

**Art & Finance Report 2023**  
**8<sup>th</sup> edition**



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RECOGNITION**

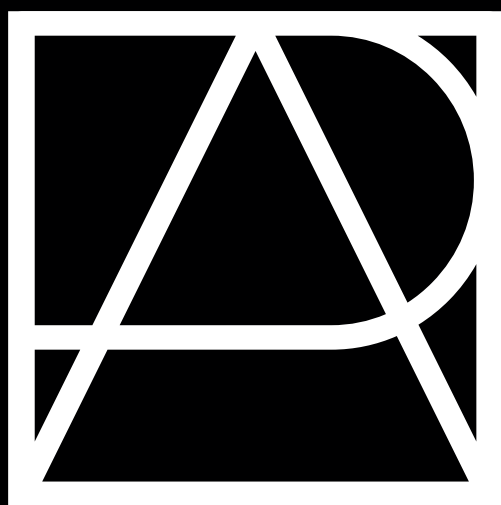


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# Art Finance

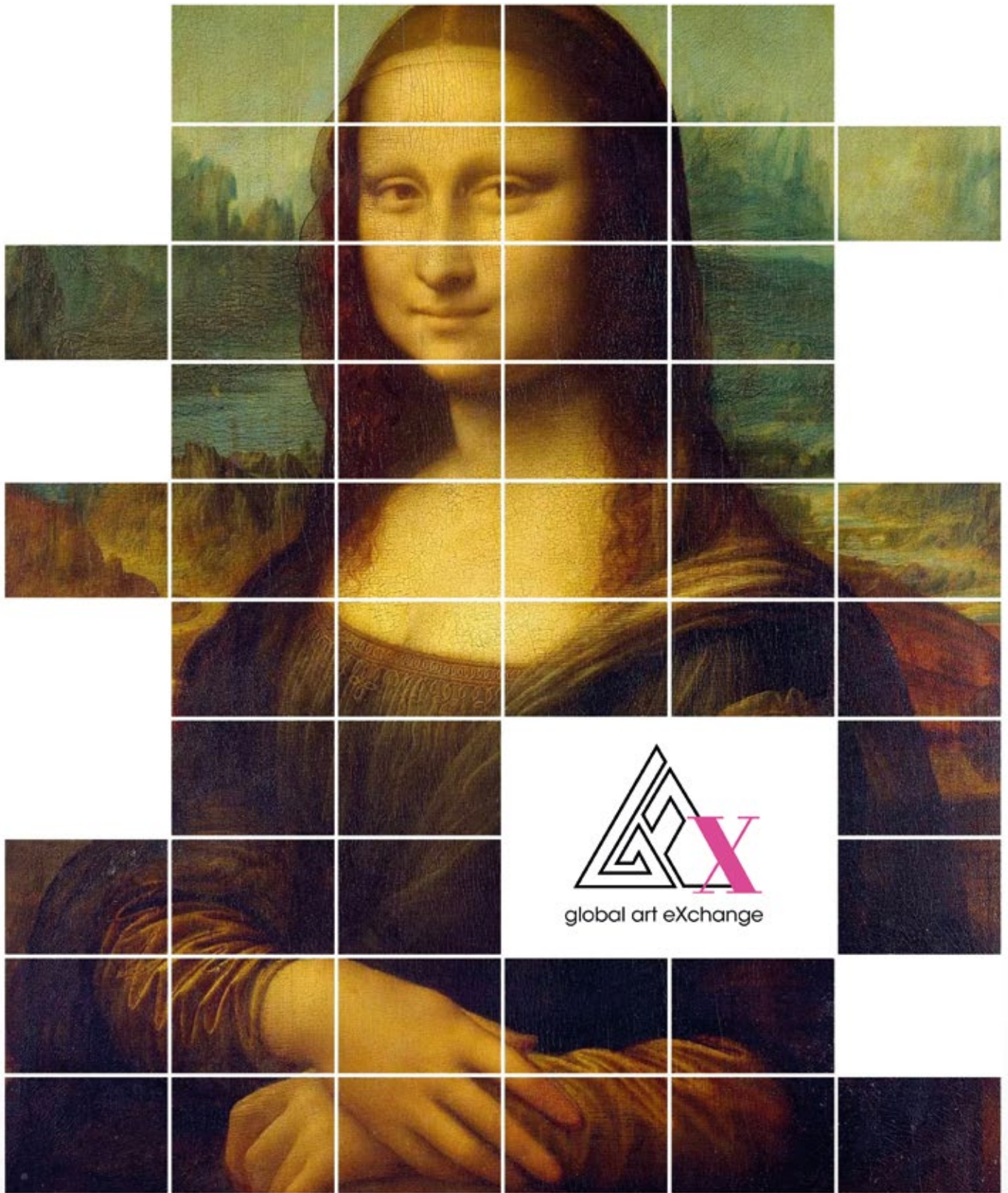


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- **scale up fine art insurance offer** and profitability
- **build, structure and maintain insurers' databases**

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The fine art insurance industry faces **internal and external risks** due to climate change and increase damages, while **competition** from non-specialist insurers is growing.

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\* KYC: Know Your Customer - AML/CTF: Anti-Money Laundering and Counter-Terrorism Financing

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**JONATHAN PRINCE STUDIO**  
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## Introduction







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# Foreword\_



**Wolfe Tone**

Global Deloitte Private Leader

*Wolfe Tone is the Global Leader of Deloitte Private with offices in more than 80 countries.*

*Deloitte Private professionals focus on the needs of privately held companies, private equity firms, family offices, and high net worth individuals. Our people draw upon Deloitte's vast global resources, deep industry insights, and breadth of services to create personalized solutions and deliver value for our clients.*

Over the years, Deloitte Private has become a go-to advisor to affluent individuals and their family offices looking to manage their art and other collectibles, including fine art, fine wine, aircraft, jewelry, and classic cars. As of late, we are seeing these clients invest a growing portion of their wealth in these assets. This trend is underscored by findings in this eighth edition of the Deloitte Private Art & Finance report, which show a 13.4% family office wealth allocation to art and collectibles, almost five percentage points higher than that of private banks.

A key reason for this difference is the passion that families have for the investments in their family office portfolios. Their motivation is very different than that of an asset manager investing in equities and bonds, for example. While art and collectibles provide portfolio diversification and potential value appreciation, they often are a more personal investment with emotional ties to the family's interests and preferences.

At the same time, like other investable family office assets, these collections require a focus on governance, multigenerational planning, education, philanthropy, social impact, estate planning, legal agreements and asset diversification to help preserve and expand their wealth and impact.

This biennial publication, developed in collaboration with market research firm ArtTactic, aims to introduce you to some of the most important trends and developments emerging at the intersection of art and wealth management. Over the past 12 years, we have monitored various stakeholders in the Art & Finance industry, including private banks, family offices, independent wealth managers, and collectors and art professionals and have reported on the changing role and growing importance of art and collectible assets within a wealth management service offering. This edition focuses more closely on family offices and the unique issues and priorities they face when investing in art and collectibles.

I hope you enjoy reading this eighth edition of the Deloitte Private Art & Finance report.

Wolfe

# We are delighted to present the 8th edition of the Deloitte Private Art & Finance Report.

The 2023 edition of the biennial Art & Finance Report arrives at a time of economic and geopolitical uncertainty. Rising inflation, higher interest rates, climate change, military conflict and slower growth provides a challenging backdrop for both the wealth management sector and the global art and collectibles

market. However, being able to adapt and innovate under these circumstances is more important than ever, and the search for purpose and asset diversification is even more acute. As with the seven previous editions of the Art & Finance Report, our goal for this edition has been to highlight the continued evolution of the art and finance industry during both good and difficult periods, addressing both challenges and opportunities and opening our readers' eyes to possible pathways that can benefit all stakeholders across the art, culture and finance ecosystem.

The Deloitte Private Art & Finance initiative aims to encourage more collaboration between stakeholder groups at the intersection of art business, culture and finance. We believe that by providing more transparency and awareness around motivations, obstacles, needs and drivers in the art and finance industry, we can catalyze and improve dialogue between these stakeholders, inspire new models and solutions, and amplify the role and importance of culture in improving our lives and society.

The G20 in India<sup>1</sup>, which took place 9-10 September 2023, reassessed the economic significance and societal value of the cultural and creative sector to support inclusive growth, sustainable development and decent work. The transformative power of culture in achieving Sustainable



Development Goals (SDGs), and addressing today's multifaceted development challenges such as climate change, rising inequities and digital transformation. This G20 called for the inclusion of culture as a standalone goal in future discussions on a possible post-2030 development agenda. Wealth managers dealing with art and collectible assets have an opportunity to strategically engage with art and cultural heritage assets and in new conversations with clients about how they can leverage their art and cultural wealth to achieve both financial and societal value.

Since the Deloitte Private Art & Finance initiative was established in 2008, the journey has been marked by many significant moments and encounters. In 2011, we presented the first Art & Finance Report during the fourth Deloitte Private Art & Finance Conference in Miami, Florida. After publishing seven editions of the report in collaboration with ArtTactic, our understanding of the art and finance ecosystem and its developments have greatly evolved.

We want to thank all the experts for their invaluable contributions over the years and all the survey participants and art market stakeholders (wealth managers, collectors and art professionals) that continue to share their views and opinions on the industry. What started 12 years ago as an initial investigation into the role art could

play in wealth management has gained significant momentum. We have reached a stage where the question is no longer why art and finance is important for both the wealth management and art and cultural sectors, but rather how we can best implement and build a well-functioning and sustainable service offering addressing the needs of the market.

In this report, we take a unique 12-year retrospective look at our findings. It is clear that, despite continued challenges concerning transparency, regulations and the need for modernization of existing art business practices, the art and finance industry continues to innovate and evolve. It is well-positioned to reap the benefits of the global wealth transfer over the coming decades and a finance industry increasingly oriented to holistic wealth management. We hope this report will give you a richer understanding of the complex nature of the art and finance ecosystem, the key drivers of change and the role you can play in shaping its future.

**Adriano Picinati di Torcello**  
Director – Global Art & Finance Coordinator  
Deloitte Luxembourg

**Anders Petterson**  
CEO and Founder  
ArtTactic  
London



**Adriano Picinati di Torcello**  
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**Anders Petterson**  
CEO and Founder  
ArtTactic  
London

# Introduction\_

## Twelve years of analysis in the review

Since 2011, Deloitte Private and ArtTactic have published eight editions of the Art & Finance Report, affording us a unique perspective and insight into how the art and finance market has evolved and continues to adapt to internal and external factors. With more than a decade of data and research to look back on, we see what has changed and priorities going forward.

The first major sign of change took place around 2016, when we noticed a significant shift in wealth managers' perception of the role and value of art and collectibles in wealth management strategy and service offerings. In 2014, only 53% of wealth managers believed art should be included as part of wealth management services. However, this jumped to 78% in 2016, aligning the wealth management industry's opinion with those of collectors and art professionals for the first time in our analysis. **This consensus has swelled today to its highest reading – with around 90% of stakeholders believing art and collectible wealth should be part of a wealth management offering, up 10% since 2021.** In recent years, the

conversation has shifted from whether art should be part of a wealth management offering to how it can be implemented effectively.

We are also starting to see positive implementation momentum among wealth managers with an existing offering as 74% of them intend to offer specific art wealth management services, a leap from 26% in 2011. Technological progress will likely further fuel this development, with more than 80% of wealth managers stating that they believe technology will increase market transparency and address provenance and traceability, important challenges in today's art market. The recent technological and regulatory developments around blockchain and tokenization are likely to accelerate and enhance the importance of art and collectibles in a wealth management service offering, as we see with other alternative illiquid assets.

Another important element introduced in this year's report is the growth and focus on the market for luxury collectibles. In recent years, we have seen an increasing interest in the financial and asset attributes of luxury collectibles (watches, jewelry, classic cars, wine, etc.), which could potentially expand the domain of art and finance beyond fine art. This broadens opportunities for the art and finance industry to a new client base and valuable luxury collectible market. Additional support for the art and finance industry can also come from developments at the national level. In this year's report, we have two contributions on Japan, showing that the world's third largest economy is increasing its activities around culture and creative industries.

Finally, we believe that the art and finance industry cannot grow unless it also helps address some of the inequities that we see in the art market today. A very small percentage of artists account for a disproportionate share of market value (see opinion piece on page 41), which creates an imbalance in the art ecosystem that could seriously impact the broader art

market and cultural sector in the future. Our focus on social impact investment in art and culture in the Report's last three editions aims to highlight the growing interest in purpose-led investment models (particularly among younger generations) and demonstrate opportunity to develop alternative finance models to ensure a more sustainable future for art and culture.

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**The structure of this year's report will be familiar to past readers:**

**Section 1\_**  
Wealth and the global art market

**Section 2\_**  
Art & Wealth Management Survey

**Section 3\_**  
Art wealth protection, estate planning and philanthropy

**Section 4\_**  
Culture & social impact investment and sustainability

**Section 5\_**  
Art-secured lending

**Section 6\_**  
Art and investment

**Section 7\_**  
Art and technology

**Section 8\_**  
Risk management and regulation

**Section 9\_**  
Conclusion

However, this year's report features an increased focus on family offices – an important stakeholder group for art and collectible wealth management. We have increased the sample of family offices from 21 in 2001 to 32 this year, and several contributions address family offices' needs and challenges. We will continue to focus on this segment in future reports.

We surveyed 63 private banks (up from 59 in 2021) out of which 2 are software banking providers and 13 wealth management companies.

All previous reports can be found at [www.deloitte-artandfinance.com](http://www.deloitte-artandfinance.com). This year's edition is digital, aligned with our environment and energy policy to minimizing environmental impact.

We hope this 8th edition can inspire, encourage and act as a useful guide for those wishing to explore or help build a solid foundation between the art market and the wealth management industry.

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**GALLERY**  
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# Methodology

**Table 1: Art & Finance report Survey participants by category**

Sample	2011	2012	2014	2016	2017	2019	2021	2023
Private banks	19	30	35	53	69	54	59	63
Family offices	0	0	14	14	27	25	21	32
Art collectors	48	81	90	94	107	105	115	123
Art professionals	140	112	122	126	155	138	182	197
Art-secured lenders	-	-	-	-	-	-	11	20
<b>Sample total</b>	<b>207</b>	<b>223</b>	<b>261</b>	<b>287</b>	<b>358</b>	<b>322</b>	<b>388</b>	<b>435</b>

Deloitte Private and ArtTactic conducted the report's research between February 2023 and May 2023.

As in previous editions, we also surveyed important stakeholders in the art and finance industry, such as art collectors and art professionals (i.e., galleries, auction houses, art advisors, art lawyers, art insurers, art logistics specialists, etc.). A total of 197 art professionals (up from 182 in 2021) and 123 art collectors (up from 115 in 2021) participated in the survey. These stakeholders, representing Europe, the United States, the Middle East, Latin America and Asia, were surveyed on a variety of themes and topics related to art as an asset class, the role of art in a wealth management context, the impact of technology, new art investment models, and current and future challenges and opportunities.

Throughout the report, we use NextGen collectors and younger generations of collectors interchangeably to refer to art collectors 35 years and younger.

**Sample differences:** Each year's results may be affected by variations in the sample size and the geographic location of the wealth managers that responded to the survey.

We also expanded our survey among 20 art-secured lenders this year (up from 11 in 2021), which included eight private banks and twelve asset-based lenders.

We would like to express our gratitude to all survey participants; without their support and enthusiasm, this report would not have been possible. We would also like to thank Livia Li, Director at Prestige Arts Club, for her support in surveying and interviewing four Chinese private banks and two family offices for this year's edition of the report.



Deloitte Private and ArtTactic recognize that the findings are indicative and understand their limitations. However, we believe the results broadly reflect the current perceptions and attitudes of the global wealth management community, as well as art professionals and collectors.

### **External data and analysis**

Section 1 of the report also includes a 12-month outlook across various geographic art markets. These findings were based on a qualitative ArtTactic Art Market Confidence Survey conducted among 117 art experts in July 2023. Section 1 also features auction data analysis of various modern and contemporary art markets. This data is predominantly from Sotheby's, Christie's and Phillips, but regional art market profiles also include other auction houses that

represent major market shares in regions such as China, India and Africa. This year, we have also included data and market analysis of the nascent non-fungible token (NFT) market; this is based on data and analysis provided by Meta4 Capital.

In the art investment section of the report (Section 6), we examine the performance, risk and correlation between art and other asset classes, drawing on data analysis from Artnet. For more information on the methodology used, please refer to page 320.



### External contributions

In this year's edition, we are delighted to feature 55 leading experts who contributed 31 articles. These provide our readers with new insights on a wide range of initiatives and models that tackle the opportunities and challenges facing the art market and the wealth management industry over the next decade. We are delighted to have collaborated with eight Deloitte offices that contributed 13 out of the 31 articles: Deloitte Luxembourg, Deloitte US,

Deloitte UK, Deloitte Germany, Deloitte Japan, Deloitte Italy, Deloitte CIS, Deloitte Netherlands and Deloitte Switzerland. Deloitte Switzerland also supported for the part 1 of the section 1 on the Wealth management trends.

The broad range and geographic diversity of these contributions align with our vision and goal to be an independent and neutral voice of the market. It also reflects our ambition to be as international as the global art market itself is.

## SECTION 01

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### Where art, science, space and tech meet

Mariam Brian, CEO and Founder of Holo Art

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### Japanese art scene trends 2023

Kiyohiko Nagai, Managing Director, New Business Development, FSI Competency, Risk Advisory, Deloitte Japan; Ayari Mima, Senior Staff, Deloitte Japan

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### Demystifying the Japanese art market

Josephine Ayako Yamada, Head of Innovation & Governance, CEO Office, Corporate Planning, Startbahn; Katsunori Takahashi, Head of Private Banking, Sumitomo Mitsui, Banking Corporation

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### Impact of import VAT on art circulation within Europe and implementation of new Directive (EU) No. 2022/542

Andrea Sirio Ortolani, Member of the Board of Apollo Group; Matteo Rumor, Custom duty expert, Deloitte Italy; Davide Bleve, Tax Partner, Deloitte Italy





## SECTION 02

### — **Wealth management trends**

Jean-Francois Lagasse Partner, Financial Services Industry Switzerland and Global Wealth Management Leader, Deloitte Switzerland; Dr. Christoph Künzle, CFA Director, Monitor Deloitte, Wealth and Asset Management Industry Switzerland, Deloitte Switzerland

### — **The advancements of art investment in the Middle East**

Arif Amiri, Chief Executive Officer, DIFC Authority

### — **Five takeaways from five years of reflection on art & collectibles**

Monica Heslington, Head of Goldman Sachs Family Office Art & Collectibles Strategy

### — **Why art collections need the same strategic risk management as other family assets**

Maria de Peverelli Partner, Executive Chairman, Art Management, Stonehage Fleming Financial Services limited; Anna Smith Senior Collection Manager, Art Management, Stonehage Fleming Financial Services limited

### — **What family offices and principals need to know about the art market**

Hannes Hofmann CFA, Managing Director Global Head, Global Family Office, Citi Private Bank

## SECTION 03

### The "Great Art Mismatch"

by Morgan Stanley

### Addressing pitfalls in art collectors' estate planning: A family office approach

Dr. Sara Adami-Johnson, VP, HNW Planning Services specializing in international estate, art and digital legacy planning for RBC Family Office Services

### A glimpse into the world of art foundations today

Helena Stork, Co-Founder - World Art Foundations

## SECTION 04

### Mapping cultural and creative impact funds around the globe

Florencia Giulio, Co-founder of Pulso; Luis Berruete, Partner & Co-founder of Creas; Patricia Gabeiras, Partner & Co-founder of Gabeiras & Asociados

### The art of investing: How social impact investment drives cultural change

Chase Mayo, Senior Consultant, Finance & Enterprise Performance, Deloitte Consulting LLP

### Measuring and reporting the impacts of culture - Proposal for a new methodological approach

Roberta Ghilardi, Sustainability Manager, Deloitte Italy

### Art assets and cultural initiatives as a driver for social sustainability - Preliminary results

Roberta Ghilardi, Sustainability Manager, Deloitte Italy; Italo Carli Head of ARTE Generali Italy

## SECTION 05

### Exploring the full power of your art as a financial asset

Sam Cook, EMEA Head of Specialty Lending Solutions, J.P. Morgan Private Bank; Levi De Feyter, Wealth Advisor Benelux, J.P. Morgan Private Bank (Brussels)

### Painting a picture of the art-lending landscape - A leading non-bank lender's perspective

Rebecca Fine, Managing Director, Art Finance, Athena-Art Corp

### Bridging Industries and the road to optimizing art as a financial asset

Harco van den Oever, CEO, Overstone; Mia Bouriss, CEO, Overstone Finance; Chen Chowes, Head of Operations, Overstone

### Artworks on tour: Is security interest also along for the journey?

Dr. Marcell Baumann, LL.M., Rechtsanwalt, Deloitte Legal Rechtsanwaltsgesellschaft mbH

## SECTION 06

### **A look at the performance of art as an asset class**

Robert Cacharani Director, Business Intelligence, Artnet; Mia Fernandez Data Analyst, Business Intelligence, Artnet

### **Case study: ARTEX MTF AG - Understanding art IPOs: Risks and rewards of investing in iconic art stocks**

Yassir Benjelloun-Touimi Co-Founder & Chief Executive Officer, ARTEX

## SECTION 07

### **The art of creating a legacy - How technology takes family art collections to the next level**

Cindy van de Luijtgaarden-Braat, Partner & Lead Private Client Services, Deloitte Netherlands; Frank de Vries, Director Private Client Services, Deloitte Netherlands

### **Arts & Culture on and off the blockchain - History and use cases for collectors & family offices**

Valérie C. Whitacre, Trilitech, a London adoption hub of the Tezos blockchain ecosystem

### **From storerooms to blockchains: How Web3 and NFTs can unleash your art collection's untapped potential**

Paul De Blasi, Partner, Head of Deloitte Legal & Private Romandie; Fabien Lopez, Innovation Director, Deloitte Switzerland Alberto Lenzi, Innovation and Web3, Deloitte Switzerland

### **Visual art in the age of AI**

Igor Rodin, AI Expert, Art collector, Ex-partner, Deloitte

### **Navigating art investment: Enhancing family offices' decision-making through risk analytics**

Chloris Yu, Manager, Risk Advisory, Deloitte LLP

## SECTION 08

### **Anti-money laundering regulations for art market participants: A state-of-the-art analysis**

Nicolas Marinier Partner, Forensic & Financial Crime, Deloitte Luxembourg Maxime Heckel Partner, Forensic & Financial Crime, Deloitte Luxembourg Astrid Brandy, Senior Manager, Advisory & Consulting, Deloitte Luxembourg Andrea Marchetto Manager, Forensic & Financial Crime, Deloitte Luxembourg

### **Markets in Crypto-Assets Regulation (MiCA) and the art market**

Arnaud Duchesne, Managing Director, Risk Advisory, Deloitte Luxembourg; Benoit Sauvage, Director Risk Advisory, Deloitte Luxembourg; Maria Josefin Johansson Juup, Senior Manager, Risk Advisory, Deloitte Luxembourg; Érica Ventura, Senior Consultant, Risk Advisory, Deloitte Luxembourg

### **The time to act is now: How to increase accountability in the art market - Redefining dispute resolution to grow customer confidence**

Ashley Gallant Managing Director of the British Antique Dealers' Association (BADA); Fred Clark Senior Associate at law firm Boodle Hatfield LLP

