...

Emma Chricton-Miller of *Financial Times* is quoted in *Mind Set* stating:

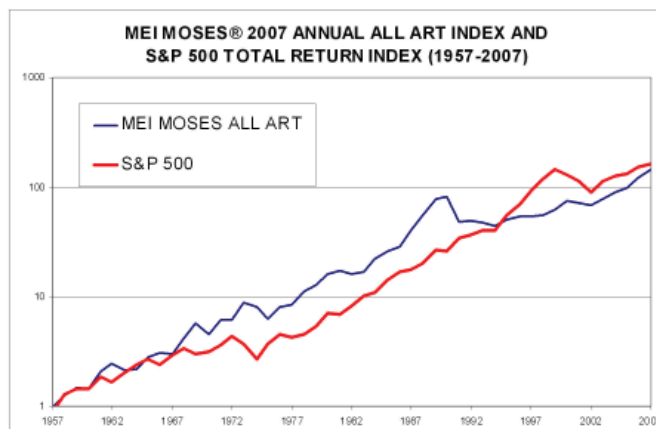
"It was once the yacht, sports car or race horses that marked one as smart, cool and successful. Now it is an art collection. Today it is a painting by Gerhard Richter, or a sculpture by Takashi Murakami – that shows you have arrived."

Acquiring collectibles to establish status is not a new phenomenon. However, the inclusion of art, wine or other valuable articles in one's investment portfolio is a newer trend. From an investment perspective, the weakened dollar has contributed to the steady growth in sales at auction houses in America by attracting European and Russian collectors looking to take advantage of the exchange rate.

The allocation of investment resources in collectibles is not for the faint of heart. To help measure return on investment, an art collector might turn to the Mei Moses fine art index (www.artasanasset.com). Founded in 2001, the index provides benchmarks for the financial performance of art as investment

by utilizing over 12,000 resale transactions at a median price of \$14,000. According to Michael Moses, co-creator of the index, stocks have outperformed most art collecting categories over the last 25 years, but have only outperformed the Mei Moses All Art Index by one-half of one percent on a compound basis over the last 50 years. He asserts that art has substantially outperformed stocks over the last five and 10 years.

However, the Mei Moses index may not be a silver bullet when it comes to the unpredictable world of art investment. In the August 2008 issue of *Art & Antiques*, Jane Kallir of Galerie St. Etienne in New York observes that most art is not resold easily, making the purchase of art for quick profit an unsound strategy.



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Kallir warns that the euphoria over the continuous rise in art prices is not a predictor of future performance. The majority of collectors have not benefited from the steep climb in prices, opening the door to disappointing returns on an investment. Kallir suggests that lack of appreciation in values and failure of some galleries could eventually burst the art bubble.⁶

According to experts, careful due diligence around sourcing art and evaluating an emerging artist can be helpful tools in determining value. Here are some guidelines for assessing the investment value of a work of art from an emerging artist:

- What trends have the auction houses reported for this artist?
- What do trained professionals think about this artist's work?
- What do museum critics say about the artist?
- Have established collectors acquired any of the artist's work?
- When art is purchased from a gallery, has it been vetted by leading auction houses?

While some advisors suggest that a balanced investment portfolio requires some allocation to art, the buyer must be aware of the potential downside to this strategy. Proper diligence, expert professional advice and close attention to the market are helpful but not foolproof tactics in developing a rewarding investment strategy.

Wine Collecting: No Refills

Wine has also experienced consistent increases in value. *Wine Spectator* quoted Richard Brierley, head of North American wine sales for Christie's, on the state of the wine market, "While 2008 may not witness the growth in values that we saw through 2007, I believe we will not see a significant pull back on prices at the very top level." The report cited record prices for Domaine de la Romanee-Conti and La Tache (1990).⁷

Wine has become another source of enjoyment for collection and consumption as well as the target of fraud. Counterfeit wine comes in two forms. The first involves re-labeling the bottle to a more desirable vintage. In the second scenario, the authentic bottle is refilled with a lesser wine, re-corked, and foiled. Wine collectors are susceptible to fraud because they often hold bottles in their collection years before drinking it, thereby making it difficult to locate the perpetrator after the sale. Pride also prevents a collector from admitting, let alone recognizing, that a treasured acquisition is a fake.

