

Long Island Business NEWS

Where Business Gets Down to Business

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Will title insurance become the art world's new darling?

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Steven Spielberg got bad news last week, and it wasn't a recap of how "Munich" did at the box office.

Turns out the director, an avid collector of Norman Rockwell's slice-of-Americana paintings, had unknowingly purchased a stolen piece called "Russian Schoolroom" in 1989. Now outed by the FBI, Spielberg will probably have to give it back and lose whatever he paid for it.

A company called ARIS might have helped ease the pain.

The Manhattan-based company, with offices in Denver and Milwaukee, says it is the first true title insurance company to offer protection in what it calls a "wild and wooly" \$40 billion-a-year market with little regulation.

"The art world lacks transparency in the transaction," said ARIS President Judith Pearson. "A buyer has no idea if they have clear title to a work of art."

The fledgling firm caught the attention of Brian Madden, president of Uniondale-based Liberty Title Agency, which specializes in residential and commercial real estate titles. Last month, he became an independent ARIS agent and started a new division, Liberty Art Title Agency, to offer art title insurance.

Real estate and art? Not such an unlikely match, actually.

"All of the title elements that you would find in real estate, including liens, are present with fine art," Madden said. "And, even more so, because in real estate, we have county clerks that can look something up and real estate doesn't move."

Scott Rechler, chairman and chief executive of RexCorp Realty, one of the Island's biggest commercial landlords, called the product innovative.

"Many real estate people are big art collectors and they recognize the importance of insuring good title," he said.

The concept is simple. ARIS researches the art's provenance, or documented evidence of ownership, and comes back with a policy cost proposal.

If the chain of ownership is uncomplicated and risks are minimal, the fee could be as little as 1 percent of the total value. Madden's firm would then get a commission on the deal.

The riskier the artwork, the higher the fee. Artwork that may have spent time in Europe and has ownership gaps around World War II – for fear of it having been seized from Jewish owners during the Holocaust – would cost 5 percent of the appraised value.

If the artwork ever has to be returned, ARIS would defend the claim and, if necessary, write a check. In the case of appreciation, owners can reapply for more coverage. And there are no guarantees of authenticity – that requires an expertise different from examining ownership.

"We fully expect that we will insure forgeries on occasion," Madden said.

Madden's investment is not insignificant: He's putting in a lot of time meeting with potential clients and spending \$250,000 on promotional efforts. There are also internal expenses for legal counsel and personnel.

"The risk is that, for some reason, we can't help to gain market acceptance," said Madden, who oversees four offices and 60 employees.

Pearson, however, has private investors gambling millions of dollars on an idea that's been in the works for eight years. Since it went live in May, ARIS has researched 20 submissions, three of which should turn into deals.

"We are waiting on the seat of our pants," Pearson said. "We're just waiting for the underlying art transaction to close."

Unless they're Monets, three closures probably won't be enough to sustain a business, but it's a start.

"A collector has not yet said to us, 'I don't get it,'" Pearson said. "There's the upper echelon of galleries and dealers who recognize this can make the transaction more efficient."

That's even true for smaller ones.

Cecily Jaffe, who owns Cecily's Love Lane Gallery in Mattituck, said she liked the idea, though it's probably not necessary for her business.

"Especially with an expensive work of art, people would feel more secure if they had insurance," she said. "A lot of people who have had really bad news recently, including Mr. Spielberg, probably would have been very happy to have that."

Other art galleries, however, are loath to add cost to their transactions or let buyers wonder if the gallery hasn't done its research. And if the business tanks, the buyer could be out of luck.

Auction houses, meanwhile, maintain that the transactions are between the buyer and seller and aim to stay out of chain of title issues.

So would Spielberg have been protected if he had a policy? Probably so.

"This is exactly why we were created," Pearson said.

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