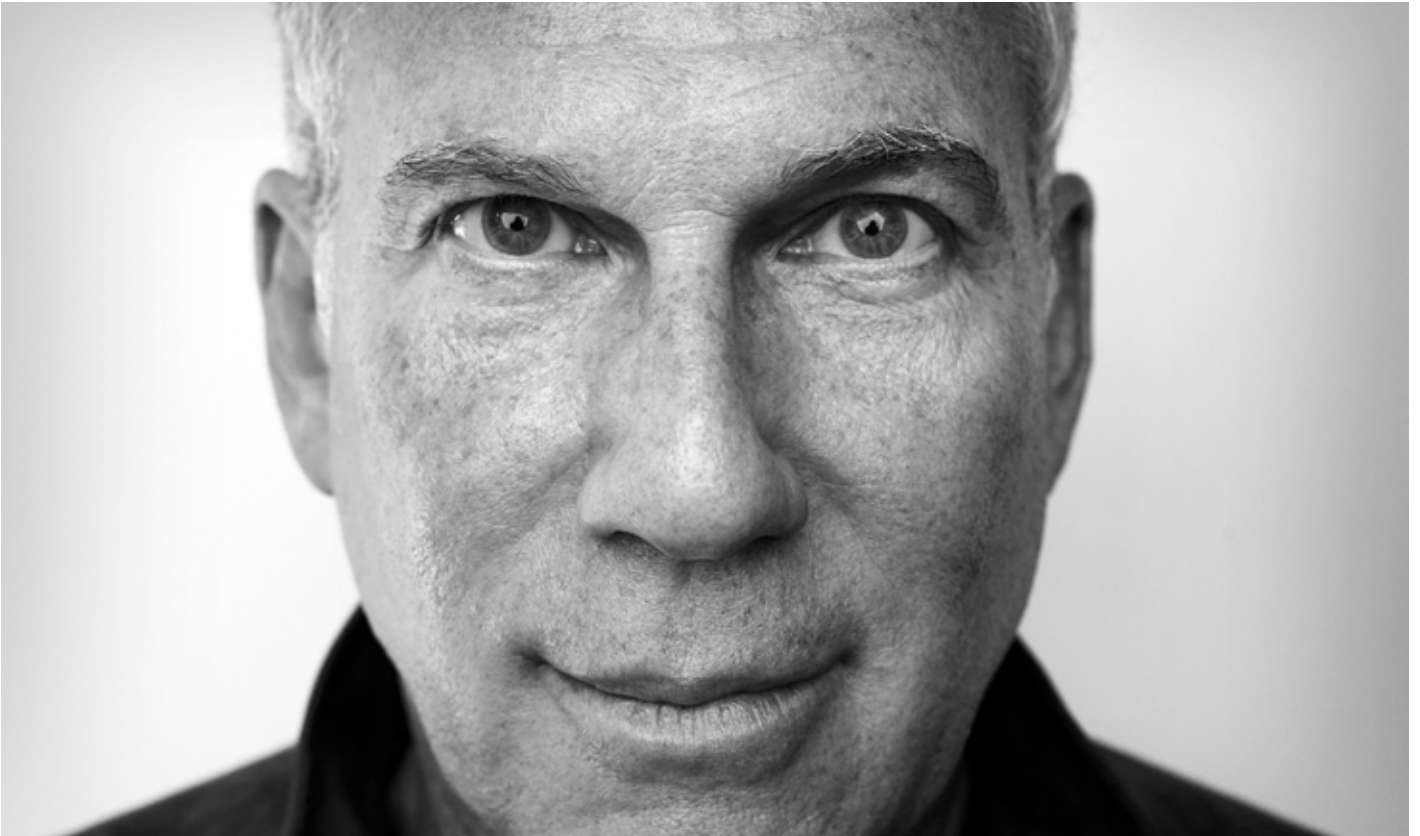
### **Managing financial risk at public auctions from a seller's perspective**

Christine Bourron CEO Pi-eX Ltd



GALLERY  
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# Artist acknowledgment\_

## Jonathan Prince

From a young age Jonathan Prince knew he was an artist. Prince is now known for his monumental steel sculptures, often seen in-situ in public environments and prestigious private collections. But, Prince's path towards a large-scale practice was a journey of risk, luck and realization.

When Prince was a teen, he found himself spending weekends in the studio with Jacques Lipschitz where he learned the language of sculpture in bronze and stone. Just as the mind and hand can impress upon elemental materials to mold new

forms, Prince, too, was forever shaped by Saturdays with Jacques.

But life had other plans for Prince—at least for the first few decades. Prince initially pursued the family trade—maxillofacial surgery—a mismatched fit, with the reaction leading to producing films in Hollywood. Through his time in the movies, Prince was connected to the then-budding digital sphere. Soon he was directing companies into the internet revolution, developing media and digital technologies that have helped to shape our digital world today.



Life was fun and exciting; but Prince knew there had to be something else. That something was art, and Prince could no longer deny the artist inside of him. About twenty years ago, he relented by leaving the corporate carousel for the full-time pursuit of his art practice.

It's essential to Prince that his inquiry of monumental sculpture goes beyond just form. Prince's practice is a commitment to scientific study, spiritual exploration, and a profound reverence for the human condition. Prince has developed his own language that arrived from the many thousands of hours he's devoted to fabricating these works at his studio in the Berkshires, Massachusetts.

Prince remains one of the only sculptors to fabricate each piece by hand with his dedicated team in his own studio. He runs his eponymous 20,000 sq. ft. studio

from inside an early 20th-century barn in the Berkshires, filled with state of the art, operating machinery allowing Prince to make at the heightened scale that his inquiries demand. His studio is a part of the universe he's built as Berkshire House, the artistic compound, home and intimate exhibition space for creative collaborations.

In fractured geometries and material improbabilities, there is balance and resolve—a life-lesson and artistic motivation that inspires Prince everyday.

Prince's work has been exhibited at Chesterwood Museum, Christie's Sculpture Garden and the Eli and Edythe Broad Museum, at MSU. Prince has had works publicly on view in New York at 590 Madison Sculpture Garden, Pier 64 Hudson River Park, and Dag Hammarskjold Plaza; and sits in the collections of the Joseph M. Cohen Family Collection; Julie

Prince remains one of the only sculptors to fabricate each piece by hand with his dedicated team in his own studio.

and Edward J. Minskoff Collection; The Brigham and Women's Hospital, Boston, MA; and PricewaterhouseCoopers. Currently, the 24-foot Tumbler is on view in the permanent collection of David and Jennifer Feldman at the Long Meadow Art Residency in New Marlborough, MA.

# 2023 Key report findings\_

## (Summarized version)

### Section 1\_

#### Wealth and the global art market

##### **Global UHNWIs art and collectible wealth estimated to exceed US\$2 trillion:**

We estimate that UHNWIs' wealth associated with art and collectibles was US\$2.174 trillion in 2022 and predict this figure could grow to an estimated US\$2.861 trillion in 2026, due to the increased number of UHNWIs across the world and their increased allocation of wealth to art and collectibles. Art and collectible wealth in 2023 is anticipated to increase due to an average 3.8%<sup>2</sup> increase in art values between July 2022 and July 2023.<sup>3</sup> Growth is also boosted by an increase in overall wealth as world stocks rallied 12%<sup>4</sup> in the first six months of 2023.

##### **Art market fails to capture growth in overall wealth:**

The anemic 14-year annual growth rate<sup>5</sup> of 0.6% in the art

market has failed to outpace inflation, with global art market sales shrinking in real terms since 2008. This signals that the overall art market is struggling to attract the attention of the larger high-net-worth (HNW) population and their wealth, compared to industries such as the global luxury goods market.

##### **Luxury collectible sales reach new heights in 2022 and could signal new opportunities for the art and finance industry:**

The growth potential of the luxury collectibles market is evident in last two years' auction sales surge, which reached a record high in 2022. We expect to see growing interest in the financialization of luxury collectibles and potential to tap into the much broader and larger luxury goods industry (valued at US\$1.5 trillion<sup>6</sup>). Luxury market stakeholders should start integrating this financialization into their business strategy.



## Section 2\_ Art & Wealth Management Survey

### A 12-year retrospective

Between December 2011 and November 2023, Deloitte Private and ArtTactic have published eight Art & Finance Reports. Our 12-year analysis from art and finance stakeholders (wealth managers, collectors and art professionals) shows encouraging, upward trends regarding art's role and importance in wealth management. We see a growing consensus among stakeholders' narratives and motivations for including and developing art wealth management services. Client demand for art and wealth management services has also grown over the last 12 years.

**Significant share of wealth associated with art and collectibles:** On average, client allocation to art and collectibles was 10.9% based on our 2023 survey of wealth managers. (Private banks reported an average of 8.6% allocation, and family offices report an average allocation of 13.4% to art and collectibles). Among wealth managers surveyed, 63% have integrated art into their wealth management offering (67% of private banks and 60% of family offices).

**The push toward holistic wealth management offering is likely to benefit the art and finance industry:** Client continue to demand new products and services, such as private markets, personalized advice and seamless omnichannel experiences. This year, 90% of wealth managers (94% private banks and 81% family offices) surveyed said that the need to develop a holistic advisory relationship with their clients was one of the primary reasons for including art and collectibles in a wealth management service offering. The role of "advice" in wealth management will continue to become more holistic, experiential and

consumer oriented, a trend that should have a positive impact on the evolution of art and wealth management services.

**Convergence between stakeholders reaches new high:** Our 12-year survey analyses of different art and finance stakeholders within the wealth management community (private banks, family offices and independent wealth managers), plus collectors and art professionals show encouraging and positive trends for the role of art and its importance in wealth management. Stakeholders' narratives and motivations for including and developing art wealth management services are unifying. Across these stakeholders, an average of 89% believe art and collectible wealth should be part of a wealth management offering versus 65% who said the same in our first survey in 2011. This is the highest percentage in the Art & Finance Report's history.

**A shift toward the underlying economics of art ownership:** Emotional value remains the key driver for buying art (according to 60% of collectors), but for the first time in 12 years, 41% of collectors said financial value is their primary motivation overthrowing social value (at 36%) as the second highest motivation. The sector is shifting toward more financially driven considerations, such as looking at art from a perspective that centers portfolio diversification, protection against inflation and return on investment. With similar trends seen in luxury collectibles—blurring the lines between fine art, collectibles and luxury assets—our Art & Finance approach (that up to now has predominantly focused on fine art) now also applies to collectibles and luxury assets.

**Financial gain and social impact are priorities to younger generation of collectors:** Younger collectors seem even more motivated by financial benefits

surrounding art ownership compared with collectors from previous generations. This year, 83% of younger collectors said that investment returns were a key motivation (up from 50% in 2021); 61% said that portfolio diversification was important (up from 51% in 2021); and just over half (51%) said that they saw art as a safe haven in times of uncertainty (up from 34% in 2021). This tells us about how the new generation of collectors may relate to art as an alternative capital asset class, both now and in the future. We also see a stronger motivation (41%) for social impact investment among younger generations that are seeking purpose-driven investment strategies (up from 31% in 2021).

**Interest for pure art investment increasing among family offices but remains a niche service:** Over the next 12 months, family offices (22%) show a stronger appetite for expanding art investment services (art funds, managed accounts, impact investment, fractional investment, etc.) than private banks (14%). This could mean that family offices are taking a more proactive interest in new art investment models, compared to the more conservative private banking industry.

## Section 3\_ Art wealth protection, estate planning and philanthropy

**Generational wealth transfer already feeding the art market:** With a conservative average of 10.9% of wealth allocated to art and collectible assets, wealth transfer increasingly involves art and collectible wealth. Much of today's wealth is controlled by men from the baby-boomer generation, but this is likely to change as they pass their wealth to spouses and children.<sup>7</sup>

Evidence of this art wealth transfer is apparent, with 2022 emerging as the record year for single-owner collections entering the auction market, with sales in 2022 up 64% from 2021. Although fewer single owner collections have come to the market in the first half of 2023, major private collections have entered the market in the second half of this year, such as the prominent collection of Emily Fisher Landau.

**Connecting with the next generation:**

This year's survey shows that younger collectors differ from previous generations when it comes to motivations and needs when buying and investing in art. They are focused on art investment returns (83% young collectors vs 44% older collectors) and also emphasize social impact investment (41% young collectors vs 30% older collectors). They also perceive risk management as a more relevant service (70% young collectors vs 45% older collectors). Building relationships with different generations within a family will become a critical part of understanding each's needs and is an opportunity for wealth managers to engage the next generation on their plans and preferences regarding art and collectible wealth.

**Collection management is the basis for protecting art-related wealth:**

A fundamental part of art and wealth protection rests with how clients manage their collections, with 52% of collectors saying this was the most relevant service this year. Strong client collection

inventories allow wealth managers to better understand their clients' art-related wealth, not to mention enables them to proactively protect historical, cultural and financial value.

**Record-keeping is a manual process ripe for automation:**

The large majority (76%) of collectors have yet to adopt art collection software as part of collection management, with 49% keeping records and information in spreadsheets and 27% in paper documents. Only 24% of collectors are using dedicated collection management software; the subset of younger collectors report a slightly higher percentage (29%) of software use.

**Art-focused estate planning is urgently needed:**

Only 24% of the collectors surveyed have a long-term plan for their collections, indicating an urgent need for wealth managers to have conversations with their clients about art and estate planning.

**Section 4\_**

Culture & social impact investment and sustainability

**G20 reaffirmed that cultural and creative sectors (CCS) are a major engine for sustainable socioeconomic recovery:**

While often perceived to be of little relevance to the overall economy, economic data shows that CCS are a key

A shift toward the underlying economics of art ownership: Emotional value remains the key driver for buying art, but for the first time in 12 years, financial value is the second highest motivation.

growth driver in many countries and represent some of the fastest-growing sectors in the world economy. The G20 in India, which took place 9-10 September 2023, reaffirmed culture as a major engine for sustainable socioeconomic recovery.<sup>8</sup>

**Sustainable impact investment in art and culture could become an attractive investment model, especially for the younger generation:**

In this year's survey, we see a slight increase in interest in art and culture-related sustainable impact investment among art professionals, wealth managers and NextGen collectors. 24% of collectors (28% in 2021), 30% of art professionals (23% in 2021) and 30% of wealth managers (21% in 2021) identified sustainable impact investment in the arts as the most attractive investment model. This was significantly higher among the younger demographic (below age 35), where 66% (50% in 2021) said socially responsible investment products in culture would appeal the most to them. Wealth managers who expand their sustainable investment offerings may be better positioned to attract and engage the younger client segment. Broader investment trends, such as increasing focus on ESG-compliant investments, could also be filtering down to the cultural space.

**Nearly a third of family offices are interested in social impact investment in art and culture:**

31% of the family offices surveyed express strong interest in investment products focusing on social impact investment in culture (down from 36% in 2021, but up from 16% in 2019). In addition to outright investment in artworks, social impact investment products were the most popular alternative art investment model this year, demonstrating that impact investments are becoming more appealing to family offices.

**Investors continue to see social impact investments as an opportunity:**

In parallel with a downward trend in

government arts and culture spending, there is greater appreciation for the positive impact culture and creativity can have on economic development. As a result, new financial ecosystems are emerging around investment into culture, including public, private and philanthropy funding and investment. In this year's survey, 41% young collectors and 30% of older collectors said social impact investment in art and culture was among the primary motivations for their involvement in the art and collectibles market, with 50% of young collectors and 45% of older collectors seeing art philanthropy as one of the most important services offered by the wealth management industry. It is essential, therefore, to have a better understanding of the relationship between responsible finance and culture.

## Section 5\_ Art-secured lending

**The art-secured lending market could reach US\$29 billion by the end of**

**2023:** Despite higher interest rates, we conservatively estimate that the overall size of outstanding loans against art could reach a market size between US\$29.2 billion and US\$34.1 billion in 2023, up 11% from 2022. Since our last survey in 2021, the overall art-secured lending market has grown 10.3% annually.<sup>9</sup> However, growth is anticipated to slow down in 2023 to 7.5% and increase slightly in 2024 to 8%. We estimate that US\$2.2 billion in revenue could be generated from the art-secured lending market in 2023. We also estimate art-secured loans to private collectors between US\$26.3 and US\$30.7 billion in 2023, with the art trade (galleries and dealers) accounting for an estimated US\$2.9 billion to US\$3.4 billion. In a more uncertain and volatile economic environment, liquidity could support the growth of the art-secured lending market over the next two years.

**For private banks, providing liquidity for business operations has been the primary driver of growth:**

80% of the private banks surveyed said that the need for liquidity for business operations was a key driver for art-secured loans, and 83% of asset-based lenders said the same.

For family offices, however, buying more artworks is the strongest motivation for using art leverage: 41% of family offices say they would consider using art-secured loans to fund the acquisition of more artworks (up from 8% in 2021).

**Globalization of the art-secured lending market:**

Asia and Europe are becoming strategic markets for art-secured lending, as the US market reaches maturity. 39% of art-secured lenders said that Asia (and Hong Kong, in particular) will be a strategic market for growth over the next two years, compared to 10% in 2021. Europe is also seen as an untapped market, with 78% of art-secured lenders viewing it as an opportunity, compared to 70% in 2021. However, lenders see less opportunity in the mature art-secured lending market in the United States, with 56% believing this would be the most important market over the next two years, compared to 70% in 2021. These findings might also reflect greater awareness among collectors outside of the United States about the possibility to leverage their art collections.

**Section 6\_**

## Art and investment

**Art acts partially as a hedge in times of uncertainty:**

According to Artnet's Index for Fine Art, the fine art market exceeded the S&P 500's performance between January 2022 and July 2023, where fine art returns grew a nominal 4.2% against a 6.6% loss for the S&P 500 during the same period. Despite a spike in inflation and higher interest rates, art prices

suffered less than other asset classes during this period of economic stress and demonstrate the asset class' ability to serve partially as an effective hedge, especially with regards to the blue chip, high-end fine art category.

**Art shows mixed long-term performance:**

The financial performance reported by Artnet's indices show modest or negative returns across all categories over the medium to long-term (15 years), underperforming other traditional assets classes such as equity, real estate and gold. *Artnet's index for top 100 fine art* produced a 2.5% compound annual growth rate (CAGR) between 2008 and first half of 2023, compared to 8.5% for S&P 500, 3.8% for real estate and 4.9% for gold.

**More regulated fractional art ownership initiatives emerge:**

In the last three years, worldwide interest in fractional art and collectibles investment has exploded, particularly among the younger generation of collectors (50% of young collectors vs. 14% of older collectors) expressing a strong interest in these products. With an estimated AUM of more than US\$1 billion in 2023, and with multiple initiatives being regulated by financial regulators for the first time, we may have entered a new era of fractional ownership in art and collectibles which could have a greater chance of gaining mass adoption this time.

**Younger collectors more open to new art investment models:**

The interest in fractional ownership among younger collectors surveyed is significantly higher this year than that of older collectors, with 50% (up from 43% in 2021) saying that they are interested in these types of investment. Young collectors also express a stronger interest in art investment funds (50% this year, up from 29% in 2021).

**Wealth managers and older generations of collectors have more conservative approach to fractional ownership and tokenization:**

Possibly due to the emerging nature of the fractional ownership industry, only 23% of wealth managers (18% private banks and 34% family offices) said they believed fractional ownership and tokenization of art and collectibles would be interesting investment products for their clients (down from 29% in 2021), with 34% of art professionals stating the same (up from 26% in 2021). Collectors remain slightly more cautious, with 21% saying this would be an investment product of interest (no change from 2021).

**Section 7\_**

## Art and technology

**Technological innovation drives the art and finance sectors closer together:**

Advancements seen in the intersection between art and technology will benefit the future development of the art and finance industry. 64% of wealth managers surveyed this year said that technology could be a catalyst for incorporating art and collectible assets into their existing wealth management services. While only 18% of wealth managers in 2019 said that blockchain technology could have a significant impact on the development of art and wealth management services, a significantly higher proportion (58%) of wealth managers said the same this year.

**Technological innovation will drive more transparency in the art market:**

This year, 81% of wealth managers, 79% of collectors and 83% of art professionals said that technology could be a catalyst for greater transparency in the art market. Transparency is one of the key challenges to consider when incorporating art into wealth management service offerings.

Younger collectors more open to new art investment models: The interest in fractional ownership among younger collectors surveyed is significantly higher this year than that of older collectors, with 50% (up from 43% in 2021).

**NextGen collectors drive digital transformation:** 80% of young collectors believe in blockchain as an asset register for art and collectibles, and 79% see the rapid developments around artwork identification technologies as instruments to address many of the current inefficiencies in today's art market.

## Section 8\_ Risk management and regulation

**Urgent need for modernization:** Over the last seven years, there has been a strong consensus among stakeholders that the art market needs to modernize its business practices. 76% of wealth managers (up from 69% in 2021), 82% of art professionals, and 70% of collectors agree. Among the key challenges are lack of transparency (74% of wealth managers said so), issues related to authenticity, lack of provenance, forgery and attribution (80% of wealth managers said this was a key hurdle), and 63% of wealth managers said the lack of international standards around professional qualifications in the art market was a key hurdle. The perception that the art market has failed to update and modernize business practices

is a clear challenge for the market's future growth and development and evolution of art as an asset class.

**Self-governance vs. more regulation—opinions are divided:** 44% of wealth managers (same in 2021) believe government regulation is the appropriate response to establish trust and credibility in the art market. 70% of family offices surveyed said they believed self-regulation would be the most appropriate way to tackle the issues facing the art market, while only 30% believe government regulation would be the appropriate answer. However, 50% of art professionals this year said they believe regulation could play a role in restoring trust (up from 36% in 2021). This is the highest percentage ever recorded, which could suggest that art industry stakeholders see government intervention as a remedy for restoring trust and credibility.

**Adoption of more transparency and regulation not happening fast enough:** Despite the emergence of improved technology, more data and increased AML regulation, the general view across stakeholder groups is that improved transparency and regulation will take longer than envisaged in 2021. Only

13% of wealth managers said increasing transparency and regulation will take place within the next two years (down from 27% in 2021). 37% of wealth managers said it will take more than five years (up from 28%), and 8% said it will never happen (up from 5% in 2021).

# Priorities\_

## Regarding Fine Art & Collectible assets

The next frontier for art and wealth management includes Luxury collectibles.

Since the COVID-19 pandemic in 2020, the market and value of luxury collectibles have risen significantly, with auction sales at Christie's, Sotheby's and Phillips almost doubling (+92%) between 2020 and 2022 and with H1 2023 showing no signs of a market slowdown. Although the luxury collectibles market only accounted for 14.8% of the total auction sales in 2022, in the first half of 2023, the share of the overall market has increased to 19.6%. With the personal luxury goods market significantly outpacing the growth of the art market since 2008, and representing US\$353 billion in sales in 2022 compared to US\$68 billion in art sales, it is clear that one of the avenues for potential future growth of the art and finance industry is the incorporation of luxury collectibles in an art and wealth management offering. Wealth managers have the opportunity to broaden their art-related service offering beyond fine art to also include a broader range of new and vintage luxury collectibles, such as jewelry, watches, cars, luxury handbags, furniture and homewares, and other designer goods. As the definition of the art and collectible asset class widens, revealing the potential value in luxury

collectibles, there will also be a greater need to understand potential opportunity and impact for companies in the luxury sector. The fine art market could also draw inspiration and learn from the much larger luxury goods market (i.e., how it builds trust with its consumers through professional business practices, price transparency and standardization, and via multiple access points for consumers and effective mass communication about both financial and social value).

## Regarding wealth managers

Financial and non-financial benefits of art-related service offering can be better understood and communicated.