The most famous example of fake wine was the record setting bid at a Christie's auction for a bottle of Chateau Margaux alleged to have been part of Thomas Jefferson's wine cellar. Jefferson is considered to be "America's first great wine connoisseur," according to *The New Yorker*. The culprit in the Jefferson wine scheme was ultimately unmasked by a former FBI agent hired by a collector who had been duped.

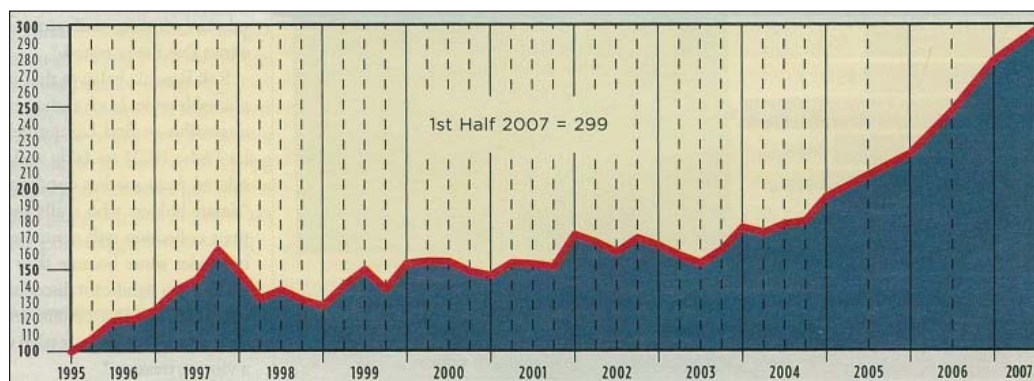
Technology is being applied to secure the authenticity of wine, according to an April 2008 article in *Avenue Vine*. Application of tamper proof labels originally developed for the pharmaceutical industry are underway, as well as the use of microchips in corks to create winery "signatures" or "fingerprints." Proof Tag, a French company, uses bubble technology in the wine bottle capsule to combat refilling used bottles. If the cork has been removed, a residue is evident making it more difficult to refill the bottle.

Just as the art world has seen a rise in values due to the expansion of buyers, wine experts have also experienced a similar trend. Jeff Zacharia of Zachys observed in the May 2008 market report for *Wine Spectator*: "We are seeing a lot of new faces at our sales. In addition, I think to the extent that people are looking for alternative investments, they are zeroing in on things like gold, silver and wine."

The *Financial Times* describes the Liv-ex 100 index as the S&P 500 for wine enthusiasts. As auction houses entered the market and the rise in personal wine cellars increased in the 1980's, the Liv-ex 100 was created to track the performance of the 100 most collectible vintages. Investment in collectibles is not a 21st Century concept and has always carried the dual value of capital gains and the utilitarian use of the object. Many investors balance hopes of appreciation with the enjoyment of consumption. What seems to have grown is the notion of profit as the primary purpose of the investment. In June 2008, Jonathan Karl of *The Wall Street Journal* critiqued two new books on wine collecting under a sub-title of "Business Bookshelf."

In much the same tone as Ms. Kallir cautioned readers about the Mei Moses index, Mr. Karl addresses his doubts about the Liv-ex index and David Sokolin's effusive support of wine as an investment in his book *Investing in Liquid Assets*. In

Wine Spectator Auction Index



Source: November 30, 2007 *Wine Spectator*. The Wine Spectator Auction Index is a composite of average prices for selected benchmark wines sold at commercial auctions.

both indices there is a lack of recognition of the fees and commissions that apply to trading through the auction houses. Sokolin's theory that demand for wine drive values ever higher because the supply shrinks with consumption is viewed with a great degree of skepticism by Mr. Karl. The impact of additional vintages would certainly affect the elasticity of the economics of wine collecting and pricing.⁸

Total U.S. Wine Auction Sales (in millions)

1997	\$56.5
1998	\$57
1999	\$90.6
2000	\$65.1
2001	\$68.5
2002	\$64.4
2003	\$65.9
2004	\$78.7
2005	\$106.6
2006	\$167
2007	\$190(est)

