



# Straight to the Point...

A Quarterly Personal Insurance Publication for Families and Their Financial Advisors

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### Fort Point Insurance

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## The Art of Art Finance

Courtesy of Drew Corradini, Citigroup

When it comes to borrowing, high net worth individuals have long leveraged their homes, airplanes, and yachts. Today they have found a new source of liquidity – their art. Art Finance, the lending of money to individuals, art dealers, trusts & estates, and museums seeking to finance new acquisitions and borrow against an existing collection of art, is a booming business.

Citigroup has been a pioneer in Art Finance, launching its business more than 20 years ago. What originally began as an accommodation to wealthy families has become a business of its own. "Citibank realized that for a lot of clients, art made up a very large part of their overall net worth," says Suzanne Gyorgy, Director of Art Finance and Business Manager of Citigroup's Art Advisory Service in New York. "We started using art as collateral for loans."

Most lenders are conservative about how much they will lend against art. A rule of thumb is a maximum of 50 percent of the appraised value of the work or collection, though some go higher, increasing interest rates accordingly. Appraisers typically



weigh factors such as reputation of the artist, the condition of the work, provenance (i.e. who owned it, when and where) and prices on comparable works. Lending rates vary widely, depending on the creditworthiness of the client, the terms of the loan and the type of art used as collateral.

At Citigroup, for example, typical loans amount to half the value of the art that is used as collateral, based on the appraisal of their Art Advisory Services. They accept internationally marketable paintings, sculptures, furniture and photographs by renowned artists as collateral. In most cases, an entire collection may be used as collateral, while remaining in the client's home or office. To ensure confidentiality,

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## Protecting Your Collection from Earthquake Damage

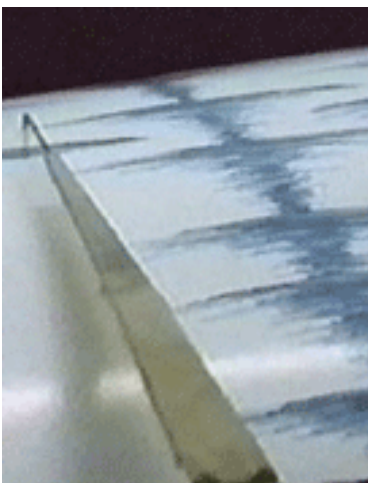
By Randy Schneider, Chubb Group of Insurance Cos.

Whether you are a seasoned collector or just starting out, protecting your fine arts and family treasures from earthquake damage should be a key factor in determining how you store and display items in your home. While no one knows for sure when an earthquake will hit or how its magnitude may affect your area, securing objects in advance may help minimize damage and increase your personal safety.

**Protect Your Well Being** Secure heavy furnishings, appliances and bookcases to the wall. These objects could cause harm if they fall and they may block escape routes. Never hang heavy or glass objects in bedrooms, which could harm you while you sleep. Know where your gas, electrical and water main shutoff valves are located.

**Maintain a Collection Inventory** In the event of a loss, detailed records can help simplify the insurance claim process. The inventory can be digitized on CD or simply recorded on paper. Be sure to include photographs to document the condition of

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## Angel Networks: A Better Mousetrap

By Matthew Le Merle, Co-President Keiretsu Forum SF/North Bay

Around the world, we are seeing the rise of a new and vibrant form of investing activity: networked angel investing. This article provides some context outlining the rationale for the growth in this form of investing and ends with an invitation for those who would like to know more.

### **Proud Heritage, Enormous Scale**

Angel investors are not a new phenomenon. With a long heritage, angel investors or business angels have provided seed capital and advice to would be entrepreneurs for as long as people have collaborated to form commercial enterprises. Prior to the development of joint stock companies and then public markets, most commercial enterprises relied on rich and knowledgeable people for their initial funding. More recently, the rise of organized venture capital funds has pushed the angels out of the limelight. However, while less visible they have not gone away. The National Venture Capital Association of America believes that over the last thirty years angels have invested twice as much into early stage companies as the venture capital funds that have

been most visible in the popular consciousness. A recent article in the *Economist* quoted the Center for Venture Research which estimates that there are 350,000 angels investing \$30 billion in 50,000 ventures each year in just the US. Worldwide the numbers are much larger but are hard to estimate.