While large US private banks have offered art-related services for decades (Citibank started in 1974), more awareness and education around both the financial and non-financial benefits of catering to art and collectible assets is needed among wealth managers in Europe and Asia. Wealth managers must not only *support long-term financial* stability and prosperity, but also the long term purpose of the collections, from both a financial asset perspective (collection management, leverage, estate planning, etc.) and a more human and emotional perspective, as 84% of



collectors say “emotional value” is the most important driver when buying art. In an industry where providing a holistic wealth management service offering is becoming a competitive edge, wealth managers need to better understand, analyze and communicate the benefits of engaging with their clients’ art and collectibles-related wealth.

### The global wealth transfer requires a change in mindset among wealth managers.

With an estimated US\$2.17 trillion in art and collectibles wealth held by ultra-high net worth individuals (UHNWIs), a significant portion of this wealth will be passed to new generations in the next two decades. There is an opportunity, but also a responsibility, for wealth managers to develop closer dialogue with older and younger generations to ensure a smooth and strategic transition when

it comes to art and collectible wealth. For example, wealth managers and their clients need to ensure proper inventory, collection governance, and philanthropic and tax planning. Per our survey of wealth managers this year, there is relatively low awareness and engagement with clients around art and estate planning issues, with 18% of wealth managers saying their clients’ estate plans do not sufficiently address their art collections and a further 24% saying they don’t know. Another important aspect in the intergenerational transfer of art-related wealth is alignment on a collection’s future purpose, which could focus on social impact, philanthropic and purpose-led initiatives. The combination of financial factors driving art and collectible<sup>10</sup> wealth combined with the strong emotional and social component of art ownership – creates an unique opportunity and responsibility for wealth managers to fulfil their fiduciary responsibilities to their clients’ overall wealth.

### Regarding sustainability and impact investment

Social impact investment in art and culture could become a new opportunity for the wealth management sector.

Social impact investment in art and culture is in its infancy with nascent understanding among wealth managers. Only 30% of wealth managers thought this would be of interest to their clients, but 66% of young collectors said they were interested or very interested in social impact investment products in culture. Wealth managers can still pave the way for a new type of purpose-led investment product in the art and cultural sector, specifically aimed at the next generation of wealth. This could provide the culture and creative sectors with an alternative source of financing to tap into but would require better evaluation of and reporting and communication on the investment impact of art and cultural projects.

### Regarding technology

Technology is a catalyst to support the development of art and finance wealth management services.

The art and finance industry needs to explore blockchain technology and fractional ownership as a potential new means to better protect, transfer, monetize and invest in art and collectible assets. This year, 58% of wealth managers said they believed that blockchain technology used to improve the traceability of art and collectibles would have the most impact on the development of art and wealth management services going forward (up from 52% in 2021). Another 43% said the impact of blockchain technology, as a decentralized finance (DeFi) tool, would allow them to more efficiently incorporate art and collectible assets in wealth management. This development is now also supported by regulations like MiCA and MiFID II (see article on MiCA in the art market page 415), which are creating a new regulatory framework for the integration of illiquid alternative assets (including art and collectibles assets) in wealth management.

### Regarding regulation

Regulation and trust remain key issue to address.

This year, 76% of wealth managers said that the art market and the art industry need to modernize their business practices (up from 69% in 2021), with 70% of collectors and 82% of art professionals agreeing. How to best go about this is not clear, with 56% of wealth managers saying that “self-regulation” would be the best approach, while 44% prefer government regulation. Collectors, on the other hand, are less inclined to see more government intervention, with only 28% saying they favor this route, as opposed to 72% who said that

the art market should internally address these challenges. The challenges facing the art market remain relatively unchanged over the last decade and could be a reason for stagnated sales growth over the last 14 years. While the art market often shrouds itself in confidentiality, there is a fine balance between confidentiality and mistrust. Lack of price and transaction transparency often leads to asymmetric information availability between actors in the art market and can undermine trust. Can the art world continue to resist consumers’ demands for more transparency through reliable and instantly accessible information? In a world where misinformation is an ever-increasing problem, it is critical for confidentiality and transparency to coexist in the art industry. This requires a new framework; new technologies (like blockchain) and new data ownership and access models could support both confidentiality where it is required while providing the right level of transparency to create a more efficient and trusted marketplace.



## Provocation

**With the working hypothesis that an inclusive, efficient and growing art market will benefit all art market stakeholders and will support the development of the art and finance wealth management industry, we would like to trigger a broader reflection on the current status of the global art market and the implication for the art and finance industry with a very high-level introduction to the following question:**

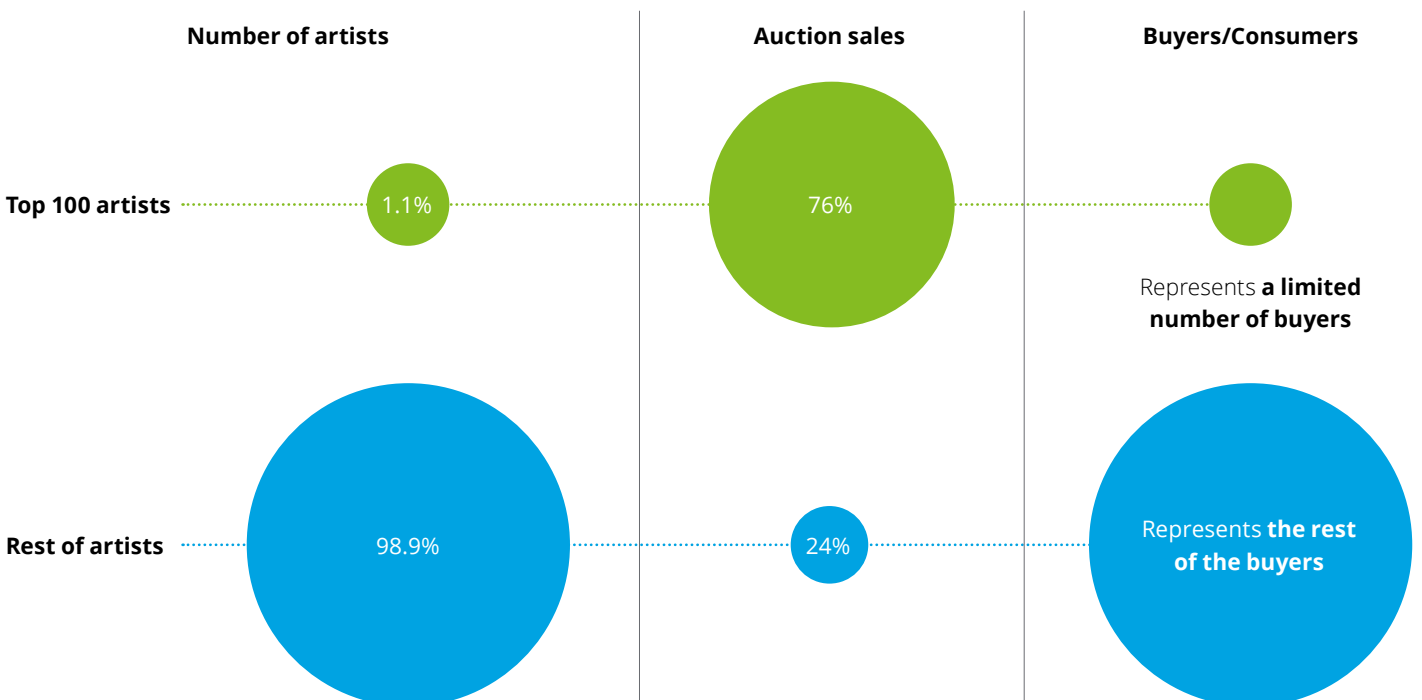
***Is a top-heavy art market hindering growth and wider impact on the art market ecosystem and the development of the art and finance wealth management industry?***

Our analysis shows that just over 1% of artists control more than three-quarters of art sales generated at auction. We can assume that only a small percent of art buyers are behind these transactions, which leaves us with a heavy concentration around a small number of artists and buyers – plus a small number of art professionals (galleries, auction houses, etc.). Could this be one of the main reasons for the art market's overall lackluster growth in the last decade?

**Figure 1: Top 100 artist vs overall artist population - Auction sales distribution**

Based on data for Impressionist, Modern, Contemporary art at Sotheby's, Christie's and Phillips

Source: ArtTactic, Data between 2015 and H1 2023



Based on the The Art Basel and UBS Global Art Market Reports, the global art market has faced stagnant growth over the last 14-15 years, and at the same time, prices in the auction market have reached record high, with 18 of the top 20 highest auction prices achieved between 2008 and 1H 2023 (see analysis on page 75). The top 100 artists by auction sales between 2015 and 1H 2023 accounted for 75% of total sales value of all impressionist, modern and contemporary artists at auction, despite only accounting for just over 1% of the artist population represented in the auction market.

It is evident that the art market is becoming increasingly weighted toward a relatively small number of artists and movements, which in turn has generated increasing interest in the investable characteristics and financial aspects of art ownership. The concentration around a small pool of artists is also mirrored in the art and finance industry, where certain products and services, such as art investment products and art-secured lending are predominantly targeting the same groups of artists, for which price transparency and liquidity is the highest. The inherent risk is that those services could influence not only what is happening at the top end of the art market, but also potentially contribute to and fuel further inequities in the broader art market, rather than support an inclusive agenda of more diversity and growth that could benefit the wider art ecosystem.

But is a growing and more equitable art market desirable? Or should we be content with the status quo? Should we let market forces decide? Classic economic theory states that economic efficiency allows higher levels of productivity, costs reduction, economic growth. So, we would argue that growth is necessary, and only through a broader and diverse growth strategy will we be able to support and maintain creative talents and achieve the wider societal impact that art and culture can offer. The main problem with the current model is that it promotes a discourse of exclusivity, which impacts consumers and artists (and other art market stakeholders).

For consumers, it means that the large majority of art buyers and collectors are priced out from participation in the market; meanwhile for artists, it means that very few have a realistic chance of making a decent living out of their profession and creative output, as a disproportionately large amount of resources and investment goes into maintaining the value of the few.

Another issue is the trickling effect. One could argue that the increase in prices of a small number of artists has led to increasing consumer awareness and interest in art and collectibles and also created a more fertile commercial environment for predominant galleries, auctions houses and dealers and a general expansion of the art ecosystem. However, over the last decade, we have seen a decline in galleries<sup>11</sup> and less public funding for public and not-for-profit art institutions<sup>12</sup>; at the same time, we have seen more private museums<sup>13</sup> being set up and increasing recognition of the benefits culture plays to society. The art market is increasingly becoming dominated by an exclusive elite, which raises the question of how much actually trickles down to the broader art ecosystem.

Another challenge is the structure of the art industry. The art market remains fragmented with a few large players and many small players. This imbalance in the ecosystem also seems to perpetuate the support of a smaller number of artists who are promoted by major auction houses and a few major dealers and galleries. Could we use some of the tools and services developed by the art and finance industry to create a less elitist and top-heavy industry dynamic with a more inclusive art industry? If it is the way forward, new models are required for the art market to grow and become more diverse. But what could these new models look like and how might we achieve a fairer and more equitable future art market?

We believe there are already a number of broader trends that could catalyze this change.

### **Top-down and bottom-up approaches amplify social impact investment models for art and culture.**

Our data analysis clearly shows that the current art market does not provide a fair and equitable distribution of wealth across the broader art ecosystem. However, there are signs that consumers' and investors' mindsets are changing. The broader shift in the financial market toward ESG-driven investments is apparent, with global ESG fund assets reaching about US\$2.5 trillion at the end of 2022, up from US\$2.24 trillion at the end of the third quarter 2022, according to Morningstar.<sup>14</sup> The nearly 12% jump in assets was almost double the growth of the broader global fund market. This suggests a broader shift in investment behavior, a trend we believe also will filter down to the art market in coming years. The question becomes, how do we change investors' mindset about investment in art and culture from self-gratification or financial motivation to a more purpose-led and social impact driven mentality? Part of the long-time challenge faced by the art and cultural industry is measurement and articulation of the societal value of art and culture. However, emerging evaluation models, such as Deloitte's new methodology on measuring and reporting the impacts of culture—plus increasing academic interest in this field—position us to better measure the economic and social impact of art and culture for our society. With these new models and frameworks in place, we have the opportunity to shift the current investment paradigm in the art and cultural industries and to redirect wealth towards building a larger and more sustainable art and cultural sector.

On a grassroots level, these changes have been happening for some time. New micro-philanthropic models, such as Kickstarter and Patreon, founded in 2009 and 2013, respectively, have succeeded in bringing in much-needed support for artists and creatives. These companies have built platforms that allow artists to tap into a fan-based, purpose-led consumer culture,

using technology as the catalyst to reach new audiences.

We also see the next phase of the fractional ownership market, moving from an economic incentivization model toward a more purpose-led model. In this scenario, fractional ownership in the art market could lead to more than just investment returns; it could also be a vehicle for patronage and support of the broader art ecosystem, facilitated by the increasing adoption of blockchain technology discussed further below.

### **Technology as a catalyst to reduce art market inequities**

While awareness around blockchain was initially linked to the explosion of public interest in cryptocurrencies, fueled by rocketing prices of Bitcoin and Ethereum, the frenzy obscured the fact that blockchain is a much more general-purpose technology. The real potential of blockchain lies in its ability to securely track, sub-divide and transfer wealth over the internet—creating the possibility of a true sharing economy. The 2021 boom in the NFT market gave us a potential glimpse of blockchain's impact on the art and creative industries, for good and bad. Although the art market cautiously entered the NFT market in 2021, in the intervening years, the true potential of blockchain technology and how it could address weaknesses in the art market is becoming clearer.

Blockchain, as the digital vehicle of the sharing economy, has the potential of redistributing wealth created in the art market in ways that were previously inconceivable or impractical. Part of the technology's attractiveness is around ownership and how blockchain can ensure that different stakeholders have a share in any future benefit that derives from the creation of an art object or cultural project. Artworks created by artists rely on different stakeholders to create value (the artists themselves, the galleries that support them, the curators that include them in exhibitions, the collectors that buy them, etc.). At the moment, the benefits

are heavily skewed toward the buyer, and although Artist Resale Rights legislation exists to ensure artists get their share of future resales, the model is currently more theoretical which limits applicable benefits. Therefore, mutually beneficial models, in which artists get a percentage of every future transaction, are needed. However, these models should also apply to galleries, patrons and others that have been critical to their artistic development. Using models facilitated by existing blockchain technology could disrupt current wealth distribution to focus on pre-distribution rather than the current model of post-distribution through taxes and benefits, which often insufficiently compensates the creators or the art ecosystem itself. Blockchain could continue to foster innovation and investment while giving everyone a stake in the future—something that is increasingly lacking in today's art market.

Making this work is another matter. The entrenched vested interests in the art market to maintain the status quo will be challenging to address. Also, a weaker NFT market and increasing competition among NFT platforms have led several NFT platforms to make artist royalties optional rather than compulsory for collectors.<sup>15</sup> However, we also see initiatives aiming to counter this trend. The 2022 launch of Artcual, a partnership with MCH Group, Art Basel, BCG X and Luma Foundation, is a technology-based startup created by the art community, for the art community.<sup>16</sup> The company aims to address existing challenges for artists in terms of royalty collection and payment and to provide a more transparent transaction process for galleries and collectors to increase collector confidence. The key feature of this initiative is the collaborative nature of the stakeholders involved, which has the possibility to change the perception and existing practices in the art market from within and address existing inequities. With blockchain, other new patronage models or social impact models could emerge. However, it is important that more of the larger players support such initiatives to make them sustainable and drive the desired impact.

### **Increasing public support to promote dynamic, vibrant economic art and cultural sectors**

The increasing recognition of the importance of the Culture and Creative industries (CCIs) by governments around the world is a positive sign. Initiatives at the level of the G20, the Organization for Economic Co-operation and Development (OECD) and the European Union – to name a few – are very good signs to support the development of CCIs. Cultural policies, around funding, education, employment, professional development, intellectual property protection, promotion and connection, new technologies, leadership, etc., are areas where governments can grow CCIs for a more inclusive, sustainable and ambitious approach to arts and culture. Recent economic crises have put noticeable pressure on public funding for arts and culture, which triggers the search for alternative funding models to fund and promote CCIs. For a few years, we have expanded on the topic of social impact investment, sustainability and culture, as this area lacks attention from both the public and private sector. It would be interesting to further explore public-private partnerships and initiatives around new funding mechanisms, such as the issuance of cultural bonds akin to green bonds (see section 4, page 244).

# The big picture\_

## Growth of an innovative art and finance industry

The transformation of the wealth management sector, the global art market and the cultural and creative sectors (CCS) is rapidly creating new needs and opportunities at the intersection of art and finance:

- High-net-worth individuals seek holistic wealth management offerings.
- Wealth management offerings adapt to new realities, trends and technologies.
- Art and collectible assets represent a sizeable portion of HNWIs' wealth, requiring the same attention as other assets.
- Luxury collectible assets follow the same patterns as the fine art assets.
- A global wealth transfer is impending.
- And a new generation introduces new values.
- The need for new sustainable and innovative financial mechanisms for CCS.
- Social impact investment is developing and can apply to CCS.
- Purpose-led investment and innovation is increasingly demanded in the cultural sector.
- The art sector should improve its efficiency.
- Trust, transparency and regulations climb the agenda.
- Technology matures and offers new ways to do business.
- KYC-AML and fractional ownership regulation is in place.
- Culture is recognized as a major engine for sustainable socioeconomic growth.
- NextGen collectors have different needs and preferences.

All of this is part of a global phenomenon – one with solid, supportive elements to support the growth of an innovative art and finance industry in the years to come.

# The big picture: a unique set of macro trends to a new art world

## ART & FINANCE

### ART TRENDS

Globalization, NextGen, democratization and cultural diplomacy

Trust, transparency, regulation, professionalism

Art and technology, digitalization, virtualization and tokenization

New economic reality for public cultural institutions, soft power of culture, economic driver, world cultural heritage

Creative sectors, cultural citizenship, culture and smart cities

### FINANCE TRENDS

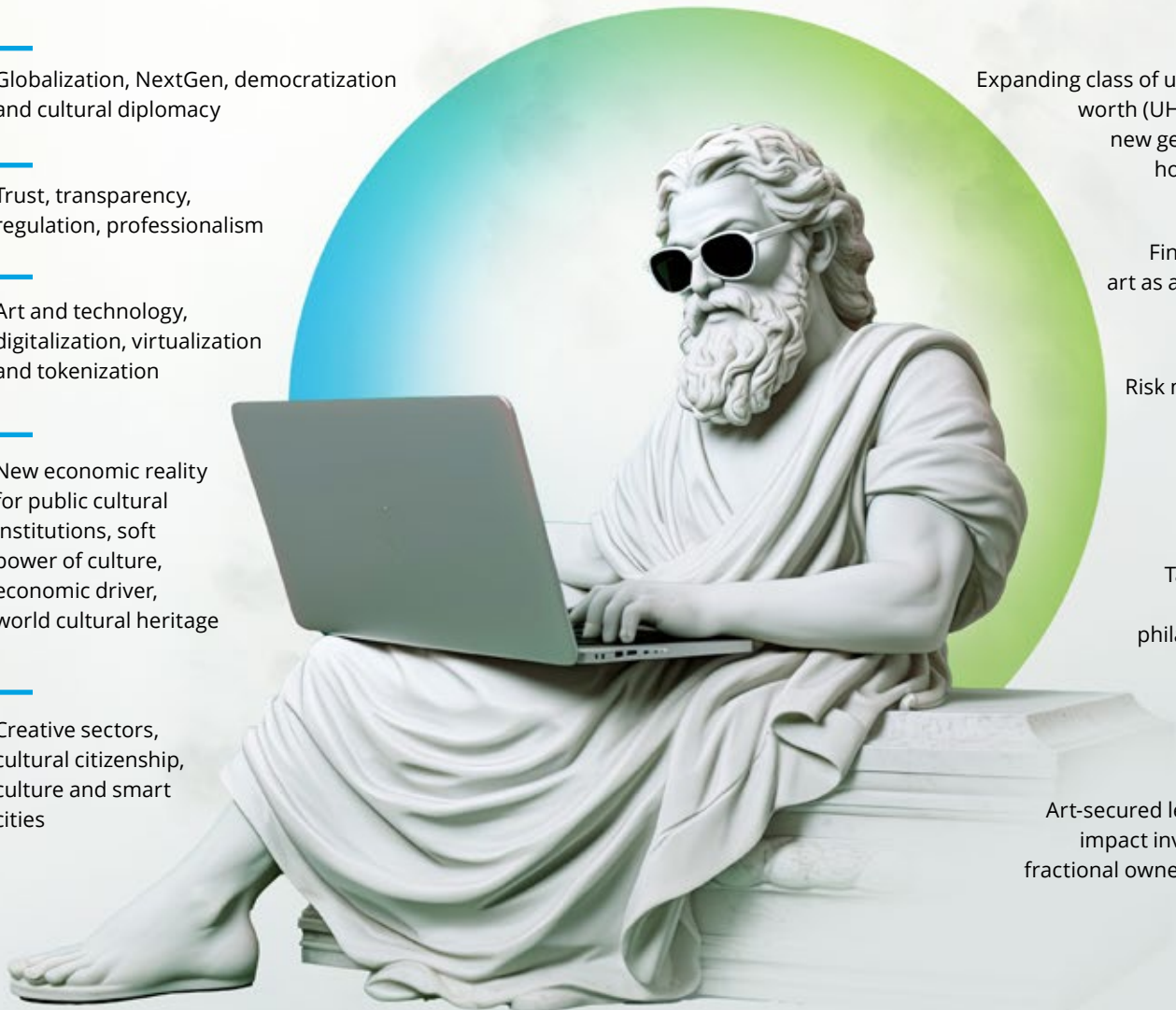
Expanding class of ultra-high-net-worth (UHNWI) buyers, new generation and holistic offering

Financialization: art as a capital asset

Risk management, collection management and asset

Tax and estate assistance, philanthropy and sustainability

Art-secured lending, social impact investment and fractional ownership models



Source: Deloitte Private & ArtTactic Art & Finance Report 7th Edition

The art and finance industry is uniquely positioned at the intersection of **three interconnected sectors.**

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## FINANCE

- Private bankers
- Wealth managers
- Family offices
- Private investors/collectors
- Art/collectible fund promoters
- Art insurance companies
- Art trading companies

**Deloitte Private Wealth – UHNWIs & Family Offices**

Deloitte already works with many Art & Finance stakeholders across the world and envisions opportunities for further collaboration.

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## VISUAL ART SECTOR

- Artists
- Companies selling art
- Digital art companies
- Art logistics companies
- Art fairs
- Art and media companies
- ArtTech companies
- Creative industries

**Deloitte Private – Private companies & PE**

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## CULTURE

- Large public museums
- Private museums
- Corporate collectors
- Private collectors
- Public authorities (country, region, city, etc.)



**The Deloitte Private Art & Finance initiative aims to coordinate a transversal multidisciplinary global Deloitte service offering to art and finance stakeholders around the world to facilitate their:**

1. Art and collectible assets,
2. Art and collectible-related projects and business, and
3. Cultural initiatives

Deloitte's Art & Finance practice brings together professionals across disciplines, spanning strategy, regulations, technology, tax, legal, audit, risk advisory – and more -- to provide comprehensive client solutions.

For the past 12 years, we have monitored the development and evolution of the art and finance industry, particularly the role of art and collectibles within wealth management services.