Source: November 30, 2007 *Wine Spectator*

One man's art is another man's tax deduction

When a collection is passed from an owner to his successors, there is no guarantee that they will share the same passion or interest. For this reason, estate planning developed specifically for collections has been growing in interest and practice. The objectives are to minimize tax liabilities and maintain the integrity of the collection. Estate planning enables the principal to maintain some control over the long-term treatment of the collection that he or she so meticulously built. While fractional gifting offers some benefits, it requires the professional advice of an attorney and tax specialist to ensure all requirements are met. Restrictions on deductions for appreciated values have scaled back the use of this planning tool. Congress is being pressured to ease the limitations in order to assist museums that wage an ongoing effort to improve their holdings and collections.⁹

Separate from the desire of collectors to maintain the integrity of their compilation of art is the reality of tax law. Art as an illiquid asset is typically addressed by sale of pieces at auction in order to meet the nine-month deadline for payment of estate taxes. The future of federal estate tax remains murky. Currently, tax law permits \$2 million to pass to heirs without tax. In 2009, this limit will rise to \$3.5 million and in 2010 the federal estate tax is to be suspended. The real concern is in 2011 when the limit returns to \$1 million unless Congress takes action.¹⁰

Estate planning requires professional advice and careful thought. Individuals may choose to appoint a special advisor for their collection. Some may choose to fund all or portions of the tax liability with life insurance. Other strategies include gifting to family members, charities or granting fractional ownership to galleries or museums. Congress is being pressured by galleries and museums to alter the tax laws that have slowed the use of fractional gifting by making it more difficult to qualify for the tax credit.

Gifting art may increase the chances of being audited. In 1968, the IRS created the Art Advisory Panel to review the values deducted for gifted art. The panel was created to assist the IRS with evaluating charitable donations of art. The panel seeks to establish the market value in setting the deduction amount. In 2007 the panel agreed with only 36% of the appraisal values submitted by the filer. Charitable deductions were decreased by 47% and the net result was \$95 million change to tax claims. Transfer of ownership through gifting can prove no less treacherous than investing or owning art. It is critical that the collector secure professional advice on appraisal and tax treatment when gifting art work.¹¹

Most recently, collectors have looked to the creation of private foundations as a means to secure the legacy of their collection. Although this solution may be limited to the most serious collector, it provides an opportunity to mitigate the tax liability and maintain the philosophy and message of the collection. The foundation must serve a charitable cause in order to meet the strict rules of the estate tax laws. Formation of private foundations may add additional pressures to museums' and galleries' efforts to retain and expand their own holdings by creating additional entities seeking works for their collections.

The practice of donating a treasured collection of art to a museum has now been confronted with 21st Century economics as well. Collectors have grown wary of this solution, fearing that some of their prized works of art will collect dust in a storage area while the more coveted pieces are displayed. An even bigger concern is that of a financially strapped museum selling pieces in order to balance a budget.

In the end, comprehensive planning can mitigate some of the risks relating to the sale of pieces from a collection. Donors can stipulate restrictions when making the gift which can deter the museum from selling these works. However, most restrictions are easily circumvented upon the death of the donor.¹² Experts warn that collectors need to accept the reality that the art they bequeath to a museum or other favored institution can be sold.

The Art of Protection

Before any discussion on insuring a collection, the owner must first understand just what is at risk by establishing the collection's value. Setting values on a collection is much easier said than done. Collections are rarely amassed in short periods of time, which can often result in poor documentation and a lack of current "appraised" values.

Often the biggest hurdle to securing insurance is the development of a current collection inventory. The availability of a complete record is a crucial but often neglected activity among collectors. Asset Verification, Inc. (AVI), a national firm that provides valuation services to individuals and businesses, estimates that less than one percent of U.S. households maintain a detailed and current inventory. Creating a list of property involves a small fraction of time and expense compared to experiencing an actual loss of under-insured property.

