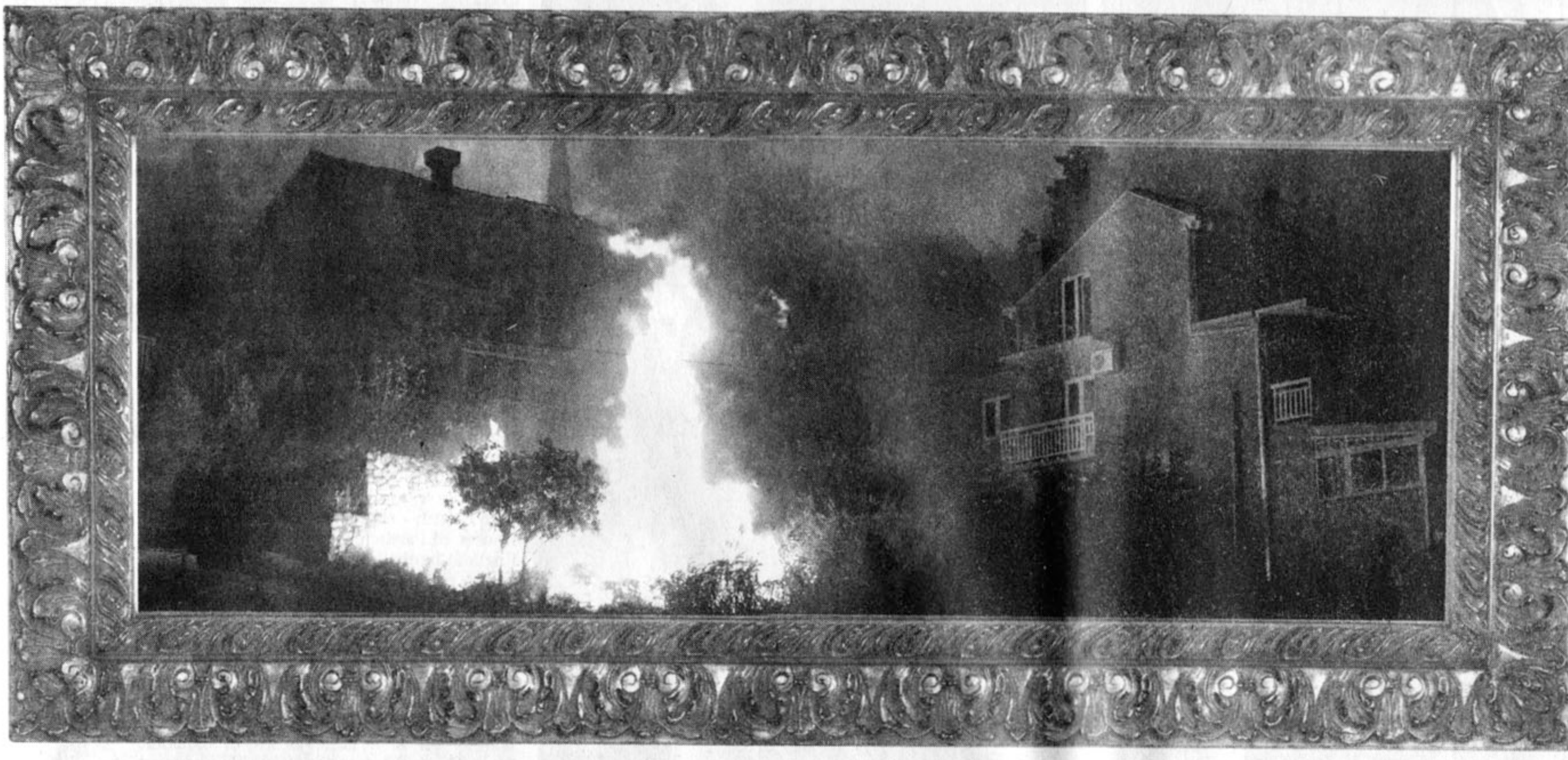

State of the art insurance

As more significant works become privately owned, they get harder to protect, writes Pamela Ryckman

When wildfires ravaged parts of southern California last October, Valtche Chorbajian was relieved his client's home was still standing. But the house, on a 39-acre property in Rancho Santa Fe, and its contents, had suffered extensive smoke damage and Chorbajian, a San Diego-based business and real estate lawyer, worried about the art collection inside. "Everyone was evacuating art. It was difficult to find someone to do it, especially if you're looking for the best," he recalls.

Because his client holds a speciality art and collectibles insurance policy, Chorbajian was able to call the carrier, American International Group, to orchestrate and supervise the removal of art from the premises. Professional handlers tagged every piece, and experienced art shippers moved the inventory to an approved warehouse, where adjusters spent weeks determining the extent of harm and shuttling the art – including paintings, silk rugs, antique quilts, and a 15th-century tapestry – to the most qualified specialists for repair. "They were able to integrate all these experts. AIG operated behind the scenes and my client had peace of mind," Chorbajian says.

Environmental disasters of the past few years, combined with recent thefts at the Maastricht Art Fair and the EG Buhrle Collection in Zurich, have highlighted the need for more sophisticated risk management in the art world. Yet damage to or loss of artworks is more likely to be caused by collectors' increasingly complex demands for displaying and lending their collections. As a result, collectibles insurance, once a neglected rates-driven product, now stands at the forefront of a revolution, as ancillary service providers hustle to keep pace with today's flashy, competitive art scene.