## Illustration of art and wealth management services

### ACCUMULATING WEALTH

- growing assets

- Museums endowments
- Art investment
- Art funds
- Stock of art business
- Private Equity in start-ups
- Financing of art business
- Social impact investments
- Fractional investments/STOs



### PROTECTING WEALTH

- managing risks

- Art advisory
  - Valuation
- Assets consolidation
  - Reporting
  - Art insurance
- Passive portfolio management
- Art collection management
  - Tokenisation
- Family governance

### TRANSFERRING WEALTH

- creating legacy

- Philanthropy advice
- Art related & estate planning
- Securitization

### CONVERTING WEALTH TO INCOME

- creating an income stream

- Art-secured lending

#### Not included

Client entertainment - Internal education - Art sponsoring - Corporate collection

# Endnotes\_

- 1 [Microsoft Word - New Delhi Leaders' Declaration Final Adoption \(g20.org\)](#)
- 2 Artnet's Index for Fine Art (100).
- 3 Artnet's Index for Fine Art (100) between July 2022 and July 2023.
- 4 Marc Jones, "Global markets in the first half of 2023: Banks vs the machines," Reuters, June 30, 2023.
- 5 Art Basel and UBS, [The Art Market 2023](#), 2023; Art Basel and UBS, [The Art Market 2016](#), 2016. The annual growth rate in global art market sales from 2008 to 2022 is based on data from the 2016 and 2023 report.
- 6 21st edition of the Bain & Company–Altgamma Luxury Study, November 2022. The report stated 'The global luxury market is projected to grow by 21% in 2022, reaching €1.4 trillion'
- 7 <https://www.oliverwyman.com/our-expertise/insights/2023/jan/ten-wealth-management-trends-2023.html>
- 8 UNESCO webpage, [G20 agrees first declaration on culture \(unesco.org\)](#). Last consulted 3 August 2021.
- 9 This is the two-year compounded growth rate between 2021 and 2023.
- 10 This includes new and vintage luxury collectibles.
- 11 <https://www.artsy.net/article/artsy-editorial-fewer-galleries-opening-today-10-years-ago>
- 12 <https://www.theartnewspaper.com/2023/07/11/special-report-funding-cuts-and-weak-economy-send-uks-visual-arts-into-crisis>
- 13 <https://www.theartnewspaper.com/2023/06/13/germany-beats-us-on-number-of-private-museums-of-contemporary-art-new-report-reveals>
- 14 <https://www.bankrate.com/investing/esg-investing-statistics/#stats>
- 15 OpenSea, the biggest NFT marketplace announced in August 2023 that it plans to stop the mandatory collection of resale fees for artists. Starting March 2024, those fees will essentially be tips — an optional percentage of a sale price that sellers can choose to give the original artist.
- 16 <https://www.arcual.art/about-us>

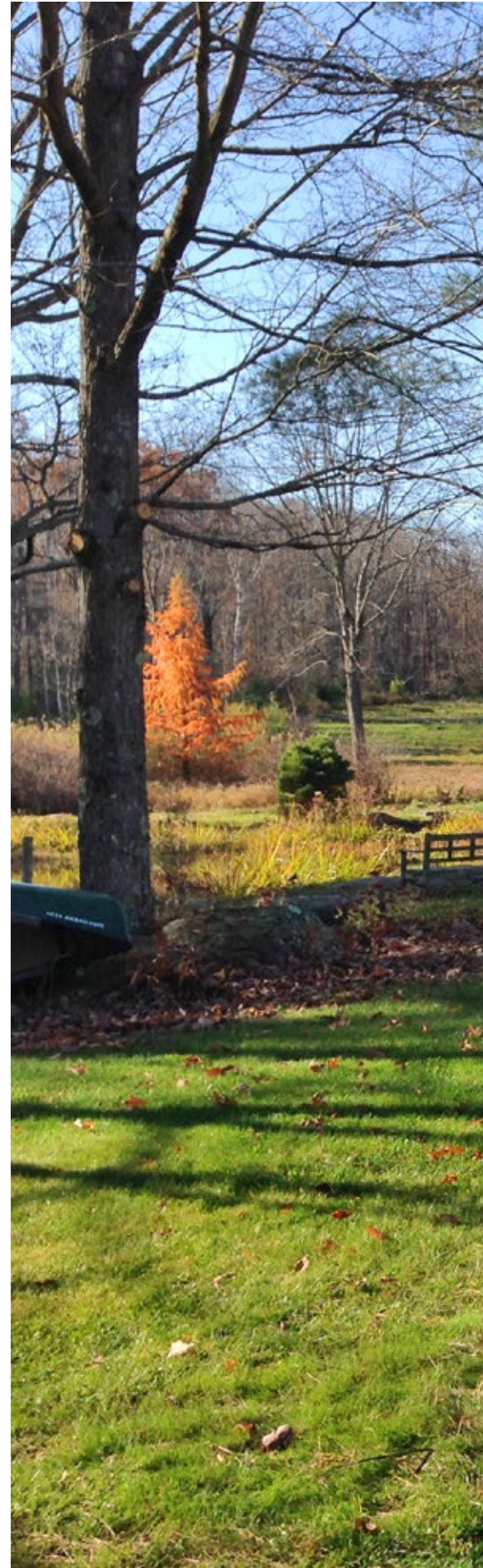




GALLERY  
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# 01\_

## Wealth and the global art market







**VESTIGAL BLOCK**  
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# Highlights

## **Decline in global wealth in 2022:**

According to the Credit Suisse and UBS Global Wealth Report 2023, 2022 recorded the first fall in net global household wealth since the global financial crisis of 2008. Measured in current nominal US\$, total net private wealth fell by 2.4% or US\$11.3 trillion.<sup>17</sup> The global ultra-high-net-worth (UHNW) population also fell by 6% and their combined net worth was 11% lower than in 2021, according to a report<sup>18</sup> by Altrata examining the UHNW market.

## **Art market fails to outpace inflation:**

The anemic 14-year annual growth rate<sup>19</sup> of 0.6% in the art market has failed to outpace inflation, with global art market sales shrinking in real terms since 2008. This signals the overall art market has been unable to attract the attention of the larger high-net-worth (HNW) population and their wealth compared to the global luxury goods industry.

## **Global art and collectible wealth:**

We estimate that UHNWIs' wealth associated with art and collectibles was US\$2.174 trillion in 2022 and predict this figure could grow to an estimated US\$2.861 trillion in 2026, due to the increased number of UHNWIs across the world and their increased allocation of wealth to art and collectibles. A small increase in art and collectible wealth in 2023 is anticipated due to an average 3.8%<sup>20</sup> increase in art values between July 2022 and July 2023.<sup>21</sup> The growth is also boosted by an increase in overall wealth as world stocks rallied 12%<sup>22</sup> in the first six months of 2023.

## **Art and portfolio allocation:**

Knight Frank's *The Wealth Report 2023* found a global average of 5% allocated to art and other collectibles. According to this year's

survey of wealth managers and family offices, an estimated average of 10.9% of their clients' wealth is associated with art and collectibles (8.6% for private banks and 13.4% for family offices).<sup>23</sup>

## **Art buyers are looking to diversify in times of uncertainty:**

The very top end of the art market has been less affected by the economic turmoil, according to a recent report<sup>24</sup> by Sotheby's and ArtTactic. The US\$1 million-plus auction market saw 20.8% growth in 2022, accounting for 74% of total fine art sales (by value) based on sales at Sotheby's, Christie's and Phillips. While the higher end (US\$1 million-plus artworks) of the impressionist, modern and contemporary auction market saw a 9% year-on-year decline in sales in the first six months of the year, it is significantly lower than the 31% decline in the overall art market. This shows wealthy buyers have continued to focus on the most established artists and high-value works, which they perceive to have a greater store of value in times of uncertainty.

## **The art market slowed down in the first half of 2023 as high-end supply dried up:**

Overall auction sales at Christie's, Sotheby's and Phillips were down 18.2% year-on-year in the first half of 2023, with fine art sales plummeting by 31%. The drop in fine art auction sales has been largely driven by a much lower supply of trophy lots; only 40 lots sold above US\$10 million in the first six months of 2023, generating a combined total of US\$932 million, compared to 75 lots in the first half of 2022, with a total sales value of US\$2.06 billion.

**Luxury collectible sales reach new heights in 2022 and could signal new opportunities for the art and finance industry:** The growth potential of the luxury collectibles market is evident by its auction sales surge over the last two years, reaching a record high in 2022. While the fine art market slowed in 2023, the global auction market for luxury collectibles<sup>25</sup> continues to track last year's performance, with first-half 2023 sales 1% higher than the first half of 2022. Auction sales are on target to match or exceed 2022's record levels if this growth continues over the second half of 2023. We expect to see a growing interest in the financialization of luxury collectibles and the potential to tap into the much broader and larger US\$1.4 trillion luxury goods industry.

**Asia drives growth in luxury collectibles market in 2022:** Over the last few years, primary growth in the luxury collectibles market has come from Asia, with Hong Kong luxury collectible auction sales<sup>26</sup> up 33% between 2021 and 2022. These account for 40% of total luxury collectibles sales in 2022, up from 25% in 2021. However, Hong Kong's market share in the first half of 2023 fell back to 25%, compared to other locations such as Geneva and New York, which gained market share.

**The rise of the ultra-high price segment:** Evidence of how UHNWIs and billionaires influence the global art market can be seen clearly by the number of works sold in the US\$10 million-plus segment over the last eight years, with a particular surge in interest following the 2020 COVID-19 pandemic. The US\$10 million-plus price segment accounted for 50% of the share of impressionist, modern and contemporary auction sales<sup>27</sup> in 2022, up from 32% in 2020. In the first half of 2023, the share of the US\$10 million-plus market fell to 33%, due to the economic uncertainty and fewer

If we want the art market to grow and direct more wealth toward supporting artists, we need to look at the inherent inequality of the art market today, and examine how wealth could be more evenly distributed to build a stronger and more sustainable art sector.

trophy lots on the public auction market.

**More than 1,500 artists were selling above US\$500,000:** Although 1,538 artists were represented at the top end of the auction market (artworks selling over US\$500,000) between 2015 and the first half of 2023, there have been only 155 artists in the trophy segment (US\$10 million-plus price segment) and 33 artists selling above US\$50 million since 2015. The average price<sup>28</sup> of the 10 most expensive lots sold at public auction between 2000 and 2015 was US\$103.5 million, compared to US\$147.2 million for the 10 most expensive lots sold between 2015 and the first half of 2023—an indication of price inflation at the very peak of the market.

**Top 100 artists accounted for more than three-quarters of the total auction value:** The top 100 artists generated a total of US\$36.2 billion, accounting for 76% of total sales between 2015 and the first half of 2023. This illustrates the importance of this group of artists—accounting for just over 1% of the total artist population—in driving the overall market sentiment and auction sales

**One percent of artists control more than three-quarters of art wealth generated:** In the past eight and a half years, 1% of artists have controlled more than three-quarters of total auction sales. This may explain the art market's anemic growth over the last 10 years. We are currently facing a scenario where a few artists' markets are accumulating disproportionately large amounts of today's art market wealth, with relatively little trickling down to the broader art ecosystem. If we want the art market to grow and direct more wealth toward supporting artists, we need to look at the inherent inequality of the art market today, and examine how wealth could be more evenly distributed to build a stronger and more sustainable art sector.

**Post-pandemic price inflation at the ultra-high end of the art market:** Evidence of how UHNWIs and billionaires influence the global art market can be seen clearly by the number of works sold in the US\$10 million-plus segment over the last eight years, with a particular surge in interest following the 2020 COVID-19 pandemic. The US\$10 million-plus price segment accounted for 50% of the share of impressionist, modern and contemporary auction sales in

2022, up from 32% in 2020. In the first half of 2023, the share of the US\$10 million-plus market fell to 33%, due to the economic uncertainty and fewer trophy lots on the public auction market.

**Top three auction houses account for more than half of the global auction market:** Since the pandemic, Christie's, Sotheby's and Phillips have increased their dominance in the global auction market, accounting for 52% of public auction sales in 2022, up from 45% in 2021 and 40% in 2020. We saw further consolidation and concentration in the auction industry, with Bonhams embarking on an acquisition spree<sup>29</sup> in 2022, and reporting in excess of US\$1 billion in sales in 2022.

**Bought-in rates remain historically low:** Since the pandemic, bought-in rates (percentage of unsold lots) have been at an all-time low, with an average of 13.1% of lots unsold versus 20.2% between 2015 and 2020. While the first half of 2023 showed that bought-in rates are on the rise (15.2%), they remain below pre-pandemic levels.

**Auction guarantees reach new heights in 2022, but are investors getting more cautious?** Auction guarantee levels reached a new high in 2022, with US\$3.65 billion in guaranteed value (based on hammer value) of lots in the impressionist, modern and contemporary segment sold during evening sales at Christie's, Sotheby's and Phillips. This was 18.9% higher than in 2021 and 128% higher than the pandemic year of 2020. Auction guarantees accounted for a record 64.6% of total evening sales value in 2022. In the first half of 2023, auction guarantees accounted for US\$1.34 billion, down 29.3% from US\$1.89 billion for the same period last year but still accounting for 65% of total auction sales. This shows auction guarantees continue to play a pivotal

role in managing the current market uncertainty.

**Auction houses passing risks to third-party guarantors:** Between 2016 and the first half of 2023, the majority (71%) of lots sold with guarantees were offered with a third-party guarantee, as opposed to 29% of lots with in-house auction guarantees.



VESTIGAL BLOCK  
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# Introduction\_

This section takes a closer look at how current and future trends in global wealth and the global art market are reshaping the landscape and context of the art and finance industry. Over the last 12 years, we have monitored how the art market has adapted to global crises, such as the 2007–2008 financial crisis and, more recently, the impact of the COVID-19 pandemic. Higher inflation, rising interest rates and slowing economic growth will provide a new and challenging backdrop for the art and finance industry in the coming years.

Section 1 is divided into three parts:

**Part 1\_**  
**Art and collectible wealth review**

**Part 2\_**  
**Global art market review**

We highlight some of the key trends and developments in the art market over recent years and feature global expert contributions providing valuable insights:

## INDUSTRY INSIGHTS\_

**Where art, science,  
space and tech meet**

**by Mariam Brian**  
*CEO and Founder of Holo Art*

**Part 3\_**  
**Regional breakdown**

In Part 3 we have included a specific focus on the art market in Japan thanks to the following two contributions:

## INDUSTRY INSIGHTS\_

**Japanese art scene trends 2023**

**by Kiyohiko Nagai**  
*Managing Director, New Business  
Development + FSI Competency, Risk Advisory,  
Deloitte Japan*

**by Ayari Mima**  
*Senior Staff, Deloitte Japan*

**Demystifying the Japanese art market**

**by Josephine Ayako Yamada**  
*Head of Innovation & Governance, CEO Office,  
Corporate Planning—Startbahn*

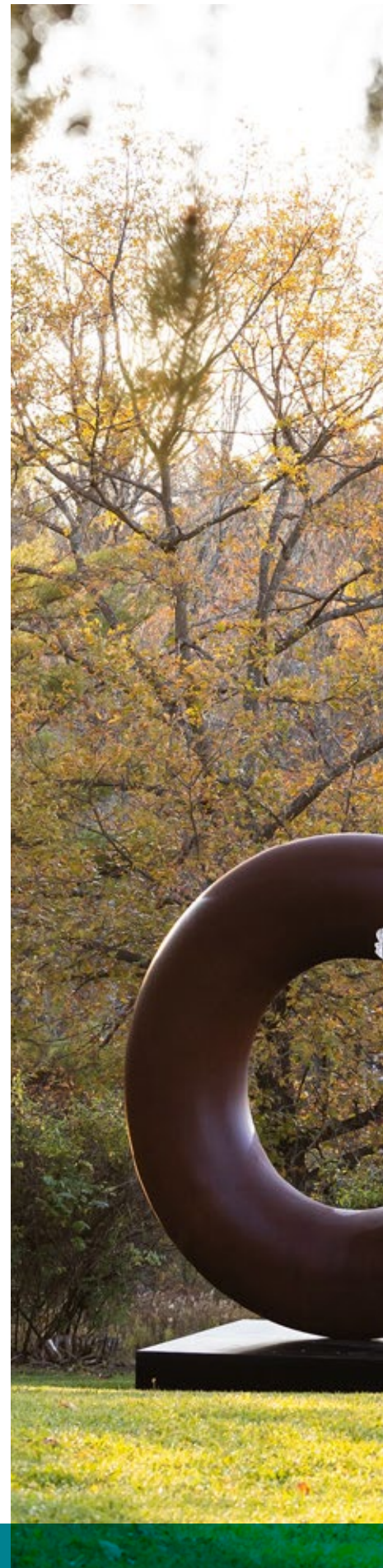
**by Katsunori Takahashi**  
*Head of Private Banking,  
Sumitomo Mitsui Banking Corporation*

**Impact of import VAT on art circulation  
within Europe and implementation of  
new Directive (EU) No. 2022/542**

**by Andrea Sirio Ortolani**  
*Member of the Board of Apollo Group*

**by Matteo Rumor**  
*Custom duty expert, Deloitte Italy*

**by Davide Blevé**  
*Tax Partner Deloitte and member  
of the Art&Finance Italian Team*







## Part 1\_

# Art and collectible wealth overview\_

### After the decline in wealth in 2022, the outlook for 2023 looks more positive as equity markets recover

Macroeconomic and geopolitical headwinds in 2022 resulted in lower returns on financial investment that, combined with currency depreciation against the US dollar, were the main factors in 2022's decline in global wealth, according to the Credit Suisse and UBS *Global Wealth Report 2023*. Last year's 3.4% household wealth growth was the lowest rate since the global financial crisis of 2008, while total net private wealth tumbled by 2.4%, or US\$11.3 trillion.<sup>30</sup>

Another report by Altrata underlines the decline in the number of UHNWIs in 2022, noting there was a global population of 392,410 UHNWIs in the first half of the year—a fall of 6%. While the net worths of HNWIs and UHNWIs were historically high in recent years, 2022 saw a drop in overall wealth to US\$41.8 trillion—a decline of 11%.<sup>31</sup>

Even among the world's wealthiest, the impact of the geopolitical and economic environment has been felt, with the number of billionaires according to Forbes falling from 2,668 in March 2022 to 2,640 in March 2023, and their total worth now at US\$12.2 trillion, compared to US\$12.7 trillion in March 2022. The United States still has the highest number of billionaires, with 735 individuals worth a collective US\$4.5 trillion. China (including Hong

Kong and Macau) has the second-highest number of billionaires, with 562 controlling around US\$2 trillion in wealth. India follows in third place, with 169 billionaires worth a collective US\$675 billion.<sup>32</sup>

A recent report by Boston Consulting Group (BCG) estimates that the value of global financial wealth shrank for the first time in 15 years in 2022, declining by 4% to US\$255 trillion. While 2022 saw a relatively significant drop in financial wealth figures, it's expected that the decrease will be relatively brief, with 2023 seeing a potential 5% rebound in total global net worth to US\$267 trillion. While financial wealth shrank in 2022, the value of real assets, including art and real estate, was US\$261 trillion—an increase of 5.5%.<sup>33</sup>

The positive trend in real asset value can also be seen in the global art market, with overall auction sales at Christie's, Sotheby's and Phillips increasing by 12.9%<sup>34</sup> in 2022, including a particularly strong performance at the very top end of the market.

According to a recent report by Sotheby's and ArtTactic,<sup>35</sup> the US\$1 million-plus auction market saw 20.8% growth in sales in 2022, accounting for 74% of total fine art sales (by value) based on sales at Sotheby's, Christie's and Phillips. This shows that wealthy buyers have continued to focus on the most established artists and high-value works, which they perceive to have greater stores of value in times of uncertainty.

This finding is supported by a recent Art Basel and UBS survey,<sup>36</sup> which found HNW collector respondents were spending more in 2022 than they had before the COVID-19 pandemic, with the proportion spending in the US\$1 million-plus range increasing from 18% to 31%.

The art market slowed in the first half of 2023, with overall auction sales 18.2% lower than in the first half of 2022.

Even the higher end (US\$1 million-plus artworks) of the impressionist, modern and contemporary auction market saw a year-on-year decline in sales of 9% in the first six months of 2023. It is important not to conflate a fall in auction sales value with a fall in prices. The fall in auction sales has been largely driven by a lower supply of top-end lots, with only 40 lots selling above US\$10 million in the first six months of this year, generating a combined total of US\$932 million. This was significantly lower than the 75 lots that sold above US\$10 million in the first half of last year, with a total sales value of US\$2.06 billion.

This could indicate that sellers are more hesitant to sell their trophy pieces in a softer market, which is currently impacting total auction sales directly, particularly at the top end of the market.

However, other art market segments have continued to grow this year. Sotheby's, Christie's and Phillips have seen a 4% year-on-year increase in lots sold in the first half of 2023, and segments such as jewelry and watches were up 21.4% from the same period last year. Other auction houses (e.g., Bonhams) that cover a much broader segment of art and collectibles saw sales grow 32% in the first six months of this year.

We estimate a slight increase in art and collectible wealth in 2023, as a result of an average 3.8%<sup>37</sup> increase in art values between July 2022 and July 2023.<sup>38</sup> The growth is also supported by a rise in overall

wealth, as world stocks have rallied 12%<sup>39</sup> in the first six months of this year.

Art features more prominently in a defensive wealth management strategy. Based on our surveys and findings from external reports on global wealth trends, there seems to be a clear change in how HNWI's are currently thinking about investments, particularly leaning toward value as opposed to growth. Their focus has shifted to preserving wealth through diversified investment strategies, which is also one of the main motivations expressed by wealth managers in this year's Art & Finance survey.

This is why it is logical that the art and collectibles market is part of a wealth management service offering, with diversification and store of value as the main motivations (see Section 2). The increasing interest in the financial aspect of art ownership implies an evolving relationship between traditional forms of art collecting toward a more sophisticated, financial approach to ownership of art.

### **Art, collectibles and portfolio allocations**

The UBS Global Family Office Report 2023 found that family offices allocated 2% to arts and antiques, on a par with gold and precious metals.<sup>40</sup> Knight Frank's The Wealth Report 2023 noted a global average of 5% allocated to art and other collectibles. According to this year's survey of wealth managers and family offices, a significant share of clients' wealth is associated with art and collectibles.<sup>41</sup> We estimate a conservative average of 10.9% for wealth managers (8.6% for private banks and 13.4% for family offices).

This higher allocation of wealth to art and collectibles was also echoed by The Art Basel and UBS Global Art Market Report 2021,<sup>42</sup> where HNW collectors were reported to have a relatively high proportion of their overall portfolios of wealth invested in art, with 64% reporting

an allocation of over 10%. The report also highlighted that Generation Z collectors had the highest average share of wealth dedicated to art, with over a third having an allocation of more than 30%, higher than both their millennial (27%) and Generation X (24%) peers. average share of wealth dedicated to art, with over a third having an allocation of more than 30%, higher than both their millennial (27%) and Generation X (24%) peers.

