

## FINE-ART INSURANCE

**As the ranks of art owners increase, competition fires up among fine-art insurers and brokers.**

*[by Barbara Bowers](#)*

### [Two Against Theft](#)

Collecting fine art, once the preserve of the very wealthy, is becoming more of a mainstream passion. Thanks to the Internet and the continuation of the greatest economic expansion in U.S. history, more people are discovering that possessing prized paintings, prints, sculpture and valuable collectibles is now within their reach.

This dramatically changing market, with its expanding customer base and the public's ever-widening appreciation of new artists and objects, is fueling competition among many fine-art insurers, with premium rates hitting new lows. This line has long been a profitable one, because heavy losses tend to be rare, bringing insurers a measure of safety. Jockeying for business is fiercest for the very high-value collections, which can belong to individual as well as commercial owners. Increasingly, as the ranks of fine-art insurers grow, these insurers are compelled to enhance service and experiment with new marketing techniques—such as educational or interactive Web sites—to retain or grow market share.

"The fine-art insurance market is highly competitive among brokers and the carriers, as capacity is abundant," said Dietrich von Frank, president and chief executive officer of New York-based Axa Nordstern Art Insurance Corp., a division of the French financial-services giant, Axa Group.

"This is a fast-growing line of business," said Fran O'Brien, deputy underwriting manager for personal lines at Chubb Group, Warren, N.J. "In the past year, we've been making a concentrated effort to let agents and the public know that we want to write valuables." For several years, Chubb has tried to build awareness of its products by sponsoring the popular "Antiques Roadshow" program on National Public Television.

Up to now, the bulk of Chubb's art insurance business has not been "huge, huge schedules," O'Brien said. But that could be changing; Chubb recently brought in a specialist to go after that section of the market, she said.

Unlike Chubb, which is a general property/casualty insurer, competitor Axa Nordstern Art says it is the only insurance provider to focus exclusively on fine art and collectibles. It has a clientele of museums, galleries, corporations, exhibitors and private collectors. The new wealth of today has spawned a different type of private collector, one who is more quality driven than investment driven, as was more the case in the art-market boom of the 1980s, von Frank said. This development "is being driven by fresh works that have not been on the market long," he said. "Buyers are much more selective-it's less investment and more enjoyment these days."

### **Online Opportunities**

In all of this, technology is playing an increasingly important role.

For one thing, a new breed of art dealer has emerged in the form of online companies that lease or sell a wide range of works. One of them, Fine Art Lease, has a special arrangement with five syndicates at Lloyd's for automatically insuring all of the company's leases.

"In our contract, there's 100% coverage from the moment of pickup to the moment of the return of artwork," said Jennifer Roberts, vice president and director of sales and marketing. "It's a fantastic plan that really made our business possible."

When a client contacts Fine Art Lease and expresses interest in leasing a featured item, the company fills out a location report that is sent to the insurers. Then, a credit review is performed and, to seal the deal, the client must sign off on the contract, Roberts said. Fine Art Lease has arranged with a shipping company that specializes in handling art to pick up the designated pieces, usually from museums, and deliver them to the customer.

The idea in launching this business, Roberts said, was "to make it easier for people to acquire art." Also, it benefits museums by making some of their assets liquid and taking works out of storage and putting them on corporate walls, she said. The online company also arranges rotating exhibits, sometimes with art drawn from private collectors, and deals with many individual clients who take advantage of its extended payment plan with low interest rates to acquire their leased art over a period of years, Roberts said.

Some recent examples of rentals include British Impressionist Alfred Sisley's Saint Mammes, which has a retail price of \$240,000. This could be leased for

90 days or more at \$3,000 a month, or for \$24,000 for 90 days or less. Sculptor Louise Nevelson's imposing black aluminum "Ocean Gate," with a selling price of \$350,000, can be leased for 90 days or more for \$4,375 a month; a shorter period costs \$35,000. For corporate collectors, the lease payments are a tax-deductible expense.

The collectibles market, which can embrace everything from autographs, fine porcelain and baseball memorabilia to vintage lunch boxes, American folk art and Barbie dolls, is booming, too, with the use of online sales services like eBay. "Now you have all kinds of things that you would not traditionally think of" as collectibles, O'Brien said.

"This also may be affected by the ease with which people who may never go to auctions now have the ability to do so with many things online," said Mary Ann Avnet, marketing manager in Chubb's personal insurance division. "There's a new ease of communications."

Established art insurers also have been looking to online opportunities.

In July, Axa Nordstern Art launched a Web site, [www.axa-art.com](http://www.axa-art.com), which it regards as more of an educational site than a selling tool. "This is a way that we can differentiate ourselves from the competition," said company spokeswoman Christiane Fischer.

The site targets established as well as beginning collectors who may lack the knowledge needed to make their collections safer and more valuable. The company points out on its Web page, for example, that protecting relatively small collections or those with works by new or unknown artists, may only require including them on an existing household insurance policy by means of a schedule that specifies each object and its value. But when collectors have any art or collectible with a value exceeding \$5,000, a specialist insurer or insurance policy may be needed.