Last year marked the seventh consecutive year of price increases in the art market, an arena embraced by the world's unprecedented number of millionaires and billionaires – 9.5m at the last count. According to the 2007 Capgemini/Merrill Lynch World Wealth Report, today's rich spend 20 per cent of their "investment of passion" dollars on art, 18 per cent on jewellery, and 14 per cent on other collectibles, such as wine, antiques, and coins. "Ten to 20 years ago, the Getty was competing against the Louvre and the Tate. Now it's billionaires versus billionaires. There's an entire sexy culture around art, and we're behind the scenes," says Katja Zigerlig, fine arts underwriting manager for AIG Private Client Group.

Art has become harder to protect as an increased number of significant works reside not in museums, but within collectors' homes. Many of these houses are in areas prone to earthquakes or wildfires, while others are exposed to hurricanes and humidity.

"The high-net-worth collectors turn their homes into galleries that require museum-like management," Zigerlig explains. "You need art expertise and technical expertise." AIG's clients tend to be driven by the company's homeowner's product, but 61 per cent of clients also own collections policies.

Dorit Straus, worldwide fine art manager at Chubb, visits clients to understand the nature of the collector and the artwork. "People are living with their art; they have beautiful collections, but also have young children around. We need to be sure our suggestions are practical and make accommodations for the client's lifestyle."

Private collectors routinely swap pieces in their homes with works in storage, or want to ship their art from primary to secondary residences for a season. They are also more willing than ever before to lend pieces to travelling exhibitions. As a result, art spends a lot of time in transit, where harm and theft are most likely to occur. "In terms of collections – art, wines, antiques, cars, fur – transit is by far the biggest cause of loss for art," says Claire Marmion, AIG's director of art collection management.

Seasoned providers of collectibles policies such as AIG, Chubb and AXA Art all boast a global network of resources – including provenance researchers, appraisers, conservators, shippers, and warehouses – from which clients can choose. AXA Art recently launched "Art Protect", an overview of museums and warehouses resulting in a public seal of approval for the best-run facilities. "In the US, accumulation points like warehouses are very vulnerable points. In Europe it's museums," says Christiane Fischer, president and chief executive of AXA Art, the international firm's only division operating in the US. "There's been very little regulation, so we've been pushing our industry to self-regulate, to push the bar higher in terms of best practices."

'You wouldn't go to a foreign country without polling a few people or buying a guidebook. So why enter the art world blind?'

In addition to placement and transit, risk management is hindered by the internet, which allows thieves easy access to collectors' personal data, and by contemporary artists' penchant for unusual and organic materials – including blood, faeces, and dead animals – that are difficult to preserve and refurbish. So if a collector covets Damien Hirst's shark or Mark Quinn's "Self", a cast of his head made from his own frozen blood, how can he keep his investment from disintegrating?

"Insuring a painting is very different from insuring a mummified pigeon," says Straus of a client's piece by Maurizio Cattalan that became infested while on loan to an exhibition. Generally, insurance companies will not insure for "inherent vice", or the inevitable decay of a work over time. However, if the work is properly maintained, they will cover damages otherwise incurred. Straus says Chubb engaged a conservator to create a totally hermetic environment to prevent the degradation of her client's other works.

Candace Worth, a Manhattan-based art adviser, says specialised insurance is particularly valuable in these instances. "These insurers understand what it means when you say your light installation just burned out, and the artist recently died. Someone else might say, 'Call an electrician,' but I've seen art savagely ruined by electricians."

The decision to procure collectibles insurance is often triggered by a specific event. "Maybe someone wants to make a donation to a museum or lend to an exhibition. Or the person's collection has been very small and suddenly he buys a $5m piece at auction. Or there's been a loss that wasn't covered under his previous insurance," says Steven Pincus, managing director at DeWitt Stern Group, a broker specialising in fine art and collectibles. Pincus says it makes economic sense to have a standalone policy when a collection reaches a total worth of $5m, but insurance companies cite collections with values in the low hundreds of thousands.

Natasha Pearl, founder and chief executive of Aston Pearl, a concierge service provider to the wealthy, says mediocre brokers sometimes fail to inform collectors of their options, and she helps ensure clients receive optimal advice. "Families often stick with brokers for reasons of loyalty, but the appropriate insurance broker when you have $1m is no longer appropriate when you have $50m or $100m. You need to find someone sophisticated enough to know who the big art insurers are."

Still, a tendency toward mitigating risk is more often an indication of a person's temperament than a reflection on the magnitude of his collection. Laura Solomon, an art adviser based in Manhattan, says: "It depends on a collector's goals. Does he want to find a nice painting for above the couch or find the next John Currin? Investment and status buyers tend to be better at risk management. But no matter if they're spending $10,000, $100,000 or $1m, collectors are still concerned with their work retaining its value."

AXA Art segments clients based on their motivations so adjusters can react accordingly if claims occur. "There are different levels of hand-holding. If someone is deeply invested and passionate about an object, he will be very distraught if there is a claim," Fischer says, pointing out that her firm's vice president of claims has a handy degree in psychology.

No roadmap exists for collectors to navigate the art world, and there are no rules for service providers such as art advisers, conservators, or shippers. "The art world is not transparent. There are so many things to be knowledgeable about – how to buy, protect, and insure. It truly takes a village to comprehend the issues," Zigerlig says.

One way collectors can safeguard their art is to procure insurance with expert back-up. "You wouldn't go to a foreign country without polling a few people or buying a guidebook," Worth says. "So why enter the art world blind? People need advice on how to handle things; they should ask a dealer, hire a good adviser, get the proper insurance. There are ways to protect yourself."