



By Charles and Thomas Danziger

Amanda's problem was crystal clear: She had recently inherited veritable glass menagerie of expensive artworks from her aunt Laura and needed advice on fine-arts insurance.

Amanda was considering keeping the glass collection insured under her homeowners policy, but we advised against this, unless her carrier happened to be one that has special expertise in insuring art, like the Chubb Group, AXA or AIG. In our view, collections valued above, say, \$200,000 should be covered by fine-arts insurance, which usually has no deductible and offers the option of appraising a loss at market value or at a stated amount (homeowners policies typically allow just the latter). In addition, fine-arts insurance generally has a greater breadth of coverage, including damage from floods and earthquakes.

Surprisingly, fine-arts coverage for sizable collections is often less expensive than homeowners insurance. Because the market for art insurance is still comparatively small (unlike that for auto insurance), companies are left

competing for the same pool of potential clients. Collectors thus benefit from lower premiums and better terms.

Amanda came in a week later and fixed us with a glassy stare. "I just received a draft of my insurance policy and nearly fell asleep trying to read it," she complained. According to LeConte Moore, the managing director and fine-art specialist at the insurance broker DeWitt Stern Group in New York, "If you're going to read only one clause in your policy, make it the one on valuation, because that determines how your property will be valued in the event of a loss."

We usually recommend that collections be covered at their market value, as opposed to a fixed figure, because in the event of a loss, owners receive the amount for which the works could have sold at market, rather than, say, the historical purchase price. To be doubly safe, collectors might wish to insure for market value but for no less than the purchase price. That way, if the value of the art falls, they will recover at least what they paid for it.

One cautionary note: It is sometimes harder to collect a full claim based on market value because it involves a subjective determination. However, since partial losses make up 90 percent of all claims, regardless of which value is given, collector swill probably have to deal with the same problem of subjectivity in proving loss.

Take the case of billionaire Steve Wynn, who famously made an insurance claim against Lloyd's of London after jamming his elbow through *Le rêve*, Picasso's 1932 portrait of Marie-Thérèse Walter. Wynn was fortunate in that he had effectively established the painting's market value just before the accident when he agreed to sell it to the Greenwich collector Steve Cohen for \$139 million. Nevertheless, after a reported \$90,500 restoration, Wynn and Lloyd's tussled over the postpoke value, which Wynn argued was \$85 million. The matter ended up in U.S. District Court in Manhattan, and Lloyd's ultimately settled for an undisclosed amount believed to be in the \$40 million range.

The Wynn case notwithstanding, art-insurance claims rarely result in litigation. Most insurers try to keep collectors happy so that they won't acquire a reputation among fine-art brokers for not settling claims well. When lawsuits do occur, they are often subrogation claims leveled by the insurance company against a potentially negligent party that has damaged the art of the insurer's client. For instance, AXA Art Insurance is currently suing Aaronson Office Furnishings for \$1.7 million, alleging that the movers backed into Jeff Koons's *Wall Relief with Bird*—a piece owned by Steve Cohen—and

negligently damaged the sculpture. AXA paid Cohen under his policy and is now trying to recover the sum from Aaronson.

In our case, Amanda was concerned because a local museum wanted to borrow several especially fragile pieces from her collection, and she was mindful of several recent high-profile incidents. This past July, a visitor to London's Royal Academy slipped and fell into *Christina*, a nine-foot-tall ceramic totem by the Costa Rican artist Tatiana Echeverri Fernandez. The sculpture was smashed to bits. In 2006 a man tripped on the stairs of the Fitzwilliam Museum, in Cambridge, England, and shattered three 17th-century Qing Dynasty porcelain vases. Although the vases were eventually repaired, they reportedly lost up to three-quarters of their value. And closer to home, in Detroit, Gregory J. Reed's Keeper of the Word Foundation sued the Charles H. Wright Museum of African American History in 2006 for allegedly damaging 15 pages from unpublished sections of the original manuscript of *The Autobiography of Malcolm X* by Alex Haley, which the foundation had lent to the museum. After being exhibited for about five years, the manuscript's pages apparently had faded in color and also had taken on a white stripe from a band that held them down. The documents had been appraised at \$285,000 before the loan, and Reed reportedly insisted that the museum reimburse him for \$168,000, reflecting the loss in value.

Dorit Strauss, a vice president and worldwide specialty fine art manager at Chubb, cautions that when deciding whether to lend to a museum, a

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Brothers in Law

Art + Auction Magazine – October 2008

collector should first check whether it is accredited by the American Association of Museums, to ensure that it meets the organization's standards, and even find out where the works will be displayed and under what conditions.

We suggested that Amanda's pieces be insured under the policy of the borrowing museum, in addition to her own policy, since the borrower usually controls how the works are packed, shipped and exhibited. Moreover, in the event of damage, the borrower would indemnify her, and her premiums wouldn't be affected by the loss. We also advised Amanda to obtain a certificate of insurance from the museum showing that the works are insured before they are shipped and—this is important—that she be listed as the “loss payee” under the museum's insurance coverage. That way, the insurer would pay Amanda directly, and she wouldn't have to fight with the museum to collect insurance proceeds down the line. Finally, we negotiated the terms of the insurance coverage in the museum's loan form to bind the museum contractually.

Perhaps predictably, Amanda's prized glass unicorn was badly chipped while on loan to the museum. She immediately contacted her insurance broker, who recommended that she not rely on the valuation provided by the museum's insurance company; instead, she was advised to have the piece evaluated by her own independent specialist—or, better yet, by two specialists. Her broker suggested a dealer and an auction-house professional, both of whom would know the current value of the piece. Armed with information from these experts,

Amanda was able to negotiate a handsome settlement with the museum's insurer for the injured unicorn.

Insuring smartly can prevent disputes with people who may not treat you or your collection kindly. As Tennessee Williams might have put it, it's best not to rely on the kindness of strangers.

"Crystal Clear" originally appeared in the October 2008 issue of Art+Auction.