

# Art insurance: Top tips for avoiding claim catastrophes



**Even experienced art collectors and galleries do not always seek advice when buying insurance, and only obtain professional guidance when they run into problems attempting to make a claim. Fieldfisher sector specialists Helen Mulcahy, Andrew Evans and Simon Sloane outline how buyers, sellers and exhibitors can avoid unnecessary stress when it comes to art insurance.**

Although every art collector or gallery hopes they will never need to make an insurance claim, many will need to use their cover at some point.

Artworks are generally portable objects that are shipped (sometimes across vast distances) between locations, and are often fragile and susceptible to damage or deterioration if not correctly handled or stored.

Insurance claims for damaged, lost or incorrectly valued artworks are therefore fairly common, even in 'normal' times, and the arrival of Covid-19 has prompted a sharp rise in claims from art businesses whose activities have been disrupted by the pandemic.

Many policyholders find the cost and stress of dealing with insurers is exacerbated by not having taken professional legal advice when obtaining their policies.

## Art insurance claims: A gallery of unfortunate events

At Fieldfisher, we have seen numerous examples of art clients running into difficulties when making insurance claims.

The sudden, unprecedented and pervasive nature of Covid-19 and associated lockdown restrictions has in many cases made these problems more acute.

# Art insurance: Top tips for avoiding claim catastrophes

Recent examples of matters we have dealt with include:

## 1. A claim involving an out of date valuation

A collector insured a work based on a valuation provided by a valuer/auction house at a certain point in time.

The work was consigned for sale but unfortunately was damaged during the period in which it was in storage before the scheduled sale.

However, the collector did not update the valuation given when the consignment was agreed, which was significantly more than the prior valuation. The work was sold at a reduced value and the former owner was not able to claim the increase in value.

Values can fluctuate between consignment and a sale, when the work is examined more carefully. The value of a work can also change after it has been exhibited over a period of time.

The auction house will retain internal valuations for its own insurance purposes so it is important that an owner remains aware of these valuations in the event a work is not sold or is damaged.

It is also important to keep insurers updated about valuation. Damage is more likely to occur when a work is moved and insurers will need to adjust their cover accordingly, as claiming against a policy with an out of date value, which is lower than the current value, will relieve an insurer from paying out according to the true value of a work.

## 2. Insuring art as security for a loan

A collector, who obtained finance from an investment bank using a valuable artwork as security was required by the lender to obtain insurance cover at 100% of value of art or 130% of actual facility amount, whichever was higher.

The lender needed to be named as an additional insured and loss payee with 30 days prior notice before cancellation. The policy also needed to be assigned to the

lender and to not exclude terrorism cover.

As is often the case in the UK, the work was moved into secured storage. Storage facilities, however specialised in looking after valuable works, are not immune from accidents (such as fire), so specific cover was required for that.

Lenders sometimes obtain their own insurance in respect of title and depreciation, even if the owner has its own insurance cover and are likely to include these or a proportion of these costs in its fees.

Borrowers need to be aware of not only the level of interest rate, but the fees involved in art finance.

## 3. Limited liability clauses in storage contracts

An artist arranged storage of several works, some of which were financed, and obtained insurance cover on those works that were used as security, but not on the rest.

One of the uninsured works was damaged while it was being kept in the storage facility, however the storage contract had a cap on liability for any damage to the works while in storage.

The artist was therefore unable to claim on the insurance they had taken out because the policy only identified the lender as an insured party.

## 4. Interrupted cover

A work was sold in the UK online and was transported to the buyer, who lived in the US.

However, the buyer changed their mind during the 14-day return period, and the work was damaged during its transit back to the UK.

Unfortunately, the seller had cancelled their insurance cover when the work was sold and the buyer had not taken out any insurance – meaning the work was not insured at the time it was damaged.

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## Top tips for avoiding art insurance mishaps

- If a work is damaged and has been or is to be restored, the owner may need to decide whether it is better to show where the work was damaged, or repair it as much as possible before selling it. Whatever they decide to do, the owner/seller should always disclose if a work is damaged in any sale. Check if your policy includes cover for reduction in value – it will only apply in a specific art insurance policy, not a home insurance or business insurance policy. Also, importantly, check whether restoration invalidates insurance cover on the work.
- Be aware that if an artist of a work you own dies, it may have a dramatic impact on the value of the work and the insurance valuation should be varied accordingly, otherwise you will be treated as self-insured for the proportionate increase in the total value (known as 'average').
- Specific art insurance policies may make allowances for newly acquired works but only up to a certain value and for a limited number of days, after which they need to be expressly added to the insurance.
- Try to keep all documentation in one place to show provenance and authenticity – either encrypted on a website such as [Assetvault](#) or in secure storage.
- Be aware of security conditions in policies – for example, a condition may require a private home to be secured with an alarm and that the alarm is switched on at all times. Claims will be not be accepted if conditions are not met.
- Some businesses may be in the process of selling their art as their clients and employees are not visiting offices during the Covid-19 lockdown. Others may be using the opportunity to obtain finance on their art, which usually requires the relevant works to be placed in secure storage. Businesses should check their insurance terms carefully to ensure their insurance is not vitiated in these situations. Often policies exclude cover when premises are left empty and do not always cover loss when the works are in transit or in offsite storage.
- Finally, digital art may include additional equipment not attached to the actual work – make sure it is all covered by any policy you take out.

# Contacts



*This article was authored by Fieldfisher partners [Helen Mulcahy](#), [Andrew Evans](#) and [Simon Sloane](#). If you have any queries about your art insurance policies, please do not hesitate to get in touch with the authors.*

*For enquiries about business interruption insurance claims arising from the Covid-19 pandemic, please contact Simon or Helen or visit our dedicated [coronavirus insurance claims page](#) for more information.*



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