### **The "Typical" Angel Investor**

Angel investors are a diverse group of people. Some are former entrepreneurs, many are corporate executives or professionals with relevant expertise in areas such as law, accounting, banking etc. Some are fortunate to have a history of family wealth or are spouses with the responsibility to manage their family's investments. Some are professional investors acting as angels in their spare time. Angels tend to be self directed investors, investing their own money in areas that interest them. Most enjoy advising and assisting the entrepreneurs that they back. Angels are, and need to be, patient. Typically, they expect to hold on to their investments for five to seven years

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## Prepare to Prevent Earthquake Damage

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each item, as well as appraisals and detailed descriptions. Your inventory should be stored in a secure location outside of your home. To learn more about the standards of describing art and antiques, visit [www.object-id.com](http://www.object-id.com).

**Prevent Water Damage** Avoid displaying items near walls containing major pipelines. Displaying your items well above an area that may flood can mitigate water damage from burst pipes.

### **Secure Two-Dimensional Objects**

Objects must be properly hung to mitigate damage. As added pressure and upward movement can occur due to the force of an earthquake, choose hooks that can support two to three times the weight of the piece. Use two hooks to address the lift element. Prevent hooks from tearing out of walls by fastening them into the wall stud or use butterfly anchors on wallboard. The right picture wire and fasteners can also help protect your works during an earthquake. Instead of screw eyes, "D" ring fasteners with two 3/4-inch screws per ring will provide a stronger support for picture wire. Use a thicker, #8 picture wire to support the weight of the piece. Adding Velcro to the corners of a piece may increase stability, but this will not support the weight of the object.

**Stabilize Smaller Objects** Smaller objects have the greatest likelihood of damage during an earthquake, due to their lack of weight and size. High-risk items tend to be decorative arts and sculptures with narrow bases supporting wide tops. For such objects, compounds like museum



or dental wax can fix them in place. Be aware, however, that wax can damage stone, wood and marble surfaces. Using a barrier such as clear nail polish may help prevent this. Waxes are applied by dotting and snaking the compound across the barrier surface and then setting the object in place. Avoid using wax in areas of direct sunlight or near heat sources. Velcro may not hold the weight of some objects, and its adhesive can damage some surfaces. Avoid using putty with sulfur that can stain and clear gels that allow objects to slide.

**Secure Larger Objects** The purpose of securing larger objects is to lower the center of gravity. Adding a bag of sand to large vases can help prevent them from overturning. Furnishings like bookcases, desks, shelving units, china cabinets, entertainment centers and grandfather clocks should all be secured to the wall using steel "L" brackets. The brackets should be fastened to the structural components of the piece and attached to wall studs. Two brackets should be used on large objects. Specially designed brackets can be made for securing antique furniture without damaging its appearance. Display cases should have the objects within them secured in addition to securing the case itself. Child safety door latches can prevent objects from flying out of cupboards.

### **Hire a Professional**

Fort Point Insurance can provide referrals for fine art installers, conservators, appraisers, art storage facilities, and other art professionals in your area.

*By Randy Schneider, Chubb Group of Insurance Companies*

## The Art of Financing Art

(Continued from page 1)

the lender's own specialists evaluate the art for lending purposes and inspect it on an annual basis. The bank requires a minimum of four or five pieces to use as collateral and it looks for the collateral pool to have variety. That way, even if the value of a work by one artist or one type of work should decrease, the others may retain their value.

Art Financing generally falls into three categories, 1) liquidity loans secured by the artwork already owned by a borrower, 2) acquisition financing for the purchase of new artwork and 3) consignment loans to art dealers or in some cases, artists themselves.

The usage of the proceeds from an art loan can be as diverse as the colors on the canvas. Liquidity is often used for additional art purchases, as a potential resource for those who are starting a business (or adding equity to an existing business) and as a means of easing the estate tax pressure faced by executors, trustees and family members following the death of a loved one.

Some collectors prefer to borrow against their art as an alternative to simply selling the work for financial reasons. A sale triggers capital gains taxes of approximately 28 percent and fees that can add up to more than 40 percent of the value.