### **Security Blanket**

Traditionally, the standard fine-arts policy has been based on a schedule that lists possessions and their replacement values. But recently, a type of blanket coverage has emerged for those large collectors who prefer not to have their collections appraised so frequently. The latter approach provides them more flexibility to buy or sell art on a regular basis.

Axa Nordstern Art maintains that the advantage in working with a specialist insurer is that the company is likely to have vast experience in the full range of issues that affect art ownership and insurance, including valuation, conservation, preservation, recovery, proper shipping and handling, property transfer and estate management.

Axa Nordstern Art, for example, employs 50 full-time art historians around the world and has an extensive network of art specialists, including restorers, expert movers and packers. If a loss is due to damage, the insurer pledges "to marshal the expertise necessary to repair the damage, including, if possible, intervention by the artist." If a loss is due to theft, the company promises to pursue every means available to try to recover the property. Axa Nordstern Art, in fact, is a co-founder of the international Art Loss Register, a permanent computerized database of stolen and missing works of art, antiques and valuables. (See [\*"Two Against Theft"\*](#))

### **Damage Control**

Although the theft of artwork always will be a concern for insurers, the bigger headache is damage, which generates the bulk of claims for his company, von Frank said. "Claims predominantly consist of damage in transit or on site," he said. "They are high in frequency but not necessarily very large" in terms of cost, he added.

Therefore, how artwork is handled in a move, whether it's from room to room or across thousands of miles, is of prime interest to the insurer. And one major challenge that art insurers face is educating new collectors to these dangers.

Chubb employs its own property appraisers who visit policyholders' homes and make loss-control recommendations, such as noting the effects of sunlight, heat and humidity on artwork. "We can't interfere with the customer's enjoyment, but they have to be aware of the risks," O'Brien said. "For example, it's not the best place to put an oil painting over the fireplace."

In terms of claims, Chubb is "more likely to see different kinds of damages, such as when things are moved, a pipe bursts in the house and there's flooding or when there's a fire," O'Brien said.

Fine-art collectors can be very eccentric, von Frank noted. One of his company's policyholders is a wealthy, elderly woman who lives in Manhattan and who has homes in other parts of the United States and abroad. "She didn't

want to depart from her two Renoirs, worth about \$25 million," von Frank said. "Whenever she left New York, she wanted to take the paintings with her, be it Maine in June and July, Aspen in the winter, or the Riviera or Florida. So if she wants this, that's what we do. The paintings go with her; we cover it, including transit."

That's one example of how his company fine-tunes the ordinary product to the individual, he said. "Coverage is tailor-made to a vast range of circumstances," he said. "Its term can be as short as a day or as long as several years. It can be individual or contain several forms of blanket coverage. It can insure an agreed-upon value or use current market valuation."

### **Unique Collections**

Part of the overall challenge to the art insurer these days is gaining an understanding of what the collection contains, what the owner wishes to do with it and, therefore, how well it must be protected, Chubb's Avnet said.

"We have to recognize different kinds of collectors," she said. "People do different things with collecting—they love these objects or view them as an investment. People will even buy art and move it from one location to another or allow museums to borrow it."

Insurers who work with art museums understand the potential for damage during transport. Travelers, for example, works with independent agents and museum officials to develop appropriate coverage for museum collections. The approach is to address any kind of loss prevention, including catastrophic loss through fire or theft.

"Typically, museums are very well-run institutions," said Stephen Wood, manager, museums and fine arts, for Travelers Property & Casualty, Marine Division, Hartford, Conn. "The registrar staff has a handle on the values. This is the starting point from which we can develop their coverage."

Wood understands how museums work. He is an art historian by training and came to Travelers with a museum and fine-arts community background. The policies he works with are fairly straightforward, he added, and are based on standard coverage forms developed by the American Association of Museums. In some cases, the lending museum may opt to maintain coverage on the works it is circulating. Often, the borrowing museum wants to take out special insurance for the run of an exhibit.

Exhibits being assembled these days are "stunning" in terms of the value of the art, especially when it comes to Impressionist paintings, von Frank said. Two major exhibits of Impressionist Vincent Van Gogh's works are scheduled to tour the United States next year, and at least one is valued at close to \$2 billion, he noted.

In the case of artwork that is transported, the policies could provide all-risk inland marine coverage against loss due to such occurrences as theft, damage from water, fire, transportation, acts of government and catastrophes.

### **Museums to Go**

As the art-buying market is undergoing change, so, too, are museums. The public is flocking to museums like never before, and these facilities are becoming even more specialized. "We're seeing a much wider variety of museum," Wood said. "We're seeing a lot of activity in museums offering transport" with increasing numbers of aircraft, train and auto showcases springing up, he added. "Specialty historical societies are focusing on one particular thing or another," he said, noting that Travelers, itself, is focusing on providing coverage that is very adaptable to the many different types of these institutions.

