

## Inherited Art Collections: Steps to Help Preserve Value for Years

The next 30 to 40 years will see an unprecedented transfer of intergenerational wealth. According to consulting firm Accenture, Boomers will pass \$30 trillion in financial and nonfinancial assets - including art collections - to their heirs in North America.<sup>1</sup>

Advisors seeking to earn the loyalty of this next generation have discovered their priorities and expectations differ from their parents'. For instance, younger generations expect a more consultative relationship with their advisors, rely more on social media when making decisions, and increasingly view collections such as art as a financial investment in addition to a passion.

In fact, according to Fidelity Investments, up to 90% of children fire their parents' financial advisor after they receive an inheritance. By 2050, advisors could lose \$27 trillion or more in assets under management.

To retain this valuable business, wealth managers are using strategies such as developing a multigenerational engagement team, adding social media and mobile solutions, enhancing websites and client portals, and focusing on socially responsible investing and charitable giving. In addition, 73% of wealth managers believe art market and research information would be one of the most relevant services they could offer clients, according to a report by consulting firm Deloitte and art market analysis firm ArtTactic.<sup>2</sup>

As advisors become more consultative in their approach, understanding how to protect inherited art can play a vital role in their retention efforts. At a time when heirs may be grieving and simultaneously overwhelmed with details, they also receive a nonfinancial asset that requires immediate attention to preserve its value. Even if they plan to sell or store the collection, they will need to protect it until it changes hands.

What key steps do your new or potential clients need to take to protect their inherited art?

### Update Insurance Policies

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If they don't already own art collections, this new generation may assume that simply increasing the limits of their homeowners' insurance will be sufficient. Although standard homeowners' policies address losses to the home itself and its general contents they typically don't provide adequate coverage for artwork.

Encourage your clients to ask their insurance broker whether their insurance carrier specializes in fine art and how to develop a strategy for insuring their collections. A collection of five Old Master paintings that may be split between New York and Amsterdam demands different coverage considerations than a dozen works by emerging artists that will stay in one home. Questions to consider include whether the art will move between multiple locations and whether to insure each piece individually or in aggregate on what insurers term a "blanket" basis.

### Maintain All Paperwork

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A piece's provenance, the history of its ownership, is central to its value and establishes clear title should legal challenges arise. Retaining all documentation related to the authenticity and ownership history of the collection is critical. What should your clients keep? The short answer is, "almost everything." Examples include original invoices documenting the sale of the items, all appraisals describing items and documenting their value, fact sheets that describe the artist or the process of creating the piece, conservation treatment reports, certificates of authenticity, and contact information for those who have provided these details. This documentation will be needed if your clients decide to sell or transfer artwork, or if they ever need to file an insurance claim.

## Create an Inventory

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Whether your clients are beginning an art collection or adding to one, they will need an organizational system to track new items and their location. Inventory management systems range from simple spreadsheets to cloud-based platforms with rich functionality. Your client's needs will depend on the size of the collection and the number of locations involved. If a collection is especially large, a professional collections manager or registrar can be a valuable resource in advising on the specifics. In addition to the benefits of having this information readily available, tracking items, their values, and their locations will help expedite a claim in the event of a loss.

## Update Appraisals

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Certain market segments, like post-war and contemporary art, can change value relatively quickly. How recently was the artwork appraised, and what was the purpose of the appraisal? If a collection has been passed down, it is likely that an estate appraisal was completed. Appraisals for estates or donations use the fair market valuation method. However, insurance appraisals use replacement value, which is typically the highest value of an item. Replacement value appraisals look at the cost to replace an item in a limited time period with a comparable work, and may take into account any associated sales taxes or fees. To maintain an appropriate level of coverage, your client may need to update the appraisal. Resources for finding a qualified appraiser with experience in the relevant market segment include the [Appraisers Association of America](#), the [American Society of Appraisers](#), or the [International Society of Appraisers](#).

## Protect and Preserve

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High-value artwork requires attention to a range of details. It's helpful to research and engage experts who are familiar with a collection or medium. For instance, if your client inherits an outdoor sculpture, they should consider enlisting a conservator who performs maintenance on similar sculptures. Framers, transporters, conservators, and art handlers are among the other professionals your client may need to access.

Transit and installation are among the biggest culprits in art losses. If artwork is being moved, choosing a professional shipper and installer with expertise in art may potentially avoid significant damage.

A controlled climate is another key to preserving high-value art. Installing artwork away from windows helps guard against fading, and keeping it away from air vents avoids the damage that can be caused by micro-climates. Centrally monitored fire detection systems help protect art from potential smoke or water damage from a fire department's response.

If your client does not already have a security system, now is the time to strongly consider one. The FBI estimates that art theft is a \$6 billion business, and less than 10% of works are recovered.<sup>3</sup> Although high-profile museum thefts grab the most headlines, in the United States, the majority of thefts occur at private residences, according to the Art Loss Register.<sup>4</sup>

## First Things First

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Inherited artwork often possesses significant emotional and monetary value. Whether your client plans to sell or pass it down to the next generation, immediately taking these basic steps will help keep a collection's value intact. Guiding art heirs to the right actions and resources can be a simple - but impactful - step in relationship building with next-generation clients.

1. The "Greater" Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth; undated; downloaded from [accenture.com](#).

2. Deloitte Luxembourg and ArtTactic's Art and Finance Report 2016; April 2016; downloaded from [ww2.deloitte.com](#).

3. FBI Provides New Information Regarding the 1990 Isabella Stewart Gardner Museum Art Heist; March, 2013; news release downloaded from [archives.fbi.gov](#).

4. The Reality of Art Crime, Will Korner, The Art Loss Register, April 2016; [www.artloss.com](#).



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