The question of value is the second part of the inventory equation. The least difficult method of valuation is to use the actual purchase price. The real challenge is setting and monitoring changes in value. Some collectors are concerned that an inventory or an insurance schedule will create an estate tax liability. Appraisals should state clearly that the value is for insurance purposes only. From a tax perspective, the collectible value is set at what the market bears at a given point in time. Experts like AVI suggest that 75% of U.S. home and property are underinsured because the aggregate limit is inadequate. This exposure can be removed with a commitment to maintain an updated inventory record and appraisals. As stated before, the market can be fickle and fair market values will rise and fall with interest and demand.

With accurate valuation of the collection, insurance protection can be properly researched and placed for two different classes of exposures: first, the perils that stem from market forces, including fraud, and second, the obvious physical perils.

Caveat Emptor

According to ARIS, a specialty insurance carrier, private art transactions constitute about 75% of the market, ranging from \$25 to \$30 billion in annual sales. A private buyer may negotiate indemnification and warranty clauses from the seller in order to protect himself, but is that enough for the new art enthusiast in today's market where gallery resources cannot guarantee the provenance or title?

A risk transfer solution has been developed to address issues related to authenticity and title. Initially introduced in 2004, these insurance policies had a cumbersome annual renewal process and less than optimal coverage limits. Specialty insurers entered the market and

Industry Trends: Recognizing Key Title Risks for Art

Category of title risk	Examples
Historical Theft	<ul style="list-style-type: none"> WWII: "The Bounty Hunters" in <i>The Wall Street Journal</i> 03/07 WWII: "Untouched by Nazi Hands" in <i>The Wall Street Journal</i> 02/08
Contemporary Theft	<ul style="list-style-type: none"> "Stolen Rockwell Found in Spielberg Collection" in <i>MSNBC</i> 03/07 "Expert Finds Stolen \$80,000 Painting at Palm Beach Fair" in <i>Sun Sentinel</i> 2/08
Lack Authority to sell	<ul style="list-style-type: none"> Salander-O'Reilly Galleries Ponzi Scheme: "The Art of the Steal" in <i>Conde Nast Portfolio.com</i> 4/08 Divorce or Estate Settlement
Government liens	<ul style="list-style-type: none"> Illegal export and import: "Rubens Illegally Exported to U.S." in <i>The Art Newspaper</i> 1/07 WPA: "Government Seizes Works Made by 'New Deal' Artists" in <i>The Art Newspaper</i> 11/06 Tax: "High Earners Face Surge in Tax Audits" in <i>The Wall Street Journal</i> 01/08
Contemporary bill of sale	<ul style="list-style-type: none"> Right of First Refusal Clause Liens
Classic liens	<ul style="list-style-type: none"> "Samsung Accused of \$64 Million Art Fraud" in <i>The Art Newspaper</i> 01/08

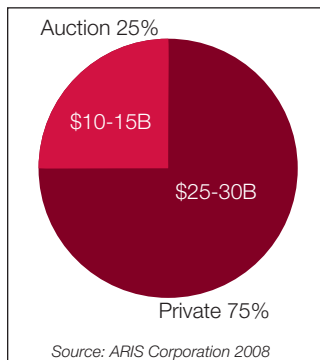
Source: ARIS Corporation 2008

Addressing title risks

Summary of ATPI	Examples
Coverage	<ul style="list-style-type: none"> Indemnifies full value (appraisal or sales price) Plus defense costs outside of limit of liability Automatically covers insured's heirs at law
Risk categories	<ul style="list-style-type: none"> Historical and contemporary theft Illegal export or import Traditional liens and encumbrances Lack of legal authority to sell
Types of policies	<ul style="list-style-type: none"> Owner's policy: in possession; time of sale Lender's policy: stand alone; endorsement
Premium Payments	<ul style="list-style-type: none"> One-time price at policy inception Rates ranges from 2% to 6% on average No deductible standard form
Policy Exclusions	<ul style="list-style-type: none"> Consistent with real estate exclusions Affirmative misrepresentation What happens after date of policy "Tell us what you know" Not contingent on what "should have known"

Source: ARIS Corporation 2008

Global Art Market Transaction Mix



now offer improved coverage. Policyholders can receive protection for legal title and provenance up to the value of the painting. Coverage may also be increased if the appraised value goes up.

The very essence of the trade places constraints on verification. Unlike real property with an historical trail, art ownership often has no public record of ownership. The lack of record keeping results in the recording and repeating of incorrect information. Finally, many owners seek privacy, resulting in little or no information being shared when a piece is sold.