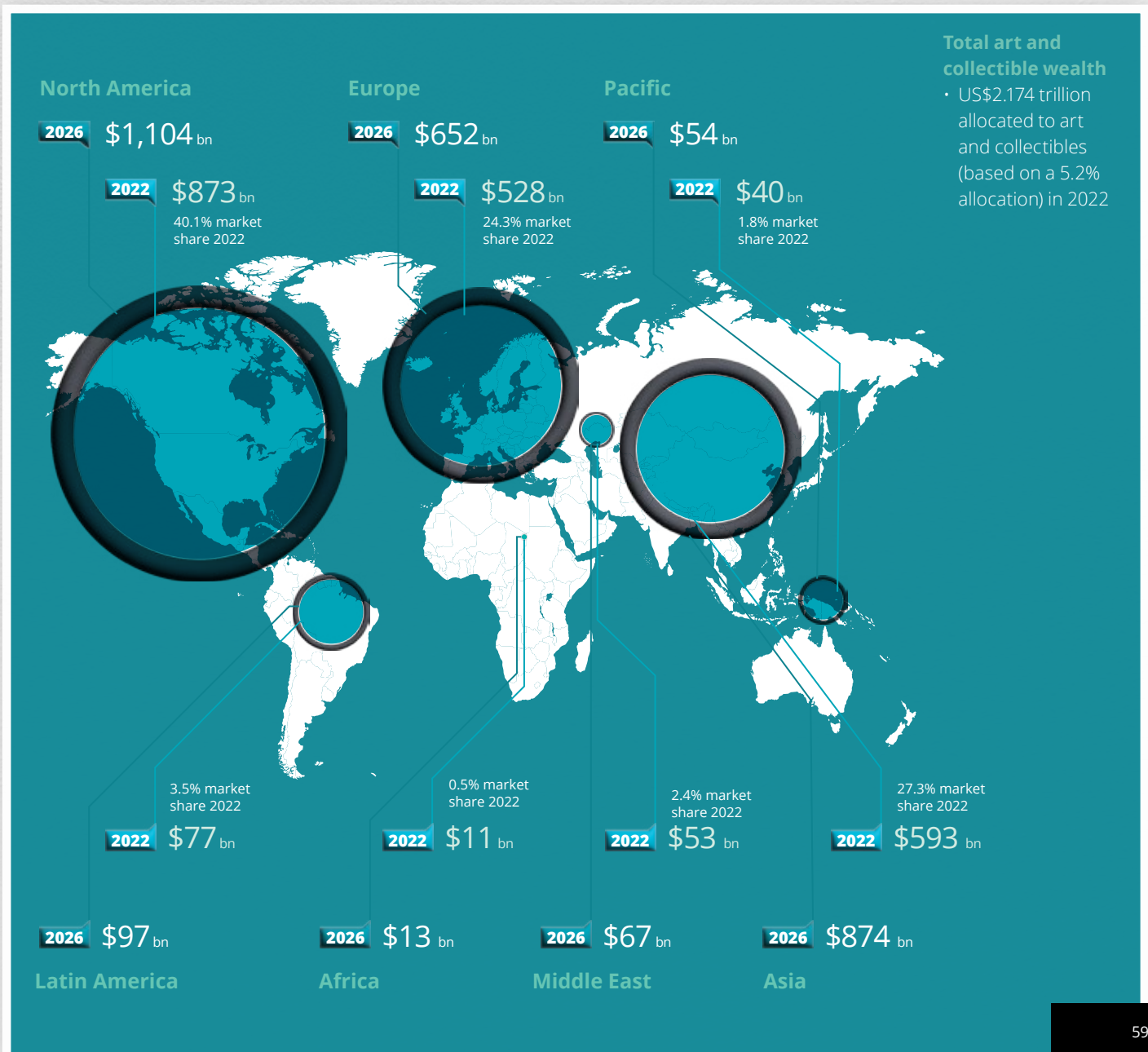
### **Art and collectible wealth 2020–2025**

In this table, we have assumed that UHNWIs' wealth (in US dollars) will grow at the same rate as the expected increase in the UHNWI population according to Knight Frank's The Wealth Report 2022.<sup>43</sup> We have used an average global allocation to art and collectibles of 5.2% of financial (or investable) wealth (not including non-financial assets) in 2022 to estimate the average allocation we could expect in five years' time. Based on our own findings from wealth managers, as well as findings from other reports, this is likely to be a conservative estimate of global art and collectible wealth.

**Table 2: Global art and collectible wealth 2022-2026**

Source: Altrata and Knight Frank

All figures are in US\$ billion	North America	Latin America	Africa	Europe	Middle East	Asia	Pacific	Overall
Total UHNWI wealth in 2022	14,545	1,287	355	10,561	2,656	11,854	567	41,825
Total UHNWI wealth in 2026	18,632	1,619	394	13,191	3,288	15,730	755	53,609
Regional allocations to art and collectibles	6.0%	6.0%	3.0%	5.0%	3.0%	5.0%	7.0%	5.2%
Total UHNWI collectible wealth in 2022	873	77	11	528	53	593	40	2,174
Total UHNWI collectible wealth in 2026	1,104	97	13	652	67	874	54	2,861



Based on these calculations, we estimate that UHNWIs' wealth associated with art and collectibles was US\$2.174 trillion in 2022. We project that, in 2026, this figure could grow to an estimated US\$2.861 trillion. This projection assumes that the growth of art and collectible wealth will track the estimated regional growth in the global wealth population.

However, as previously mentioned, the growth in annual art market sales over the last 10 years has failed to keep pace with increases in global wealth. We may see a small increase in art and collectible wealth in 2023, on the back of a 3.8%<sup>44</sup> increase in art values between July 2022 and July 2023.<sup>45</sup> Nonetheless, this could be offset by an increase in overall wealth, as world stocks rallied 12%<sup>46</sup> in the first six months of this year.

Therefore, our growth estimate may be overly optimistic—however, increased access to new types of art investment products could signal a closer alignment between wealth and art market growth in the future.

When we look at the wealth associated with art and collectibles from UHNWIs, it is important to consider how it relates to other financial assets. Compared with the total assets under management (AUM) of the asset management industry, art and collectible wealth accounts for an estimated 2.2%. This is based on a recent report from BCG, which found that global asset management AUM in 2022 amounted to US\$98 trillion,<sup>47</sup> with private markets accounting for more than US\$20 trillion of this.

Art and collectible wealth accounts for an estimated 10.9% of AUM of private market investments<sup>48</sup> and a substantial portion of HNWI's wealth. As discussed throughout this report, building a service offering around art-related wealth can help wealth managers create new client experiences and develop stronger personal and emotional connections with clients. Recent developments around the tokenization and fractionalization of non-bankable assets could allow art and collectible assets to be more easily integrated into asset management allocation strategies in the future.



**TORN STEEL COFFEE TABLE**  
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### Art, luxury and wealth trends

The findings of *The Art Market Report 2023*<sup>49</sup> show that the art market continued to grow in 2022, albeit at a slower pace than in 2021. According to the report, global sales are coming in at US\$67.8 billion, up 3% from US\$65.9 billion in 2021. The anemic 14-year annual growth rate<sup>50</sup> of 0.6% in the art market has failed to outpace inflation in this period and, maybe counterintuitively to what one would expect, global art market sales have been shrinking in real terms since 2008. It is interesting to juxtapose these findings with the growth in sales in the luxury goods sector, which experienced a 5.9% rise during the same period.

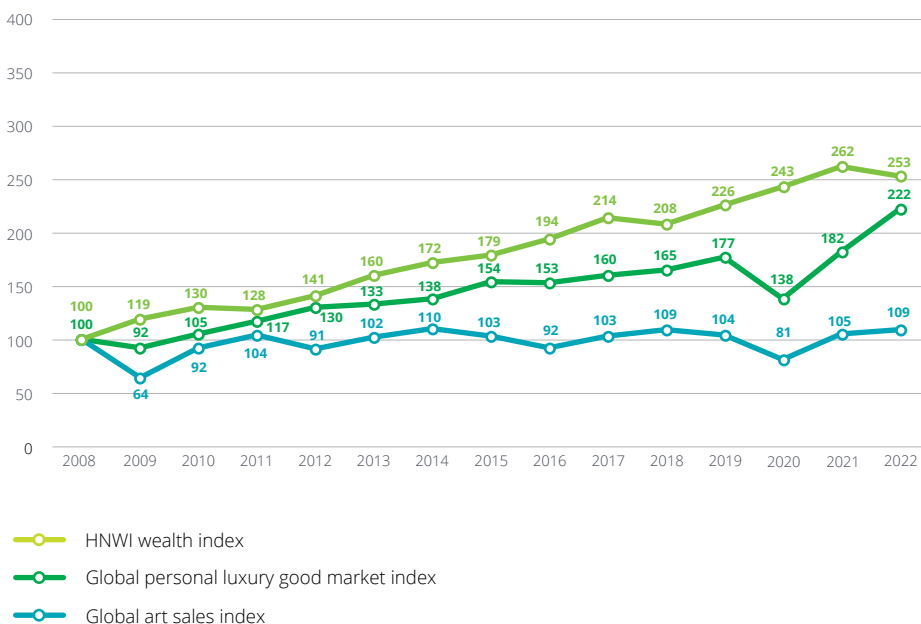
If we combine these findings with data from Capgemini’s annual *World Wealth Report*, which shows global HNWI financial wealth growing 6.9% annually from US\$33 trillion in 2008 to US\$83 trillion in 2022, and the HNWI population growing from US\$8.6 million in 2008 to US\$21.7 million in 2022, it signals the overall art market has failed to attract the attention of the larger population of HNWIs and their wealth.<sup>51</sup> However, if we compare the art market to the global luxury goods industry, the latter has tracked the increase in global wealth over the last 14 years more closely, particularly since the pandemic.

### Passion investments riding high despite economic uncertainty

The results of the Knight Frank Luxury Investment Index<sup>52</sup> (KFLII) show that investments of passion are still doing well despite economic worries. The KFLII tracks the value of 10 assets that can be considered passion investments (including art, cars, colored diamonds and rare whiskies). This index increased by 16% throughout 2022, beating inflation and outperforming most mainstream investment classes during the same period. The report notes that “much of that performance was driven by the stellar prices paid for museum-quality works of art by ultra-wealthy collectors”, again showing how wealth is increasingly finding its way to art and collectibles.<sup>53</sup>

**Figure 2: HNWI wealth growth (US\$) vs. global art market sales (US\$) growth vs. luxury goods sales growth (US\$) (Index base year: 2008)**

Source: Capgemini’s World Wealth Report, Statista, The Art Basel and UBS Global Art Market Report 2023



As discussed throughout this report, building a service offering around art-related wealth can help wealth managers create new client experiences and develop stronger personal and emotional connections with clients.

**Luxury collectible<sup>54</sup> sales reached new heights in 2022 and could signal new opportunities for the art and finance industry**

The sales trends we see in the overall luxury goods market also reflect recent trends in the luxury collectibles market. While we have observed a slowdown in the fine art market this year, the global auction market for luxury collectibles<sup>55</sup> has continued its strong growth since the pandemic. Indeed, it shows no signs of slowing down this year, with sales on target to match or exceed record levels seen in 2022, if growth in the first half of 2023 continues into the second half of the year.

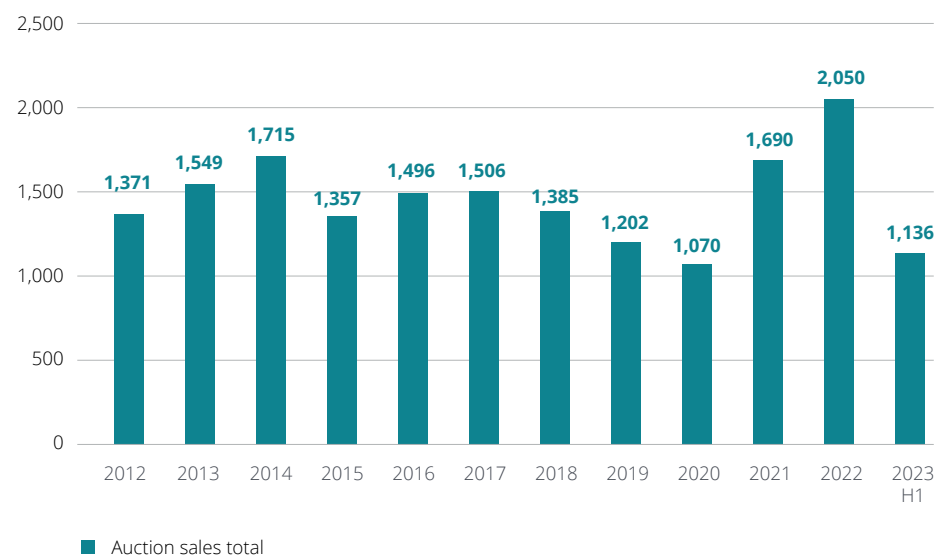
It is interesting to note that the majority of growth comes from Asia, with Hong Kong luxury collectible sales up 33% between 2021 and 2022, and accounting for 40% of total luxury collectibles sales in 2022, up from 25% in 2021. This shows how important Asian buyers have become in this particular collectibles segment.

Comparative trends between the fine art market and the luxury collectibles market could indicate that the latter has been more effective in building a bigger, more transparent and accessible marketplace, attracting more HNWI wealth. According to a Bain & Company article, it could make inroads into the significantly larger US\$1.4 trillion luxury market, with growth predicted to be in the region of 3%-8% this year: "Even in the face of recessionary conditions expected across leading economies into 2023, the Bain and Altgamma analysis forecasts further expansion in sales and market value for luxury goods through the coming year and decade."<sup>56</sup>

While most of the analysis in this report focuses on art, we are likely to see a growing interest in the financialization of luxury collectibles, as value increases and more HNWIs join this market.

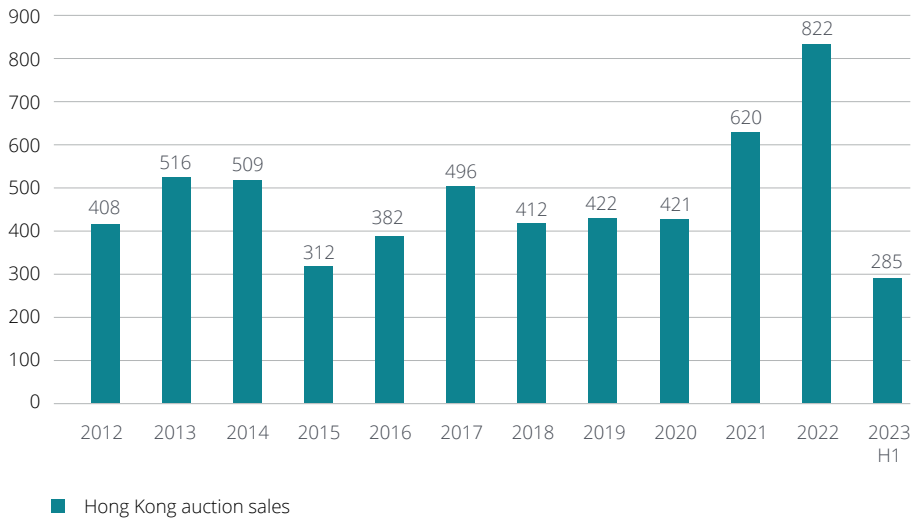
**Figure 3: Luxury collectibles: auction sales (US\$) 2012-H1 2023**  
(in US\$ millions)

Source: ArtTactic. Analysis is based on public auction data from Christie's, Sotheby's and Phillips



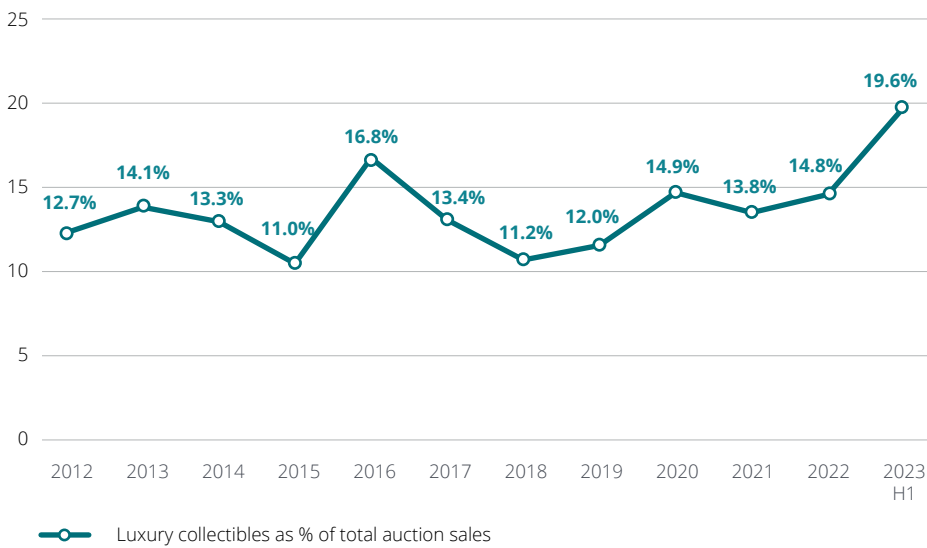
**Figure 4: Luxury collectibles: Hong Kong auction sales (US\$) 2012–H1 2023**  
(in US\$ millions)

Source: ArtTactic. Analysis is based on public auction data from Christie's, Sotheby's and Phillips



**Figure 5: Luxury collectibles: auction sales (US\$) 2012–H1 2023**

Source: ArtTactic. Analysis is based on public auction data from Christie's, Sotheby's and Phillips



The US\$10 million-plus segment accounted for 50% of impressionist, modern and contemporary auction sales in 2022, up from 32% in 2020.

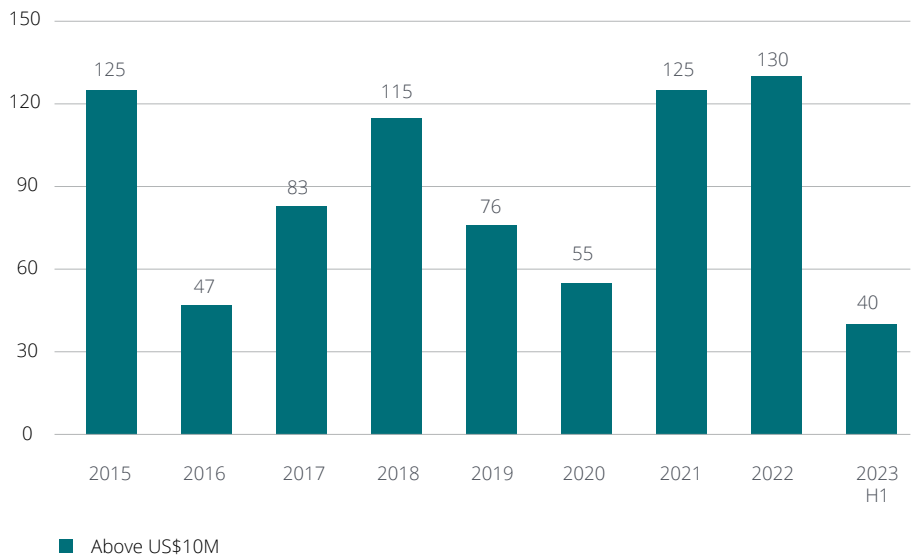
**The rise of the ultra-high price segment**

Evidence of how UHNWIs and billionaires influence the global art market can be clearly seen by the number of works sold in the US\$10 million-plus segment over the last eight years, with a particular surge in

interest in this ultra-high end of the market following the pandemic. The US\$10 million-plus segment accounted for 50% of impressionist, modern and contemporary auction sales<sup>57</sup> in 2022, up from 32% in 2020.

**Figure 6: Ultra-high end of the auction market (lots sold above US\$10 million) 2015–H1 2023 (in US\$ millions)**

Source: ArtTactic. Analysis is based on impressionist, modern and contemporary auction data from Christie's, Sotheby's and Phillips







Part 2\_

# Global art market review\_



TORN STEEL SIDE TABLE  
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# A

## INSIGHT:

### Auction market trends

In this section, we focus on the top end of the art market, defined as artworks valued above US\$500,000. This is often regarded as the “investable” or “blue-chip” end of the art market and has been the art market segment to which the art and finance industry has directed most of its attention so far. In 2022, 87.4% of total auction sales of impressionist, modern, post-war and contemporary art sold through Christie’s, Sotheby’s and Phillips were priced in excess of US\$500,000.<sup>58</sup>

However, it is important to bear in mind that it only accounted for 11.4% of lots sold, which means that the majority (88.6%) of

artworks sold at auction mainly fall outside the scope of this analysis. The art market’s strong concentration toward the top end is both a blessing and a curse. On one hand, it has allowed art and collectibles to evolve into an alternative asset class with products and services aimed at managing these assets. On the other, it has created significant inequities in the art market between the 1% of artists controlling more than three-quarters of total sales between 2015 and the first half of 2023.

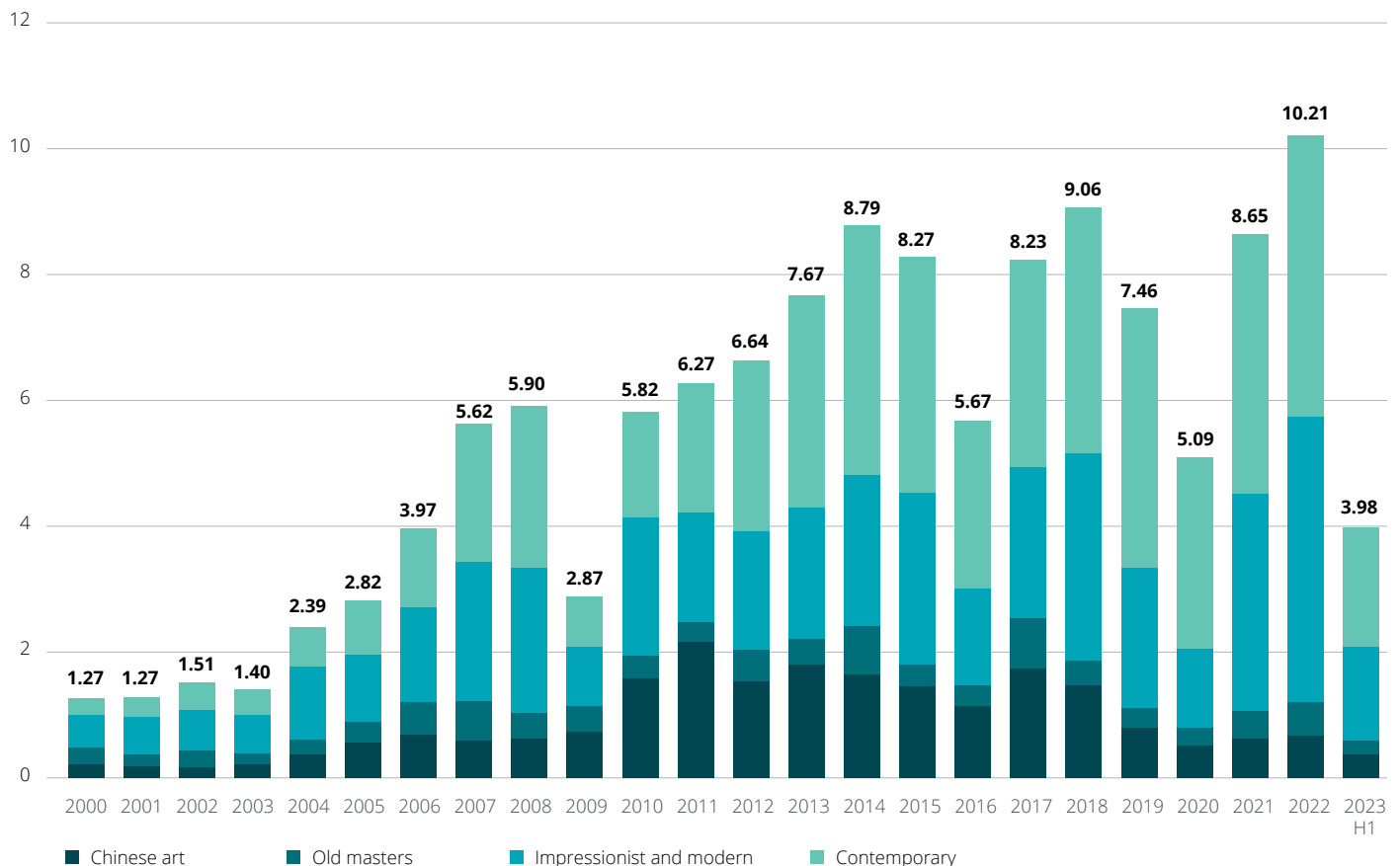
This might explain the anemic growth of the art market over the last 10 years. We are currently facing a scenario where

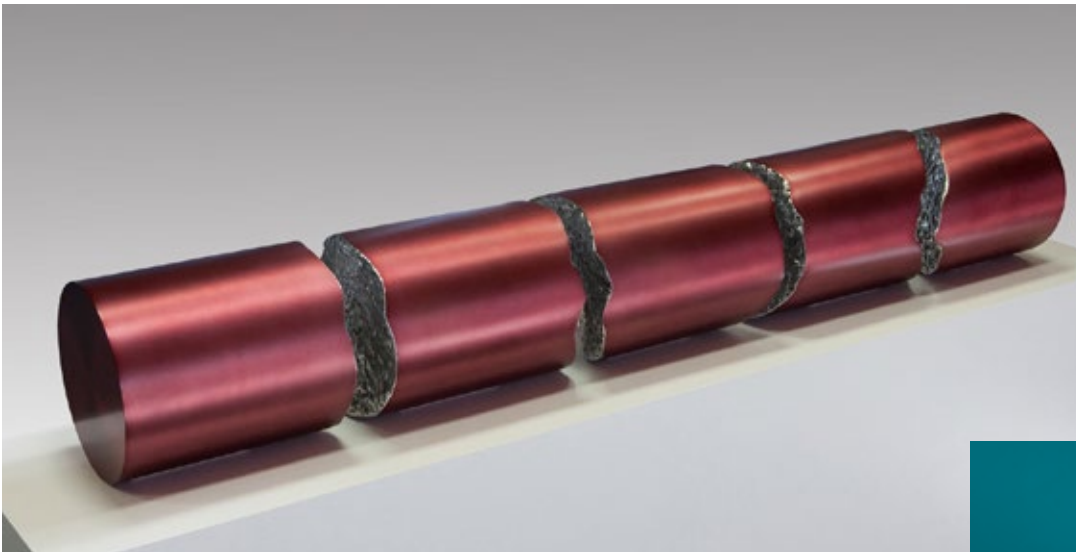
a few artists’ markets are accumulating disproportionately large amounts of the wealth generated in today’s art market, leaving a relatively small share for 99% of the remaining artists.