But the relationship between a collector and a work of art can never be adequately quantified. For this reason, parting with a piece or a collection involves more than just financial considerations - it involves emotion. At a recent event, an entrepreneur spoke of his promising biotech business and his extensive art collection. His voiced strained as he noted

that he would have to potentially sell some pieces from his collection to finance his next equity injection into the company. Relieved and intrigued by the notion of Art Finance, he discovered a solution to generate the necessary liquidity to meet his financial needs.

In addition to entrepreneurs, countless stories exist of hedge fund, private equity and venture capital general partners leveraging their art collections in an effort to put the equity to work in their funds. In fact, Elite Traveler Magazine recently estimated that the average Hedge Fund Manager spends nearly \$4 million annually on fine art.

Another issue is that of estate taxes. The pressure faced by executors, trustees, and family members following the death of a loved one often results in art financing as a means of generating liquidity for the overall estate. Unless it is passed to a spouse or to charity, artwork may be subject to estate tax of up to 46% in 2006. If an estate is illiquid, treasured heirlooms may have to be sold. Due to a narrow time frame to raise the liquidity necessary to meet estate taxes, the best possible price may not be attained.

Once a niche market, art finance is becoming more mainstream with high net worth individuals. Art Finance makes possible many alternative, creative solutions for individuals, trust and estates and businesses to better use their assets in the most efficient manner possible. Andy Warhol once said, "Business art is the step that comes after Art". Perhaps Art Finance was exactly what he had in mind.



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## Angel Investing

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(although some angels wish to "cash out" after only a few years, and some classes of investment allow them to do so). Angels tend to have confident and risk taking personalities; they operate in an environment in which high returns are married with high levels of risk.

### The Angel Investor's Challenges

Angel investors acting alone face a set of challenges:

- Do not see a consistent flow of good quality deals. They see only what they come across through their own contacts and relationships
- Have limited capability to conduct the breadth of due diligence that an early stage investment demands
- Must base their decisions more on intuition than on fact. They just don't have the time to go deep in understanding a company and its prospects
- Do not have the negotiating leverage to set ideal valuations and terms and conditions
- Post investment, lack the breadth of capabilities and network to really assist the entrepreneurs grow their companies and increase the total return to the angel's investment

Notwithstanding these challenges, the vast majority of angel investing is undertaken by individuals acting alone.

### A Better Mousetrap

Around the world, we are seeing the rise of a new and vibrant form of investing activity: networked angel investing. In this model, angels come together to work collaboratively. The angels share deal flow, conduct due diligence together, negotiate as a group and then work hard to bring their combined capabilities and network to rapidly grow the companies in which they have invested. First, the angels worked together in single location clubs or forums such as at Band of Angels founded in 1994. More recently, as innovation has become more of a networked phenomena and as communications technology and practice has become ever more effective and low cost, so these single location angel groups have combined to form multi location, international networks. These networks allow angels in various parts of the world to collaborate in sharing deal flow, and combine the wisdom of a growing crowd to make better investments with an increased likelihood of success.



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## Stake Your Claim on Art You've Purchased

By Dan Glunt, Fort Point Insurance

The more a piece of art is worth, the more likely that someone will come up with a creative theory about why you do not really own it. One solution: Take out an insurance policy.

Christie's decision last month to pull from auction Picasso's "Portrait de Angel Fernandez de Soto," which had been expected to fetch as much as \$60 million, jolted the art world. A suit by a man claiming that his great-uncle had sold it in 1935 only under threat by the Nazis called into question whether or not the seller, the Andrew Lloyd Webber Art Foundation, had legitimate title. And while a U.S. District Court dismissed the restitution action because it lacked federal jurisdiction, harm already had been done: The owner missed a crucial chance to sell.

The plaintiff's claim has since been re-filed in state supreme court. If the claim fails, Webber's foundation will still be out the time and money needed to mount a defense. Had they bought the right kind of insurance, though, they would have been spared these costs. (A foundation attorney declined comment.)

Two companies sell title insurance for art. HISCOX, a syndicate at Lloyd's of London, has for 20 years sold policies that cover everything from paintings to antiquities and require an annual renewal and premium payment. In June, ARIS Title Insurance of New York launched a competing policy. ARIS, a private company created seven years ago expressly to sell such insurance, received regulatory approval in May. Its policies cover only visual art and sculpture--not cultural artifacts or antiquities.

Contact dan@fpins.com for information about title insurance. **FP**



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