



Art & Finance Report 2019
6th edition



Expert voices

MATCHMAKING FOR THE FUTURE—WEALTH MANAGEMENT AND ART ADVISORY

As an art advisory firm operating across the art and wealth management space, we have gained an extraordinary amount of market insight from our banking partners over the years and are delighted to share it with Deloitte for the sixth edition of the *Art & Finance Report*.

Why we believe art advisory services are becoming increasingly important for the wealth management sector

Despite an uncertain economic outlook, the stakes are high with the global UHNWI population forecasted to rise by 22% over the next four years, meaning an extra 43,000 people will be worth more than US\$30 million by 2023.

Now is the time for wealth managers to act pre-emptively to seize the immense potential offered by this market. Private banks are well aware that HNWI and UHNWIs maintain relationships with multiple banking institutions at once and that if they are to compete in an increasingly competitive marketplace they need to provide expert advice in relation to a growing number of aspects of clients' lives. Securing assets under management (particularly over the long term) means following clients' interests, which we have noted are increasingly moving towards art, cars, watches, wine, and more.

These goods are commonly referred to as "passion investments". Confidence in this sector has grown steadily and it has gained in popularity over the past 15 years, inadvertently enhancing our business along the way. We have expanded our team of preferred partners to include car, wine, and watch specialists to service the 30 percent increase in demand for advice on passion investments.

Through our global operations, we have observed several of our banks ramping-up their service offerings in H1 of 2019. One of the more exciting expansions saw one of our existing clients roll out their art advisory services to offices across Continental Europe and Russia. The acquisition of a Russian bank has meant that the bank's clients now expect access to the same services their European counterparts were receiving. We have since designed a unique range of services for the bank and trained the private wealth teams in how to deliver this expertise to their clients. Clients



Harvey Mendelson

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can now access expert advice at home in Moscow whereas they previously had to travel to London. The timing of this recent service launch in Russia coincides with a change in Russian law in 2018. At long last, legislation has been passed recognizing contemporary art as art. Previously, works of art created under 50 years ago were treated as "luxury goods" and subject to a 30 percent import tax. The new law passed on 29 January 2018 was one aspect of a radical revision of Russian art import-export regulations. The legislation prevailing before that date (created in the chaos of the 1990s following the collapse of the Soviet Union) prohibited the exportation of cultural treasures. This also made it impossible for collectors to import art. Import tariffs and the fact that there was no guarantee of re-export made it difficult for many of our clients to enjoy their collections in Russia. As a result, they would often base their collections in Europe, where we would deliver the majority of our collection management services.

We partner with banks and third-party advisers to work with a number of Russian clients, ensuring they are able to enjoy their collections both in Russia and abroad. We are now able to import art directly for our clients in a much more cost- and time-efficient manner and this has driven up demand for the new holding structures. When a relationship manager concludes that a client could benefit from our art-market expertise, they bring in our team to meet with the client and identify ways in which we can improve buying and selling processes, logistics around importation, and strategies to seamlessly integrate the client's art collection with holding structures in Russia and abroad.

Art bankers of the future

We are delivering a growing number of lectures to business school students enrolled on wealth management programs at institutions. The trend to educate future bankers on the importance of the art market and investing in art is another strong indicator that the banking community is not shying away from engaging with clients' passion investments. Over the past two years, we have also noticed unprecedented demand from North American and offshore banks, which are taking advantage of the substantial first-mover advantage those already specializing in passion investments have as they seek to serve their existing clients and win over prospects. This is especially true in relation to setting up and managing art finance services, which banks see as a growing area and an additional revenue channel. The same could be said for our partner banks in South East Asia and demand is particularly high in Hong Kong and Singapore where the service offers added value to existing clients and acts as a strong calling card for prospects. The latter are now more likely to do business with a bank and bring in assets under management if an art and collectibles advisory service is available.

One of our Swiss banking clients is continuing to see major advantages in effective art-related trust advice—opening up a whole new type of dialogue and service offering to its clients. We are also advising the bank on due diligence for its art-finance services, which are already in high demand among its HNWI and UHNWI clients. This increase in uptake is due to the fact that clients now trust their bank to

provide such services and no longer feel the need to contact an external service provider. Furthermore, we are working with them at the onboarding stage, meaning that clients joining the bank will be aware of the art and passion investment advice available to them from the outset.

These examples typify a new way of thinking for wealth managers, who now see that the question is not "if" but rather "when" and "how" they will provide this service to clients before clients seek it elsewhere. To a certain extent, this is a prudent and proactive way of safeguarding the interests of all of their clients.

Families are becoming more sophisticated and mobile

Family offices and/or in-house managers recognize the need to provide services in relation to collectible assets such as art, cars, watches, and wine across a number of geographical locations. From fast cars in France, to Monets in Monaco, there is a need to insure, maintain, and track these valuable assets as well as to decide on a strategy for acquiring and divesting along the way. We recently received a request to curate an art fair that the client was considering organizing on his mega yacht. This involved marine insurance, multiple boat-loads of art, maritime police, security teams, climate-control equipment, and so on.

The links between the art world and the yachting community are plentiful. This is arguably a result of the fact that major art collectors are often owners of super yachts themselves. Moreover, displaying art on a yacht makes sense—the experiences of both yachting and collecting art are the height of leisure, passion, and luxury. The main issues we advise clients on tend to concern the best ways of displaying artwork on a yacht, including environmental safeguards, security, and insurance. Insurance in itself is a complex topic and the devil is in the detail when it comes to ensuring that artworks are properly covered at all times. Clients are increasingly coming to realize that valuable art assets require and merit appropriate advice and expertise in line with the advice that they seek out in relation to the other assets they hold. Furthermore, a review of a client's insurance coverage can be a worthwhile exercise. We recently saved

a client a six-figure sum on his premium while at the same time obtaining broader coverage that included earthquake and water damage protection, which the previous provider had excluded.

Making life less complicated

Another reason we are seeing increased interest in art advisory services is that clients are looking to simplify life by having a single point of contact for multiple requirements. If a private bank is trusted to look after most financial assets, then it is a logical step to entrust it with passion investments too, so all matters can be coordinated for the client by the bank and its trusted advisers. From a practical standpoint, once the relationship manager identifies that a client has art-related requirements, we are brought in to meet the client and deliver a detailed schedule of services tailored to the client/family's objectives, timescales, and budget. Some clients have one-off requirements such as arranging insurance, shipping, logistics, or a valuation. Others have transaction-based or finance-led requirements. Depending on the requirement, clients are charged a fee based on performance and/or specialist advisory time. Our clients with major collections across multiple locations tend to prefer a monthly or annual retainer for us to meticulously manage all aspects of the collection.

We have found that transparency and responsiveness are key and these have helped us to build strong relationships with bankers and their clients. The macro environment is also playing a pivotal role, we believe, in how clients view art advisory services. More than ever, they are looking for trusted advice during these turbulent times—and that is before we even broach the thorny topic of Brexit. During periods of financial and political instability, art has historically been viewed as a safe haven because it is a reliable long-term store of value as well as an inflationary and currency hedge. We are likely to see more funds flowing in this direction as a consequence of further uncertainty.

For more information on 1858 Ltd. and their services, please visit www.1858ltd.com

*Source for all figures included in this article:
The Knight Frank Wealth Report 2019*