So, if we want the art market to grow and direct more wealth toward supporting artists, we need to look at the inherent inequality that exists in the art market today, and see how wealth could be more evenly distributed to build a stronger and more sustainable art sector.

**Figure 7: Auction analysis: top collecting categories Sotheby's and Christie's 2000–H1 2023 (in US\$ billions)**

Source: ArtTactic. Analysis is based on public auction data from Christie's, Sotheby's and Phillips





RUPTURED COLUMN  
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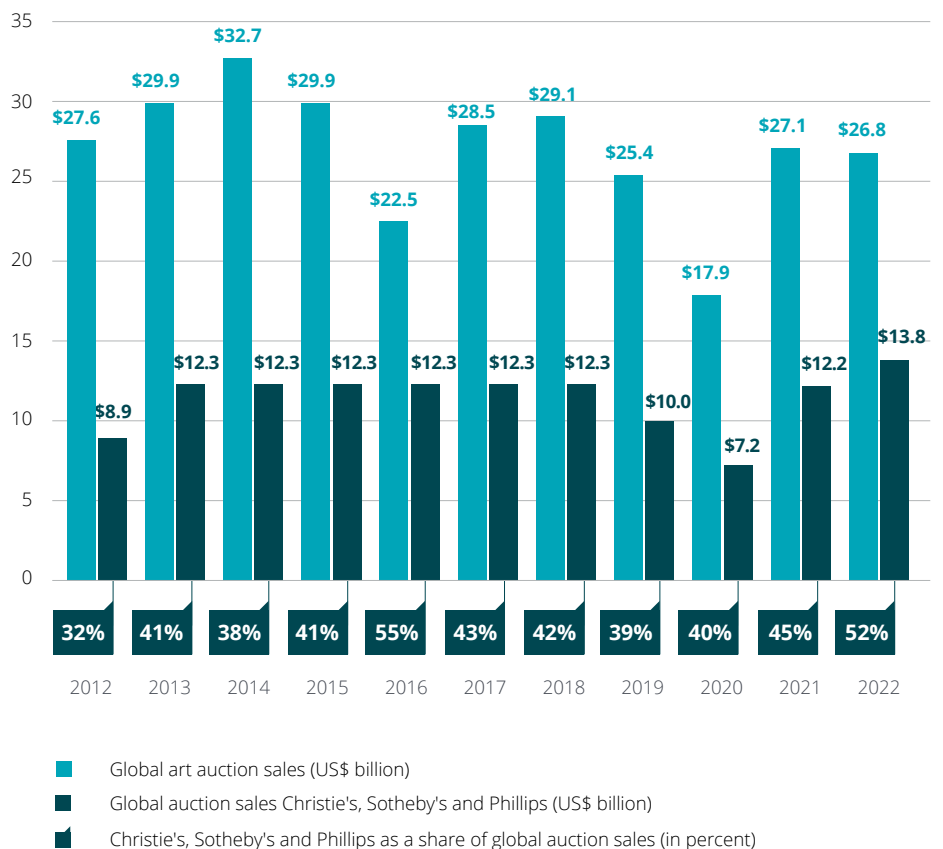
**Auction market reached a peak in 2022, but economic uncertainty was feeding into the market in the first six months of 2023:**

Auction sales based on the top-four fine art categories at Sotheby's, Christie's and Phillips peaked in 2022, with a combined sales value of US\$10.2 billion, up 18.1% from 2021. The 10-year annual compounded growth rate was +4.4%. Since 2012, annual sales have fluctuated between US\$5.7 billion and US\$10.2 billion, but the art market's growth rates have not kept pace with the growth of wealth accumulation over the same period, as previously mentioned. The first six months of 2023 show that the four top categories saw a 31% drop in sales compared to the same period in 2022—a sign that economic and geopolitical uncertainty is weighing in negatively on the global auction market so far this year.

However, the transformation taking place in top auction houses, which are introducing new luxury collectibles and embracing digital sales channels and emerging formats, suggests that we may be at the cusp of a new phase in the global auction market, where other collectible categories (see page 69) could start to claim a large share of the global auction market going forward.

**Figure 8: Christie's, Sotheby's and Phillips auction sales as a % of global auction sales 2012–2022 (in US\$ billions)**

Source: ArtTactic and The Art Basel and UBS Global Art Market Report 2019 & The Art Basel and UBS Global Art Market Report 2023



**Top three auction houses account for more than half of the global auction market:**

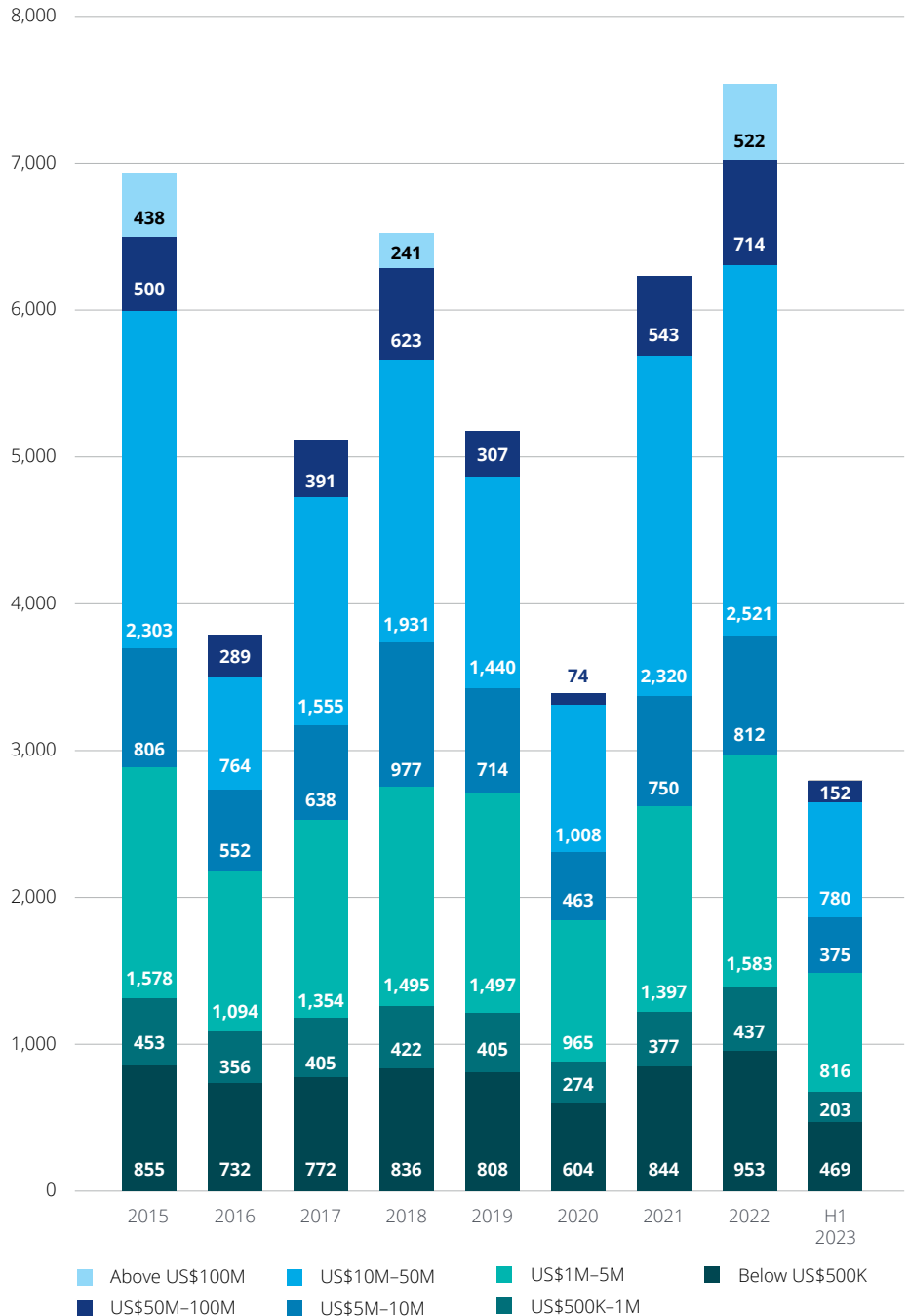
Top three auction houses account for more than half of the global auction market: Since the pandemic, Christie's, Sotheby's and Phillips have increased their dominance in the global auction market, accounting for 52% of public auction sales in 2022, up from 45% in 2021 and 40% in 2020. This demonstrates the market power held by the three auction houses in the global art market, and how these houses could potentially leverage their position to change the art market.

**Record year in 2022, but sales slowed in the first half of 2023:**

Last year, Christie's, Sotheby's and Phillips achieved a new record high for auction sales of impressionist, modern and contemporary art, reaching a total of US\$7.54 billion,<sup>59</sup> up 21% from 2021 and 123% from the pandemic year of 2020. However, as economic realities started to bite, the auction market saw sales softening in the first six months of the year, with a year-on-year 31% decline in total sales for these collecting segments. This decline is particularly noticeable at the very high end of the market, with a 50% drop-off in sales of lots selling above US\$10 million. So far, 37 lots were sold above US\$10 million in the first half of 2023, accounting for US\$932.9 million. This compares to 75 lots sold above US\$10 million in the first half of 2022, accounting for US\$2.06 billion.

**Figure 9: Auction trends: impressionist, modern and contemporary art<sup>60</sup> 2015–H1 2023 (in US\$ millions)**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips

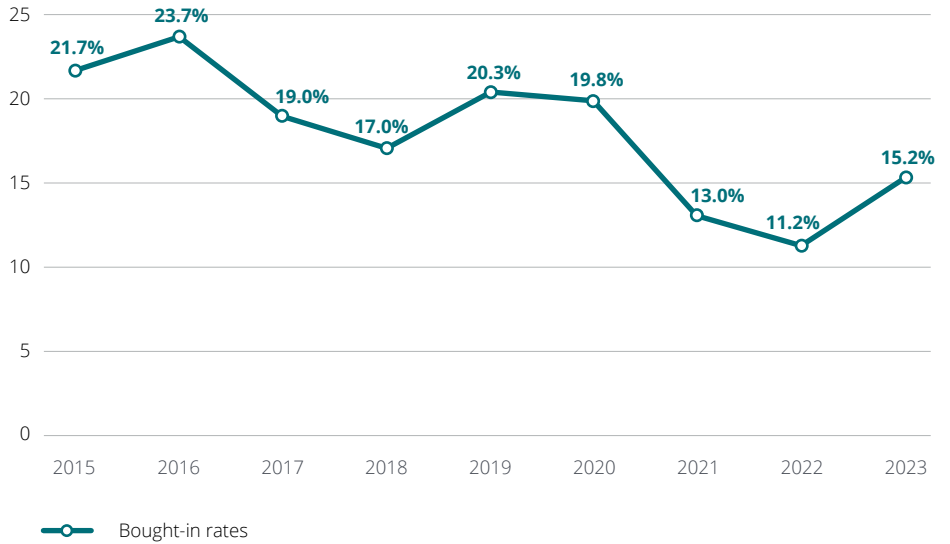


**Bought-in rates remain historically low:**

Since the pandemic in 2020, bought-in rates (percentage of unsold lots) have been at a historic low. However, the first six months of 2023 saw bought-in rates on the rise but remaining below pre-pandemic levels. The lower bought-in rates since 2020 are due to a combination of higher levels of auction guarantees during this period (see page 78) and a higher withdrawal rate of lots before and during auctions.

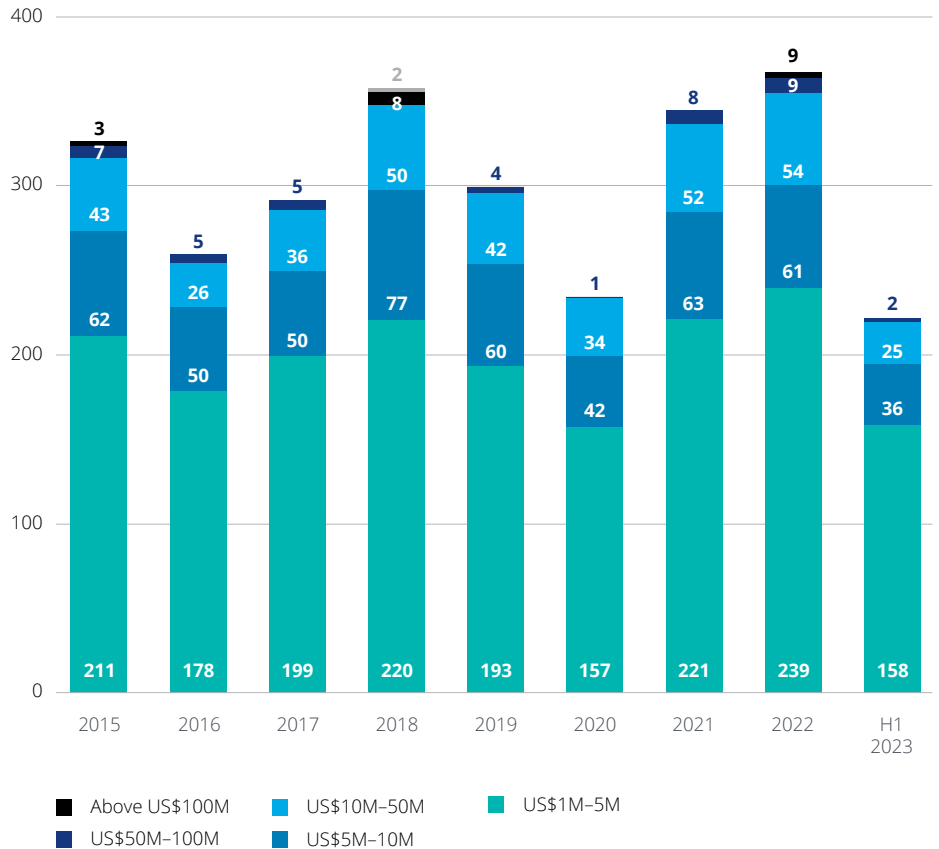
**Figure 10: Bought-in rates: impressionist, modern and contemporary art auction sales 2015–H1 2023**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



**Figure 11: Top end<sup>61</sup> of the market: number of artists by price segment**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



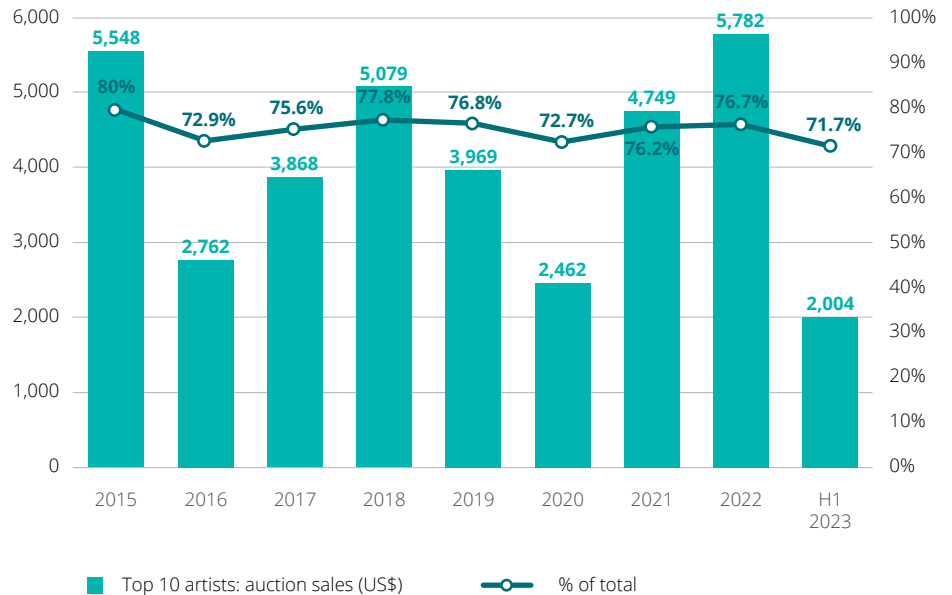
**More than 1,500 artists were selling above the US\$500,000 level:** Although 1,538 artists featured at the top end of the auction market (defined as artworks selling above US\$500,000) between 2015 and the first half of 2023, there have been only 155 artists in the trophy segment (US\$10 million-plus price segment) and 33 artists selling above US\$50 million since 2015.

**Top 100 artists<sup>62</sup> accounted for more than three-quarters of the total auction value:** The top 100 artists by auction sales value generated a total of US\$36.2 billion, accounting for 76% of total sales between 2015 and the first half of 2023. This illustrates how important this group of artists (accounting for just over 1% of the total artist population) is in driving the overall market sentiment and auction sales. The top five artists over this period were: Pablo Picasso (US\$3.2 billion), Claude Monet (US\$1.89 billion), Andy Warhol (US\$1.81 billion), Jean-Michel Basquiat (US\$1.62 billion) and Gerhard Richter (US\$1.18 billion).

**Post-war and contemporary generation of artists account for 55 out of the top 100 artists:** Post-war artists account for 26 of the top 100 best-selling artists at auction<sup>63</sup>, followed by 29 contemporary artists (including young contemporary). A total of 21 impressionist artists featured in the top 100 artist ranking, followed by 24 modern artists. In terms of value, modern artists accounted for 39% of the total sales value of the top 100 artists, followed by impressionist artists (35%). Post-war artists accounted for 16% and contemporary artists for 11% of auction sales value.

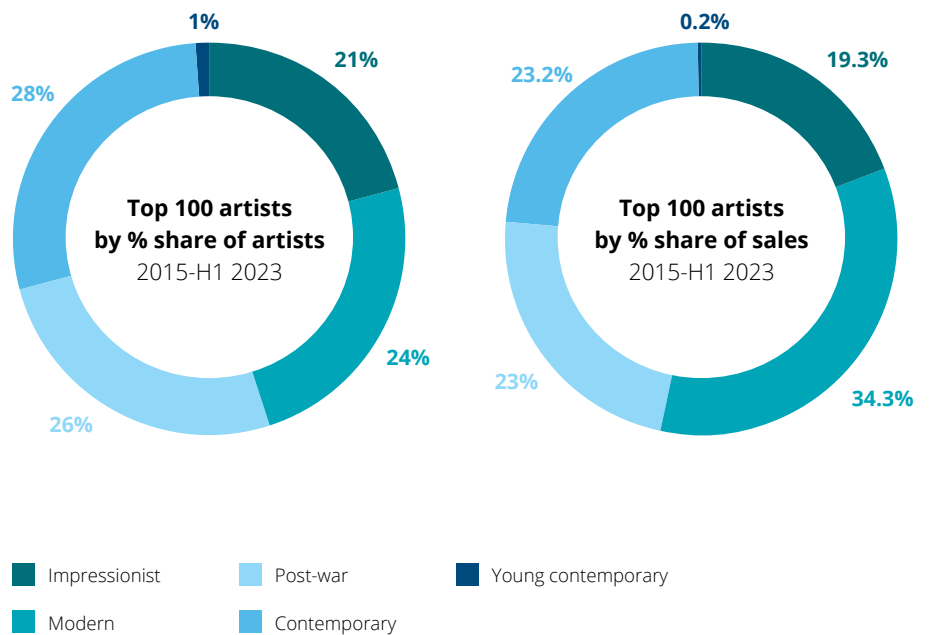
**Figure 12: Top 100 artists: auction sales (US\$) and share of total auction sales (in US\$ millions)**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



**Figure 13: Top 100 artists: 2015-H1 2023**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips

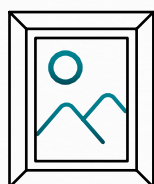




# Top 25 artists

## Top 25 artists by volume (# lots sold) 2015–H1 2023

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillipsps



ARTIST



CATEGORY



OVERALL SOLD LOTS

ARTIST	CATEGORY	OVERALL SOLD LOTS
<b>Pablo Picasso</b>	Modern	1,703
<b>Andy Warhol</b>	Post-war	1,292
<b>Yayoi Kusama</b>	Post-war	980
<b>Alexander Calder</b>	Modern	839
<b>Marc Chagall</b>	Modern	688
<b>Zao Wou-Ki (Zhao Wuji)</b>	Post-war	667
<b>Yoshitomo Nara</b>	Contemporary	662
<b>Jean Dubuffet</b>	Modern	660
<b>Gerhard Richter</b>	Contemporary	603
<b>Lucio Fontana</b>	Modern	545
<b>KAWS</b>	Contemporary	542
<b>George Condo</b>	Contemporary	527
<b>Bernard Buffet</b>	Post-war	481
<b>Alighiero Boetti</b>	Contemporary	473
<b>Sam Francis</b>	Post-war	464
<b>Henri Matisse</b>	Impressionist	457
<b>Damien Hirst</b>	Contemporary	451
<b>Pierre-Auguste Renoir</b>	Impressionist	449
<b>Joan Miró</b>	Modern	441
<b>Léonard Tsuguharu Foujita</b>	Modern	396
<b>Raoul Dufy</b>	Impressionist	396
<b>Henry Moore</b>	Modern	385
<b>Salvador Dalí</b>	Modern	384
<b>Man Ray</b>	Modern	355
<b>Jean-Michel Basquiat</b>	Contemporary	344





ARTIST



CATEGORY



OVERALL SALES VALUE

ARTIST	CATEGORY	OVERALL SALES VALUE
<b>Pablo Picasso</b>	Modern	3,264,457,295
<b>Claude Monet</b>	Impressionist	1,894,813,566
<b>Andy Warhol</b>	Post-war	1,812,409,167
<b>Jean-Michel Basquiat</b>	Contemporary	1,624,675,242
<b>Gerhard Richter</b>	Contemporary	1,182,114,384
<b>Francis Bacon</b>	Modern	955,874,937
<b>Cy Twombly</b>	Post-war	846,567,249
<b>Zao Wou-Ki (Zhao Wuji)</b>	Post-war	804,148,477
<b>Mark Rothko</b>	Modern	792,009,896
<b>René Magritte</b>	Modern	765,007,677
<b>Vincent van Gogh</b>	Impressionist	755,725,577
<b>Alberto Giacometti</b>	Modern	750,212,736
<b>Willem de Kooning</b>	Modern	723,541,376
<b>David Hockney, R.A.</b>	Contemporary	702,495,669
<b>Roy Lichtenstein</b>	Post-war	661,802,790
<b>Amedeo Modigliani</b>	Modern	603,331,921
<b>Alexander Calder</b>	Modern	601,832,683
<b>Joan Miró</b>	Modern	525,395,518
<b>Yayoi Kusama</b>	Post-war	505,782,985
<b>Lucio Fontana</b>	Modern	500,796,739
<b>Marc Chagall</b>	Modern	494,843,915
<b>Paul Cézanne</b>	Impressionist	486,391,269
<b>Jean Dubuffet</b>	Modern	453,111,068
<b>Joan Mitchell</b>	Post-war	392,952,897
<b>Henri Matisse</b>	Impressionist	389,068,337

**Top 25 artists  
by auction value  
2015–H1 2023  
(in US\$)**

*Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillipsps*



**Post-pandemic price inflation at the ultra-high end of the art market:** The evolution of the top 100 prices since 2015 shows the price inflation at the very top of the market, with 43 of these prices established since 2021, 13 in 2021, and 27 in 2022. So far this year, we have only seen three lots enter the top 100 rankings, although among these top lots was Gustav Klimt’s *Dame mit Fächers*, which sold for GB£74 million (US\$94.3 million, excluding buyer’s premium). This shows that although sales are lower than in 2022, there is still collector demand for rare, top-quality artworks by major artists.