While insurance policies cannot replace careful research and diligence when purchasing art or collectibles, they can mitigate the potential problems that collectors are experiencing more frequently in today's environment. Some insurance companies have added defense and research coverage to their policy language. Additional services may be available for checking due diligence when buying a piece of art.

In addition to fraud, collectors must also guard against thieves seeking to cash in on the rising demand for rare art and collectibles. In the past, an auction was attended only by the seriously wealthy and knowledgeable collector. Communication and publicity moved at a considerably slower pace than today. The advent of the Internet has increased access to information and speed of communication. More people can now quantify the value of a collection via the Internet which can raise both the risk of theft and inflate auction prices. These risks must be considered when purchasing insurance protection for your collection.

Combatting Fraud

Another tool in the arsenal is the use of science to confirm the authenticity of an art piece. Digital imaging technology is now being applied to fine art. The results of a study published in *Signal Processing* can equate the unique features in a single stroke of paint to that of a signature. The study found that there have been major advancements in the use of this technology, but it is not yet perfected.¹³

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Handle With Care – The Physical Perils

A myriad of physical misfortunes can befall any valuable collection. There are no limits to the stories of unfortunate events that have wreaked havoc with a collector piece. Physical damage or loss can occur from a wide variety of events; including the following:

- Improperly packing an item, resulting in damage when shipped;
- Damaging a piece while moving or unpacking it;
- Mistaking modern art for kitsch and throwing it out;
- Dropping or damaging a piece while cleaning it;
- Failing to accumulate all of the fragments of a broken piece;
- Improperly hanging a picture, thereby causing it to fall from the wall mount;
- Exposing paintings to temperature changes by hanging over a fireplace or in a room with significant temperature changes;
- Damage caused by a family pet.

As with purchasing art, protecting your collection requires due diligence and loss control prior to purchasing insurance. Lighting, temperature control and security all should be planned carefully in order to maximize the protection of your valuable articles.

Insurance carriers who specialize in protecting collections offer a range of services from complementary to fee-based, depending upon the premiums being paid. Insurers have a vested interest in helping protect the owner's collection. Their services can include inventory preparation, security analysis, packing tips, market information, tips on how to care for collectibles (not to mention invitations to private events). The owner should be aware of what the insurer can and cannot do to prevent or reduce a financial loss. The buyer should conduct due diligence on the insurance agent's capability and knowledge of the market.

What To Buy?

Schedule insurance coverage offers broad property protection. The three major benefits are broadened coverage, worldwide protection and no deductible. The valuation clause is a key provision in any valuable articles form. While coverage language can vary from one policy to another, there are three types of valuation methods:

- Agreed Value, the most preferred settlement provision, pays the amount agreed to when coverage was issued in the event of a total loss.

Art in Transit: A checklist

Here are some important tips on how to protect your collection, should you decide to loan an important piece to a museum or other institution:

- ❑ Consult with your insurance agent before loaning your artwork. Your insurance broker or carrier can provide valuable advice on reducing risks associated with packing and shipping.
- ❑ Photograph your artwork and maintain a record of its condition.
- ❑ Ask the moving vendor to provide proof of insurance.
- ❑ Ask the institution to provide proof of insurance along with evidence of fire and security protection. Keep your policy in force while your artwork is on loan.
- ❑ If your artwork is returned in a container that appears to be damaged, make the following notation on the delivery receipt: "Received with damage." Do not open the container.
- ❑ If your artwork is returned at a time when you are unable to inspect it for damage, sign "Subject to inspection" on the delivery receipt to protect yourself in the event that you discover damage later.
- ❑ Have your artwork appraised every three to five years.

- Replacement Cost, the most common valuation method, pays the cost to replace the item with one of similar quality. Most carriers negotiate wholesale rates, which are typically well below retail prices.
- Stated Value interprets the settlement value to be the lesser of the scheduled amount or the depreciated value of the item.

Selecting an appropriate settlement valuation clause is essential in ensuring that you have proper protection.