Some say the potential of the current art market is \$17 billion or more. Others, like von Frank, won't speculate on a figure, noting only that its scope seems endless. He cited the "unbelievable popularity" of American art of the 17th, 18th and 19th centuries as well as treasured collectibles like American quilts and Shaker baskets.

But he does tie its future-and, therefore, the prospects for art insurers-to the overall health of the U.S. economy. The United States, reports the Insurance Services Office Inc., has the largest fine-art market in the world.

### **Premiums Down; Prospects Up**

At present, von Frank is concerned about premium rates, which have been declining dramatically for the past four years. "There's so much capacity in the London market and the domestic market that rates are diminishing-it's the worst ever," he said. "The lunacy of driving down rates to an extent where you can cover a \$20 million collection at 4 cents per \$100 is a very difficult issue. Brokers and insurance companies alike have lamented this, but nobody wants

to take action, because the claims situation is still somewhat favorable."

Also, he noted, the competitive frenzy in the art insurance market has been stoked by abundant reinsurance capacity.

Overall, however, von Frank has confidence in this market because buyers these days have substantially more means than those who fueled the art boom in the 1980s. He is especially intrigued by the prospects that the Internet holds as a distribution tool for insurers in general and for fine-art insurers in particular. "I believe the Internet is in a unique position to sell insurance products, because we sell a promise-something intangible. We sell coverage for a dreadful event; we sell help when chaos prevails," he said.

In fact, this approach already exists on a limited basis out of the United Kingdom, where in April 1999, 11 Lloyd's syndicates-including SVB Syndicates Ltd., Millennium, Janson Green and Wellington-launched an interactive Web site, called Artinsure.com, for art insurance. It provides four classes of cover: private collections, dealers, museums and exhibitions.

The site affords the ability to quote, bind coverage and advise of any changes online. It also offers a full claims service with Lloyd's Claims Office, with claims payments being made directly to the original broker and/or customer. The trading area is open, however, only to approved brokers or U.K. residents who can buy insurance for their artworks off the screen.

### **Two Against Theft**

Art insurers have a new arsenal to draw upon in their battle against art theft— a strategic alliance between the Insurance Services Office Inc. and the Art Loss Register. The partnership has raised the possibility that hundreds of millions of dollars worth of stolen paintings and other art objects may someday be recovered.

For its role in the alliance, New York-based ISO is contributing the capabilities of its ClaimSearch industrywide anti-fraud database. With this vast database, ISO has melded the industry's three separate major claims databases of property, casualty and auto. The database holds 147 million claims and is growing at the rate of 3 million reports a month, said Christopher L. Guidette, ISO spokesman.

**Stolen Apples: ALR helped recover Cézanne's *Bouilloire et Fruits*, which disappeared in 1978**

[Recent Major Art Thefts on The Art Loss Register's Database: Not Yet Recovered](#)

Originally, a consultant estimated that developing such a system would take five years and cost between \$40 million and \$50 million. But ISO went full tilt on the project, completing the task within two years and at less than one-fourth of the projected cost, Guidette said. Now, ISO is busy encouraging insurers to make full use of this important tool. The more claims data that ISO receives from insurers, the better it can detect patterns of fraud across lines of insurance and types of claims.

For its part, the Art Loss Register operates the world's largest private, computerized database of stolen artworks, antiques and collectibles. The register records claims for works that the owners report destroyed by fire and other perils. Sometimes, those works can resurface on the market, even decades later, indicating possible fraud in the original claims.

Under the agreement announced in February, ISO will forward the information it receives from insurers on claims for lost or stolen works of art, antiques and other valuables to the register. ISO obtains prior approval from insurers before sending the data on. This remedies a problem that the register encountered with larger insurers whose busy claims staff had priorities other than reporting all art losses to the register, said David Shillingford, the register's marketing director for North America.

"The theft of high-profile art was always reported to us in the past," he said, "but we needed to educate insurers' staff and get the message to them. We had to find a way of collecting every art loss."

That problem is solved now. Once insurers report a claim to ISO's database

database, the information is automatically forwarded to the register.

"It was only with the investment that ISO made in redesigning the database that this was made feasible," Shillingford said.

The partnership is still young, but the register already is seeing "a significant increase" in the number of items being reported by insurance companies, Shillingford said. "Our goal is to make more recoveries, but that, of course, is going to take time," he added, noting that the average time for relocating missing artworks is two to three years.

Since its inception in 1991, the London- and New York-based Art Loss Register has helped recover more than 1,000 stolen objects worth an estimated \$100 million. One of the most publicized recoveries involved Paul Cézanne's still-life, *Bouilloire et Fruits*, which was stolen from its owners in 1978. It was recovered by the register in 1999, following a query from an insurance underwriter. In November 1999, the painting brought its owners nearly \$30 million at a Sotheby auction in London.

Currently, the register is attempting to recover stolen or looted artworks seized from Holocaust victims.