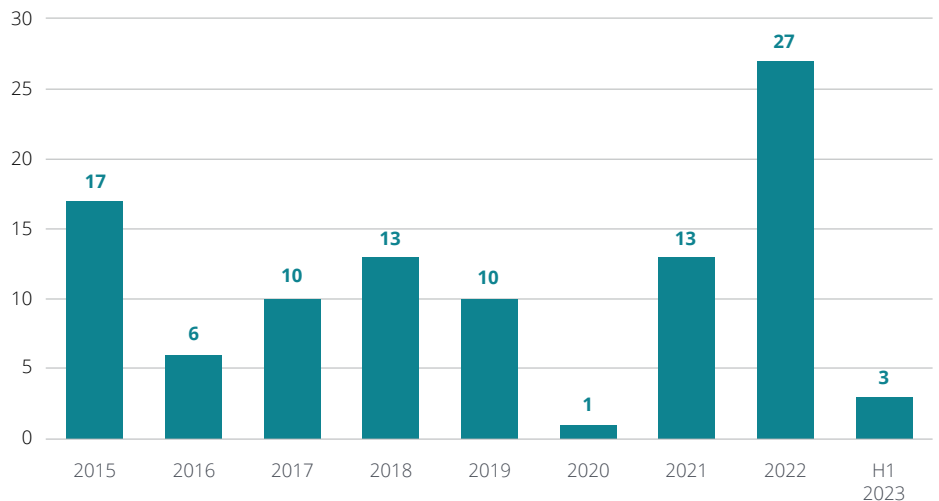
**Thirty-six artists account for the top 100 prices:** A total of 36 artists accounted for the 100 top prices achieved at auction between 2015 and the first half of 2023. Pablo Picasso accounted for 12 of these

top prices, Claude Monet (11 lots), Mark Rothko (7 lots), Francis Bacon (7 lots) and Andy Warhol (6 lots). Four out of the top 10 prices were set in 2022, with the record price for Andy Warhol’s *Shot Sage Blue Marilyn* (1964) at US\$170 million (excluding buyer’s premium). This shows that only a small population of artists have been able to achieve these record prices and highlights the strong concentration of certain artists at the very top end of the market.

The average price<sup>64</sup> of the 10 most expensive lots sold at public auction between 2000 and 2015 was US\$106.3 million, compared to US\$147.2 million for the 10 most expensive lots sold between 2015 and the first half of 2023. This demonstrates price inflation at the very peak of the market.

**Figure 14: Top 100 auction prices by year**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie’s, Sotheby’s and Phillips



### Figure 15: Top 10 auction prices: 2015–H1 2023

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips

Artist	Title	Year	Premium price	Year sold
Andy Warhol	Shot Sage Blue Marilyn	1964	US\$195 M	2022
Pablo Picasso	Les femmes d'Alger (Version "O")	1955	US\$179.4 M	2015
Amedeo Modigliani	Nu couché	1918	US\$170.4 M	2015
Amedeo Modigliani	Nu couché (sur le côté gauche)	1917	US\$157.2 M	2018
Georges Seurat	Les poseuses, ensemble (petite version)	1888	US\$149.2 M	2022
Alberto Giacometti	L'homme au doigt	1947	US\$141.3 M	2015
Paul Cézanne	La Montagne Sainte-Victoire	1890	US\$137.8 M	2022
Pablo Picasso	Fillette à la corbeille fleurie	1905	US\$115 M	2018
Vincent van Gogh	Verger avec cyprès	1888	US\$117.2 M	2022
Jean-Michel Basquiat	Untitled	1982	US\$110.5 M	2017
<b>Average price</b>			<b>US\$147.2 M</b>	

### Figure 16: Top 10 auction prices: 2000–2014

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips

Artist	Title	Year	Premium price	Year sold
Francis Bacon	Three Studies of Lucian Freud	1969	US\$142.4 M	2013
Edvard Munch	The Scream	1895	US\$119.9 M	2012
Jasper Johns	Flag	1958	US\$110 M	2010
Pablo Picasso	Nude, Green Leaves and Bust	1932	US\$106.5 M	2010
Barnett Newman	Anna's Light	1968	US\$105.7 M	2013
Andy Warhol	Silver Car Crash (Double Disaster)	1963	US\$105.4 M	2013
Pablo Picasso	Garçon à la pipe	1904	US\$104.2 M	2004
Pablo Picasso	Dora Maar au chat	1941	US\$95.2 M	2006
Mark Rothko	Orange, Red, Yellow	1961	US\$86.9 M	2012
Francis Bacon	Triptych	1976	US\$86.3 M	2008
<b>Average price</b>			<b>US\$106.3 M</b>	

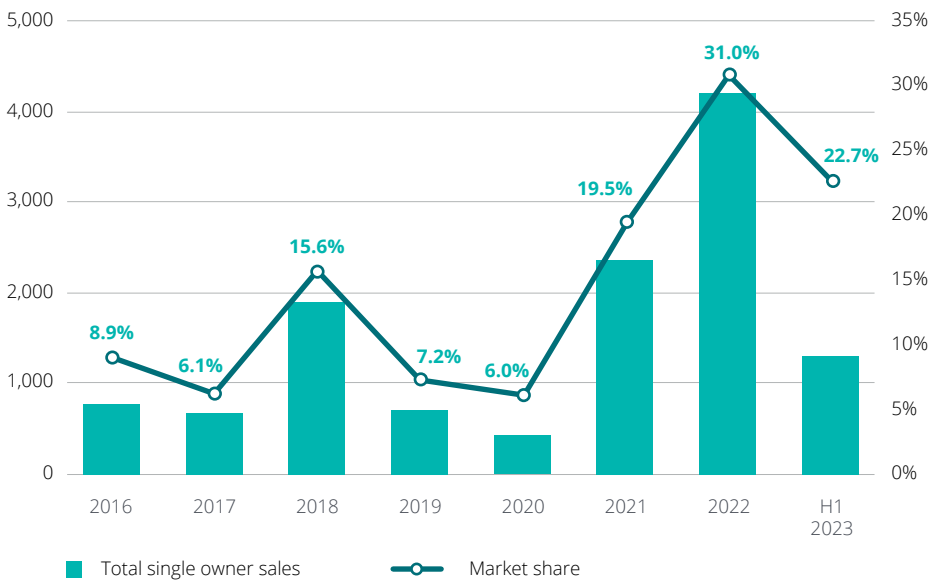
**Single-owner collection sales set a new record in 2022:**

Total auction sales (including buyer's premium) reached a record US\$3.99 billion in 2022, surpassing the previous peak year of 2021 when US\$2.43 billion was sold (of which US\$1.62 billion came from the Paul G. Allen Collection, US\$685 million from the Macklowe Collection, and a further US\$333 million from the Cox Collection). Single-owner collections accounted for a record 30.9% of total auction sales at Sotheby's, Christie's and Phillips in 2022, up from 19.3% in 2021 and 6.8% in 2020.

Single-owner collections accounted for a record 30.9% of total auction sales at Sotheby's, Christie's and Phillips in 2022, up from 19.3% in 2021 and 6.8% in 2020.

**Figure 17: Single owner collections: auction sales (in US\$ millions) 2016–H1 2023 (in US\$ millions)**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



BORE BLOCK - TAIPEI  
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# B

## PRIVATE SALES:

2019-2022

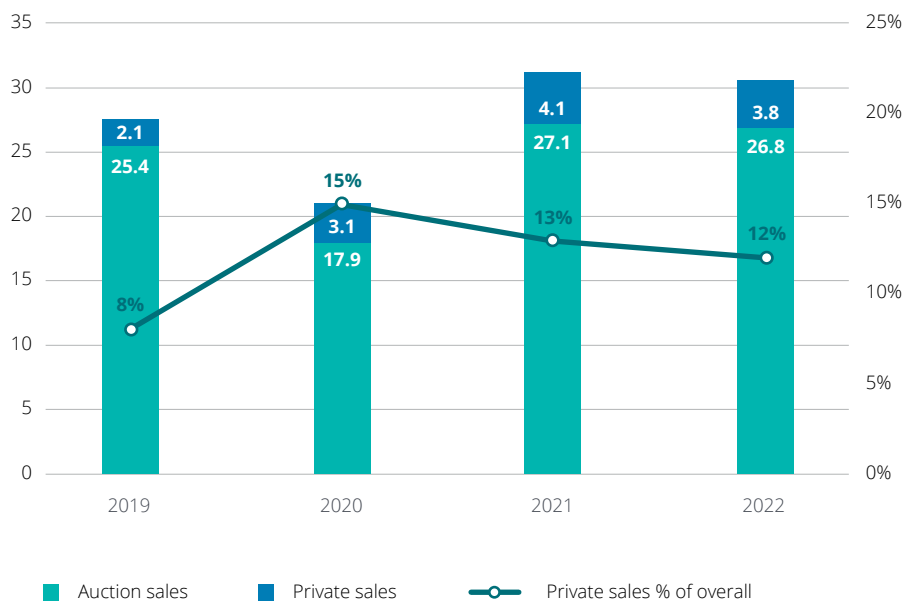
In times of uncertainty, private sales at auction tend to have an inverse relationship with sales trends in the public auction market, as sellers are warier of the possibility of artworks failing to sell in public auctions, and opt to keep these transactions off-market. According to *The Art Basel and UBS Global Art Market Report 2023*, during the pandemic, public auction sales declined by 29% in 2020, while private sales by auction houses saw a more than 40%<sup>65</sup> increase (accounting for 15% of overall auction house sales). Since the pandemic, private sales have accounted for a smaller proportion of the overall sales (13% in 2021 and 12% in 2022), but the total value of private sales reached US\$4.1 billion in 2021 and US\$3.8 billion in 2022.<sup>66</sup>

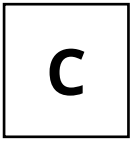
Art.Private. is an innovative art platform for private sales that launched in 2021.

The platform is exclusively dedicated to collectors who want to sell, buy and find quality artworks securely, in complete privacy and with transparency. Members are carefully vetted before joining the platform, and the platform charges a fixed 10% commission on the selling price. Confidentiality is key to the service provided, and members are unable to screenshot any content or transfer any information like additional images, documents or condition reports to external parties. Negotiations and transactions are held with Art.Private.'s team (and not through algorithms), combining both human expertise and advanced technologies. Art.Private. currently focuses on post-war and contemporary art, and is keen to expand to other periods like the 19th century and the Old Master genre, for example.

**Figure 18: Global auction sales: Private sales vs. public auction sales (US\$ billions)**

Source: *The Art Basel and UBS Global Art Market Report 2023*





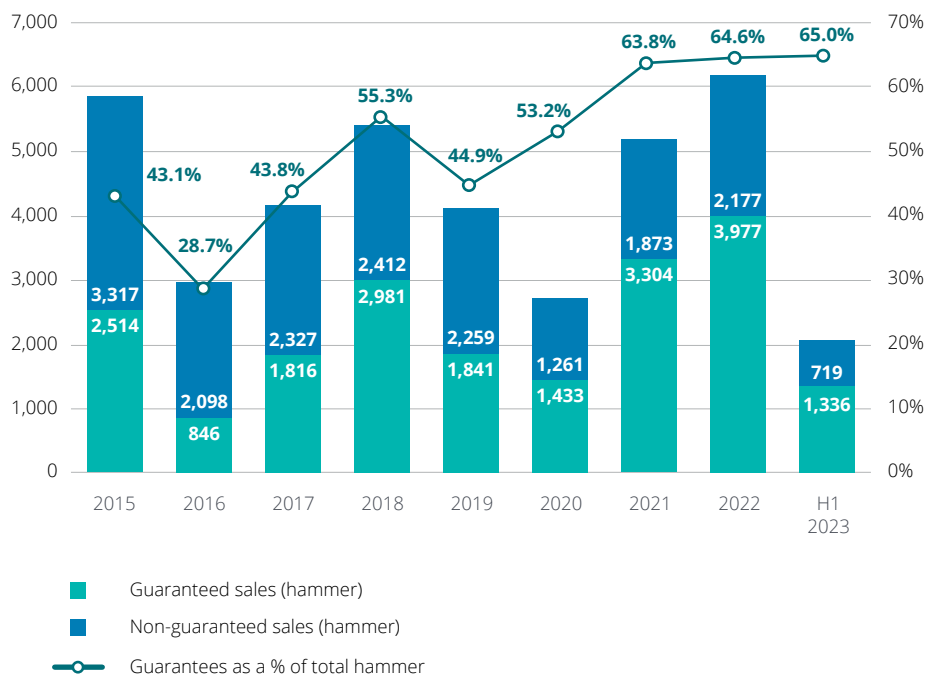
# AUCTION GUARANTEE ANALYSIS<sup>67</sup>

## Auction guarantees reach new heights in 2022, but are investors getting more cautious?

Auction guarantee levels reached a new high in 2022, with US\$3.65 billion in guaranteed value (based on hammer value) of lots in the impressionist, modern and contemporary segments sold during evening sales at Christie's, Sotheby's and Phillips. This was 18.9% higher than in 2021 and 128% higher than the pandemic year of 2020. Auction guarantees accounted for a record 64.6% of total evening sales value in 2022. In the first six months of 2023, auction guarantees accounted for US\$1.34 billion, down 29.3% from US\$1.89 billion for the same period last year. However, 65% of total evening sales value is supported by auction guarantees, demonstrating their importance for performance and stability at the high end of the fine art market. It is evident that the auction guarantee market acts as an "invisible hand" in the auction market, and that the appetite for providing guarantees will have a strong correlation to sales and performance going forward. Higher interest rates and lower returns on guarantees could adversely affect the market and the risk-return ratio.

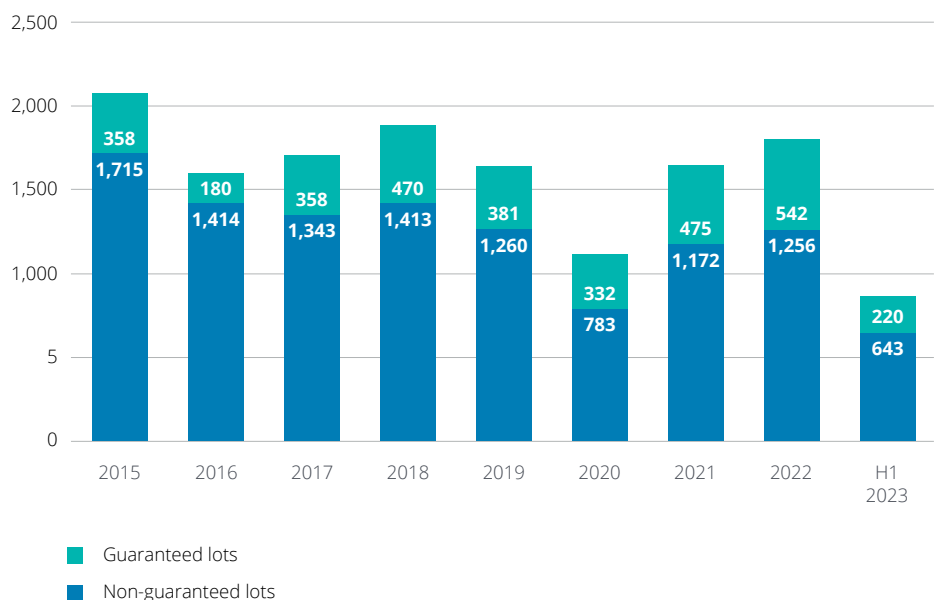
**Figure 19: Auction sales: guaranteed vs. non-guaranteed sales value (in US\$ millions)**

Source: ArtTactic and based on evening auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



**Figure 20: Auction sales: guaranteed vs. non-guaranteed sales lots**

Source: ArtTactic and based on evening auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



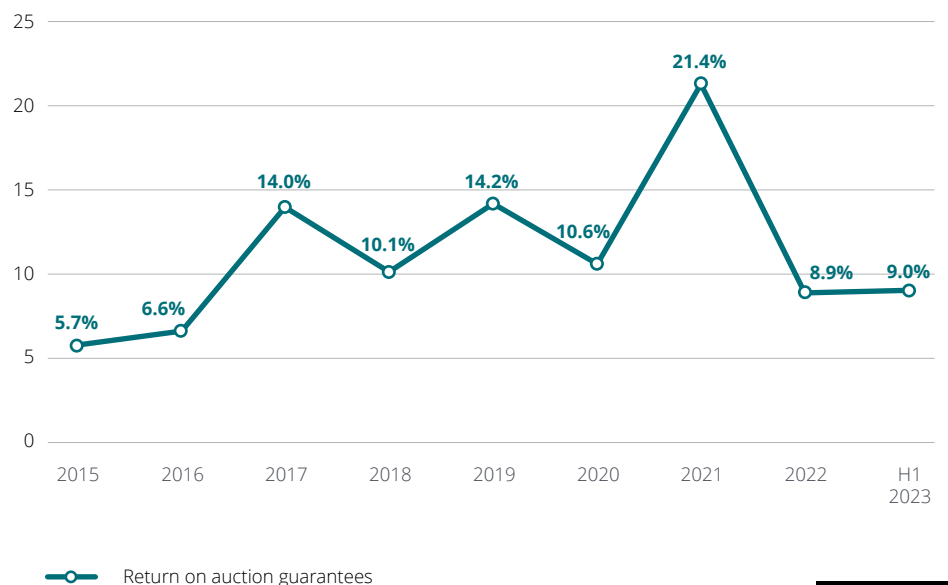


**DISC FRAGMENT AT BRIGHAM WOMEN'S HOSPITAL**  
© JONATHAN PRINCE

**Less profitability may indicate a more cautious approach among guarantors in coming months:** Since 2021, the estimated profitability<sup>68</sup> from auction guarantees has been coming under pressure, with estimated returns on guarantees falling from 21.4% in 2021 to 8.9% in 2022, and 9% in the first half of 2023. With interest rates on the rise and inflation running close to double-digits, it is questionable if the risk-return ratio is sufficiently attractive to justify further growth in the auction guarantee market in the next 12 months.

**Figure 21: Auction sales: estimated return on auction guarantees**

Source: ArtTactic and based on evening auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



**Auction houses passing risks to third-party guarantors:**<sup>69</sup> From 2016 to the first half of 2023, the majority (71%) of lots sold with guarantees were offered with a third-party guarantee, as opposed to 29% of lots with an in-house auction guarantee. The trend toward third-party guarantees became particularly prominent after 2018, and in the first six months of 2023, 82% of lots with guarantees were offered by third-party guarantors. This shows that the guarantee market over the last five years has been, and still is, actively supported by external investors. These investors are not only using the guarantee market as an investment opportunity in itself, but also as an effective mechanism to acquire artworks at price levels they perceive as fair value.

**Auction guarantees by price segment 2016–H1 2023**

**The trophy art market accounted for more than 60% of the guaranteed sales value, but only 10% of lots are guaranteed:** The US\$10–US\$50 million price segment accounted for 45.3% of auction guarantee value (hammer price

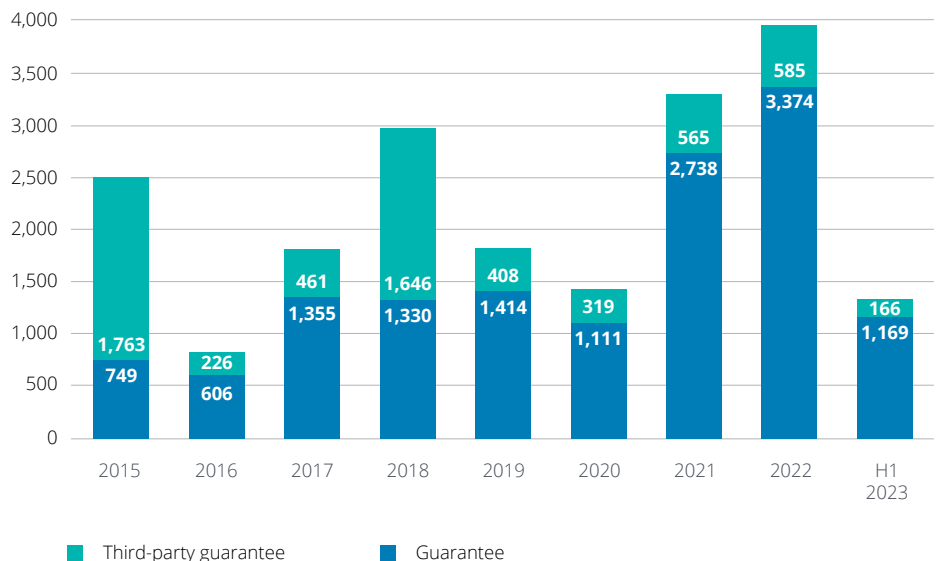
of guaranteed lots) between 2016 and the first half of 2023. The US\$50–US\$100 million segment accounted for 12.8% of the total guaranteed sales value, with guaranteed lots selling above US\$100 million accounting for 4.4%. However, in terms of lots sold, this ultra-high price segment (above US\$10 million) accounted for only 9.9% value.

**The US\$500,000 to US\$10 million segment is the sweet spot for the auction guarantee market:** selling in the US\$500,000 to US\$10 million range accounted for more than a third (36.3%) of guaranteed sales value between 2016 and the first half of 2023, and the majority (53.6%) of guaranteed lots sold.