For large and valuable collections, a scheduled articles floater is recommended. This coverage will require an inventory and current appraisals on certain items. The majority of insurance carriers will accept appraisals up to five years old. Given market fluctuations, a good risk management practice would include an annual review of the values by the owner with professional valuations on a three year basis. For avid and active collectors, review of a schedule is critical to avoid omission of new items

and eliminate coverage on sold pieces. In addition, regular review of the schedule avoids incorrect values both high and low. Given the current market conditions, failure to review scheduled articles coverage annually could result in substantial miscalculations in insurance limits and consequently premiums.

Blanket vs. Specified Limits

For buyers of commercial insurance there is little confusion surrounding the term blanket property insurance. Use of a blanket limit on a scheduled articles insurance policy can be an effective method to address a large number of pieces that do not have extraordinary individual values. It can assist the buyer with covering a large percentage of the collection without a detailed inventory. The benefits include the same rate as individual coverage with fewer requirements for establishing values. Blanket coverage can carry some restriction such as a per item limit for each loss. Buyers of this coverage need to be attentive to the policy language for potential pitfalls but this can be an effective tool in managing risk.

Blanket coverage is perhaps the simplest method to address a lack of inventory. The buyer is able to select a limit of coverage without itemizing each piece. The initial hurdle of documenting individual values is cleared easily. The primary drawback to the expediency of this plan is the potential for undervaluing the collection and facing a sizable shortfall in the event of a total loss such as a catastrophic fire or total theft.

For active collectors, the policy provisions that address the acquisition of new items can be of particular importance. Schedule articles insurance is a contract that lists individual items and their value and which are attached to a policy. Many insurance companies develop customized language that can include a wide array of benefits and restrictions. For the carrier that targets high net-worth clients, the buyer will find broader and more client-friendly terms on newly acquired property. Other insurers tend to offer more standardized and restricted terms. For serious collectors, the standard insurance contract does not meet their needs.

Collectibles in Motion

There are a number of reasons to exhibit a collection: for scholarship, to share with others and to increase the value of the collection. However, exhibiting a collection increases the risks of theft, vandalism and accidental damage.

Policy language for scheduled articles specifically addresses the potential for loss when exhibiting a collection by restricting coverage and placing additional requirements and premium charges on the policyholder.

When a collector agrees to display a piece, it is critical to determine whether the item is fit to be moved and to establish its pre-move condition to ensure if and when damage occurred. Most unendorsed forms outline requirements for packing and shipping a scheduled item. Due diligence on the moving vendor is essential and should include proof of insurance and legal review of any contract.

The facility that will display the item should also provide evidence of insurance, as well as security and fire protection. The Milwaukee Museum of Art was forced to review rental procedures after a 2006 Martini Fest resulted in a raucous crowd damaging two pieces of art. Some attendees recounted a lack of security at the event which spun out of control.¹⁴

To summarize, here are the critical steps in insuring a collection:

- When choosing an insurance expert, conduct due diligence on the agent's credentials, knowledge of the market, and ability to source the appropriate insurance carrier. Determine what the insurance agent and insurance carrier can and cannot do to prevent or reduce risk of financial loss.
- Schedule insurance coverage offers broadened coverage, worldwide protection and no deductible. Remember to review the valuation clause for the agreed value, which provides payment in full of the scheduled value in the event of a total loss. A replacement valuation does not guarantee the scheduled amount.
- In the absence of a detailed inventory, consider the use of a blanket limit on a scheduled articles insurance policy, but be sure to read the policy language for potential pitfalls.
- When purchasing a piece of art, examine the seller's insurance policy to determine its level of coverage for provenance irregularities. Consider purchasing coverage for legal title and provenance up to the value of the painting. Coverage may also be increased if the appraised value goes up.

Whether it is the result of a lifelong passion or a means to diversify an investment portfolio, a collection needs to be protected with the same focus given to other highly valued assets. The current market for art and collectibles is vibrant and dynamic. From fraud to inflationary pricing, the world of collecting has more than its share of risks. This changing landscape requires collectors to assign greater importance to security and risk transfer. Proper diligence, expert advice, and close attention to market changes are critical success factors in building and protecting a valued collection. The purchase, sale and management of risk should bear the same precise attention to detail that we admire in the artist's brush stroke.

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