**Almost two out of five artworks guaranteed sold for below US\$500,000:** Artworks sold for less than US\$500,000 accounted for 37% of guaranteed lots between 2016 and the first half of 2023. Despite this, artwork in the sub-US\$500,000 price range only accounted for 1.2% of the total guaranteed sales value (hammer price of guaranteed lots).

**Figure 22: Auction guarantees by third-party vs. in-house guarantee (in US\$ millions)**

Source: ArtTactic and based on evening auctions of impressionist, modern and contemporary art at Christie’s, Sotheby’s and Phillips





**Artist population in the auction guaranteed market:**

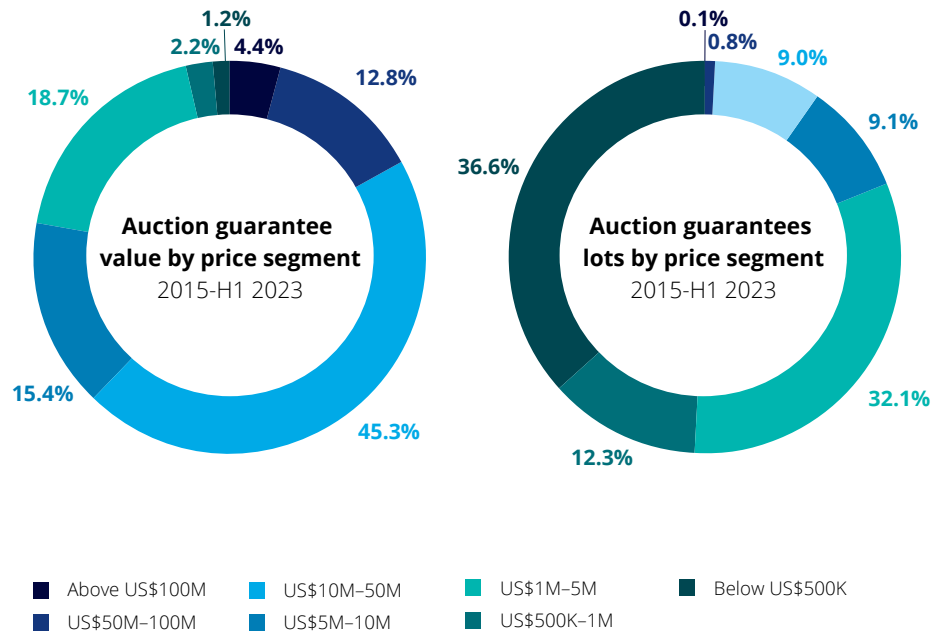
**Only 12% of the artist population is active in the auction guarantee market:** From 2016 to the first half of 2023, a total of 1,088 artists have had auction guarantees at Christie's, Sotheby's and Phillips, accounting for 11.9% of the total artist population during this period. Guaranteed lots by these 1,088 artists accounted for 53.7% of total auction sales value from 2016 to the first half of 2023. On an annual basis, there are an average of 270 artists with guarantees, with 2022 seeing a record 389 artists with auction guarantees.

**The pool of artists with guarantees narrows in 2023:** In the first six months of this year, 155 artists had lots with auction guarantees (down from 210 artists in the same period last year). These artists accounted for a smaller 6.2% of the total artist population selling at auction in the first half of 2023. The largest share (36.4%) of these guaranteed lots (by number) were based on artists in the contemporary segment, followed by 27.7% of the lots in the modern art segment.

**Women artists accounted for less than a fifth of artists with guarantees:** Women artists accounted for 19.4% of the total number of artists with guarantees in the period between 2016 and the first half of 2023. Only 18% of artists with guarantees in the first half of 2023 were women. In terms of guaranteed value, women artists accounted for 6% of the total guaranteed value, and 11.7% of lots guaranteed from 2016 to the first half of 2023.

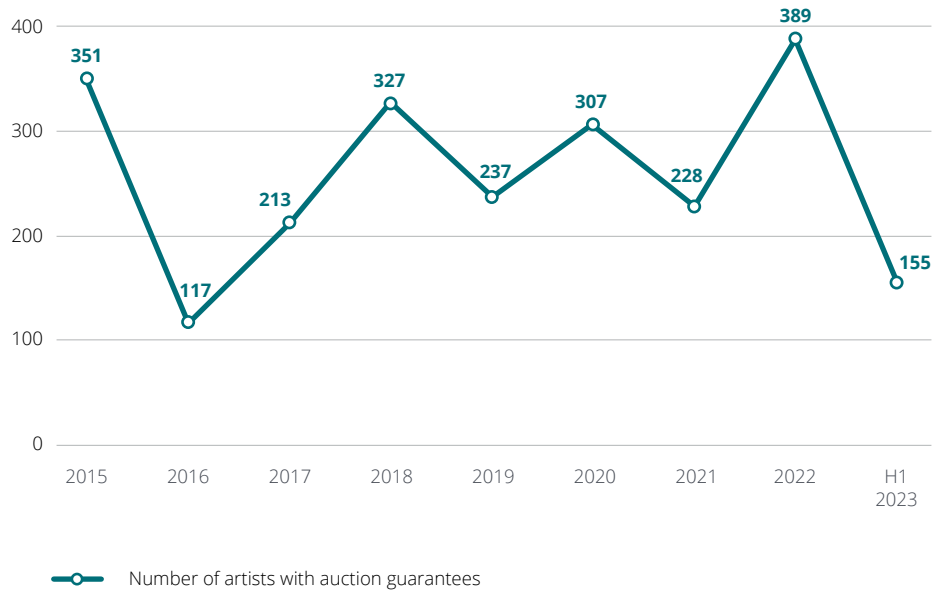
**Figure 23: Auction guarantee value and auctions guarantees lots by price segment: 2015-H1 2023**

Source: ArtTactic and based on auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



**Figure 24: Number of artists with auction guarantees**

Source: ArtTactic and based on evening auctions of impressionist, modern and contemporary art at Christie's, Sotheby's and Phillips



# D ONLINE ART MARKET

**Online sales slow after two years of strong growth:** According to the Hiscox Online Art Trade Report 2023, online sales in 2022 were up by an estimated 6%, reaching US\$10.8 billion. Although 2021 started with strong growth, online art sales slowed significantly in the second half and ended up at an estimated US\$10.2 billion.<sup>70</sup> Online sales this year have slowed further, and sales growth among the various online platforms surveyed differed greatly, signaling that the universal growth seen in 2020 and 2021 is no longer the case. The online art market in 2022 accounted for 15.9% of all art sales, down from 16% in 2021.

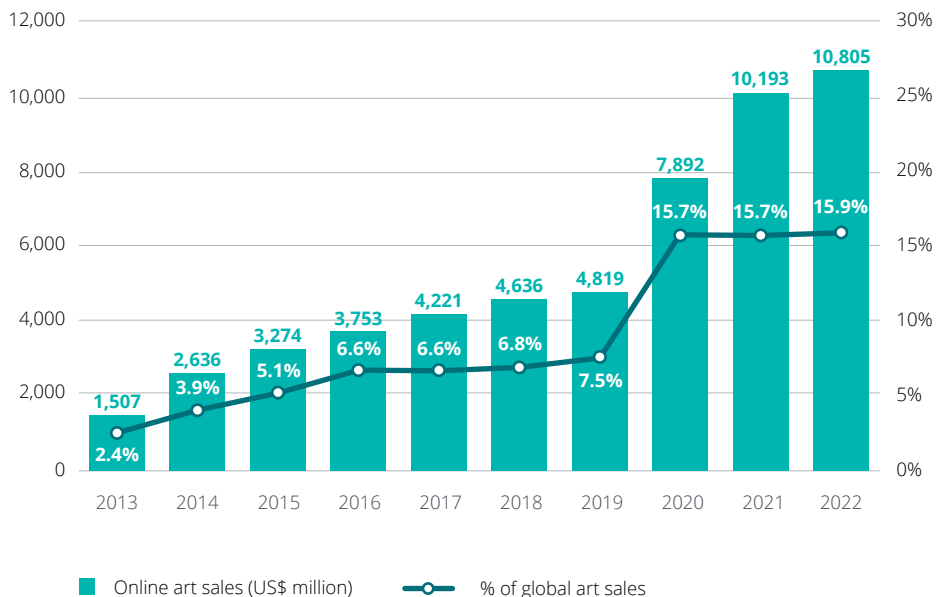
With growth plateauing, it appears that the online art market is finding itself back at similar growth rates seen in 2019 (pre-pandemic). The online art market could become more susceptible to overall sales

trends in the art market, as the integration of online sales as a mainstream method of purchase within the overall art market is becoming the new normal.

**Challenging times ahead:** According to the *Hiscox Online Art Trade Report 2023*, only 58% of online platforms surveyed say they remain positive about the online art market in 2023, down from 97% in 2021. A smaller number (16%) has a negative outlook on the market (up from 3% in 2021), while the remaining 26% take a neutral view of the coming year. Consumer migration to online buying seems to have reached a plateau, and it is unlikely that we will see online art market growth deviate significantly from the overall market going forward, as the physical and online markets have now become more entwined.

**Figure 25: Online art sales (in US\$ millions) and % of global art sales**

Source: ArtTactic and Hiscox Online Art Trade Report ; The Art Basel and UBS Global Art Market Report 2023



### Industry consolidation more likely:

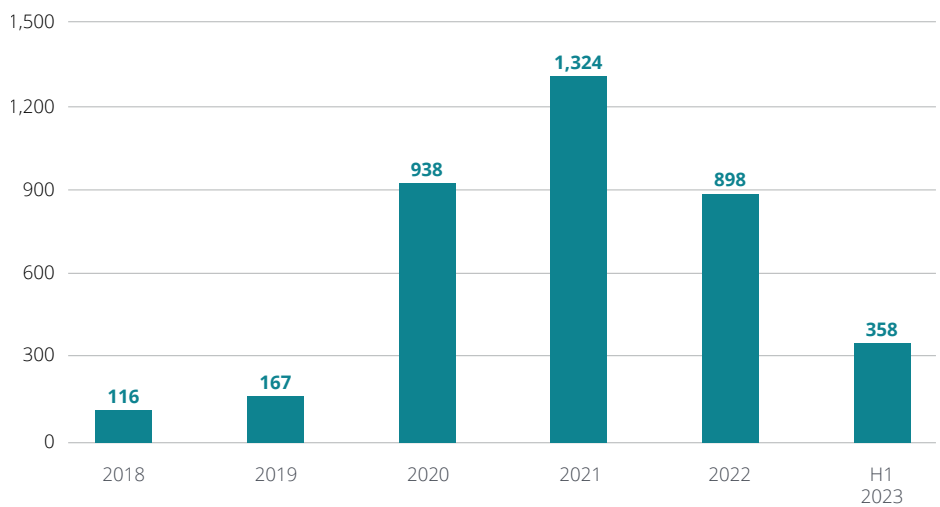
Over the course of 2020 and 2021, there was significant investment into digital and online platforms that would meet the art and collectible industry's needs to market and sell products online. However, interest in online purchases seems to be tapering, and online art marketplaces now have significant operating costs to balance with less investor and collector demand. Players in the online art marketplace have limited access to financing, and some investors want to liquidate their investments into the sector, meaning 2023 may see an increase in M&A activity. Seventy-one percent of the online platforms surveyed<sup>71</sup> expected to see more consolidation taking place over the course of 2023, compared to 64% who said the same in 2021. Looking long-term, 65% of the online art platforms surveyed believe the online art market will consolidate over time, and ultimately consist of one or a few online platforms that operate at a global level—an increase compared to 57% in 2021. The fear of an outsider disrupting the online art market has more or less disappeared, with only 6% considering this a likely future scenario, compared to 48% who said the same in 2021. Half of the online platforms surveyed said the online art market will remain focused on collecting, with certain platforms dominating specific collecting segments (down from 59% who said the same in 2021).<sup>72</sup>

### Global online-only auction sales decreased by 32% in 2022, but the first half of 2023 shows signs of recovery:

Online-only auction sales at Christie's, Sotheby's and Phillips fell by a third in 2022, after experiencing a 41.2% hike between 2020 and 2021. Total online-only sales in 2022 came in at US\$898 million,

**Figure 26: Online-only auction sales at Christie's, Sotheby's and Phillips (in US\$ millions)**

Source: ArtTactic based on online-only sales from Christie's, Sotheby's and Phillips



compared to US\$1.32 billion in 2021 and US\$938 million in 2020. The drop in online-only sales is likely due to the global auction market moving back to in-person and hybrid sales models, with higher-end lots (that would sell through online-only channels during the pandemic) now back in physical, traditional auction formats. However, the first six months of 2023 show signs of resilience. Online-only auction sales were down 9% in the first half of 2023 but accounted for a larger proportion of the overall sales value. A total of US\$358.3 million of online-only sales were generated

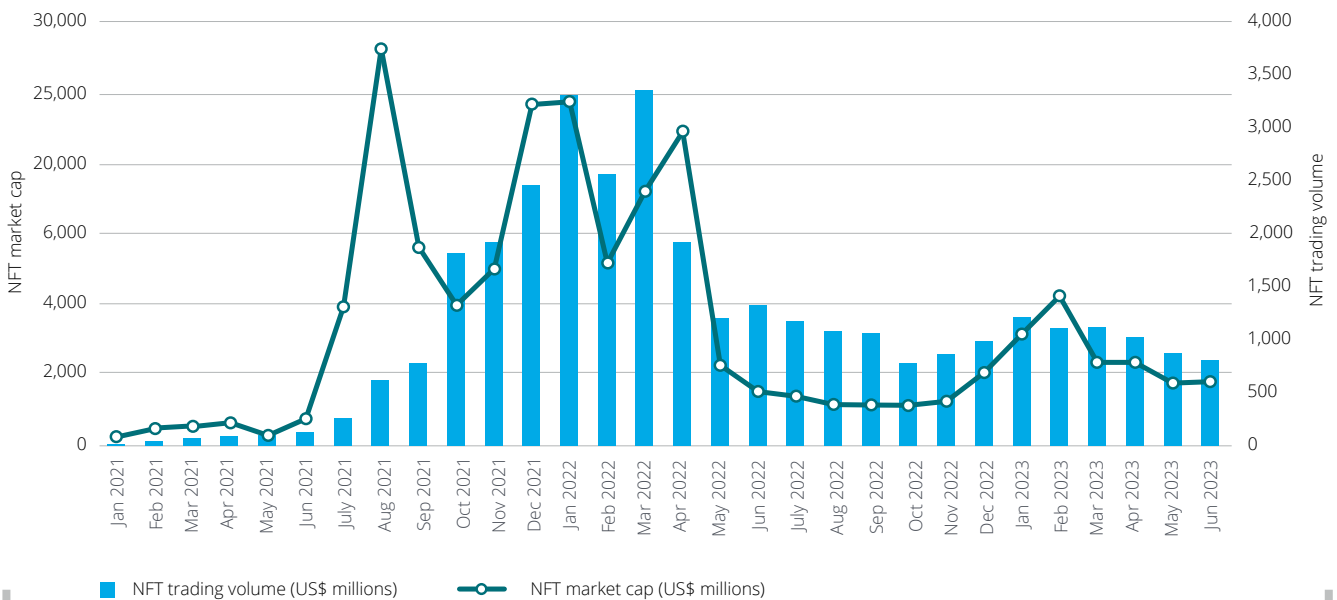
by Christie's, Sotheby's and Phillips during the first half of 2023, with an increase in the number of online-only auctions from 183 in the first half of 2022 to 194 in the first half of 2023, and an increase in the number of lots sold online from 21,647 lots in the first half of 2022 to 26,009 lots in the first half of 2023. Lots sold through online-only channels accounted for 49% of total lots sold at auction in the first half of 2023 (compared to 42.4% in the first half of 2022), and 6.2% of total auction sales value (compared to 5.5% in the first half of 2022).

# E NFT MARKET TRENDS

After the non-fungible token (NFT) market reached all-time-high trading volumes and market capitalization at the start of 2022, it dipped in value with the rest of the markets due to economic headwinds. The market stabilized in the latter half of 2022 and the first half of 2023, with market capitalization hovering around US\$7 billion and monthly trading volume (excluding wash trading) around US\$640M in the second quarter of this year.

Figure 27: NFT total market cap vs. monthly trading volume

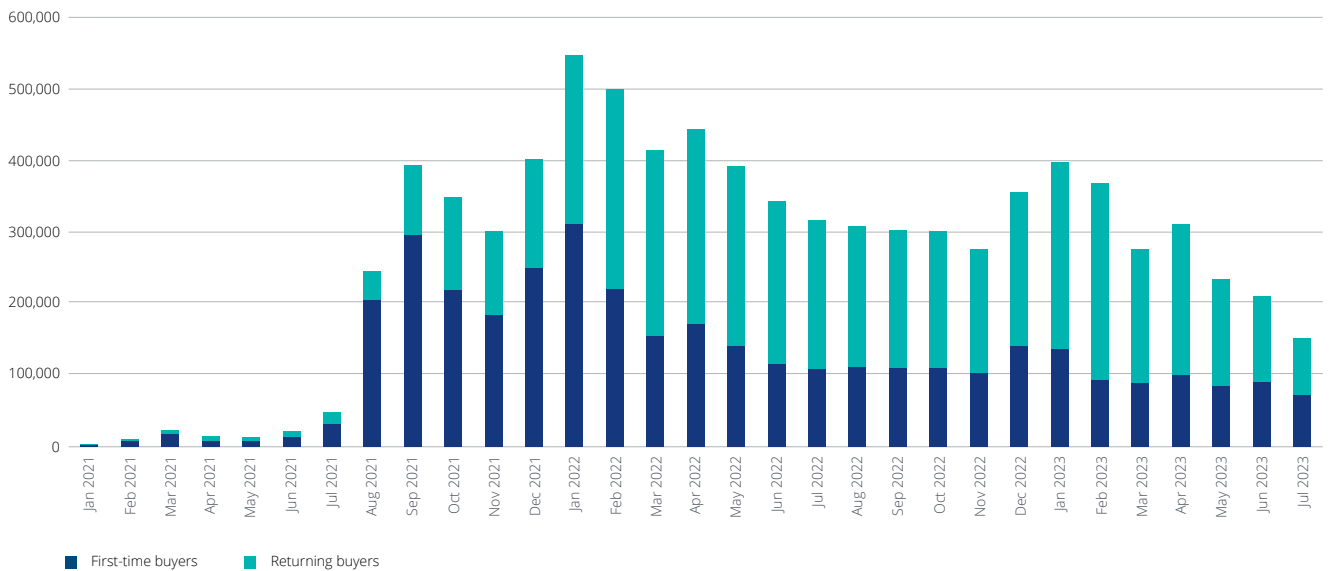
Analysis: Meta4 - Source: OpenSea, NFTGo



At the NFT market's peak in January 2022, there were over 300,000 first-time NFT buyers and over 500,000 distinct buyers across all chains. The market has been relatively stable in mid-2023, with about 100,000 buyers purchasing NFTs for the first time each month and monthly returning buyers typically ranging from 120,000 to 200,000.

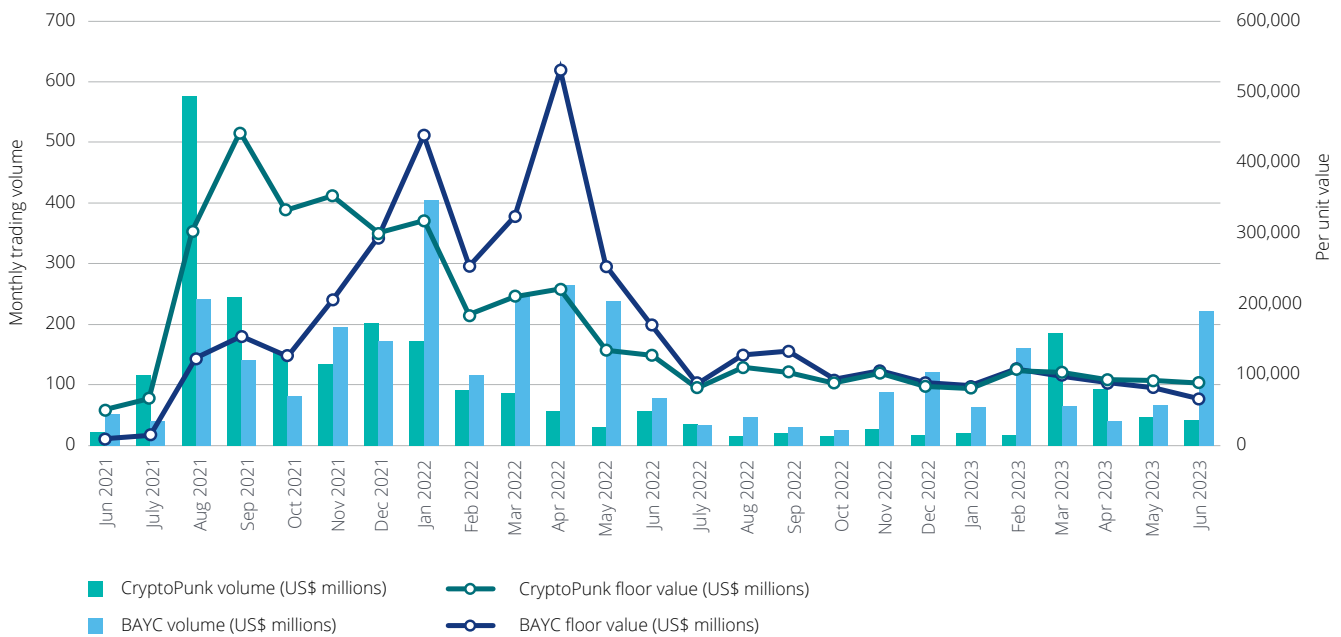
**Figure 28: NFT buyer analysis: total number of monthly first-time buyers and returning buyers**

*Analysis: Meta4 - Source: Meta4, Dune*



**Figure 29: Price evolution and monthly trading volume of CryptoPunks and Bored Ape Yacht Club (BAYC)**

Analysis: Meta4 - Source: Meta4, OpenSea



The top two NFT collections in the ecosystem are CryptoPunks and Bored Ape Yacht Club (BAYC), which were both valued well above US\$400,000 per unit at their peaks. While the prices of both collections have dropped since then, they have stabilized at around US\$100,000 (CryptoPunks) and US\$60,000 (BAYC).

The falling values of key NFT collections have dented confidence among NFT buyers and investors, and could mean there is more negative news in the pipeline for the NFT market this year. The cautious mood around NFTs was also evident in this year's survey of different art market stakeholders. While 25% of collectors surveyed in 2021 said they were interested in investing in NFTs, this dropped to 14% in this year's survey. This sentiment was also echoed among wealth managers, with only 10% saying this was an investment product of

interest to their clients, down from 33% in 2021.

We are, however, starting to see new applications of NFTs in the art market beyond the trading and investment aspects that have largely dominated the discourse over the last three years. Firstly, it has opened up a new market for native digital artists who have found a way to get paid for their work and to build and grow their collector base. For collectors, NFTs offer the benefits of ownership titles of digital artworks and the opportunity to buy and resell these artworks in an open market.

We are also seeing the increasing involvement of the traditional art world when it comes to building new use cases for NFTs. The Jackson Pollock Studio, which showcases some of the famed painter's work in his last home, released an NFT

collection<sup>73</sup> alongside Web3 art collective Iconic Moments. The project was titled "Beyond the Edge," and the collection is made up of four different perspectives of the studio floor where Pollock produced much of his artwork, which is covered in paint in the artist's typical style. The collection incorporates elements from some of Pollock's most recognized paintings, including *Number 3*, *Blue Poles* and *Convergence*.

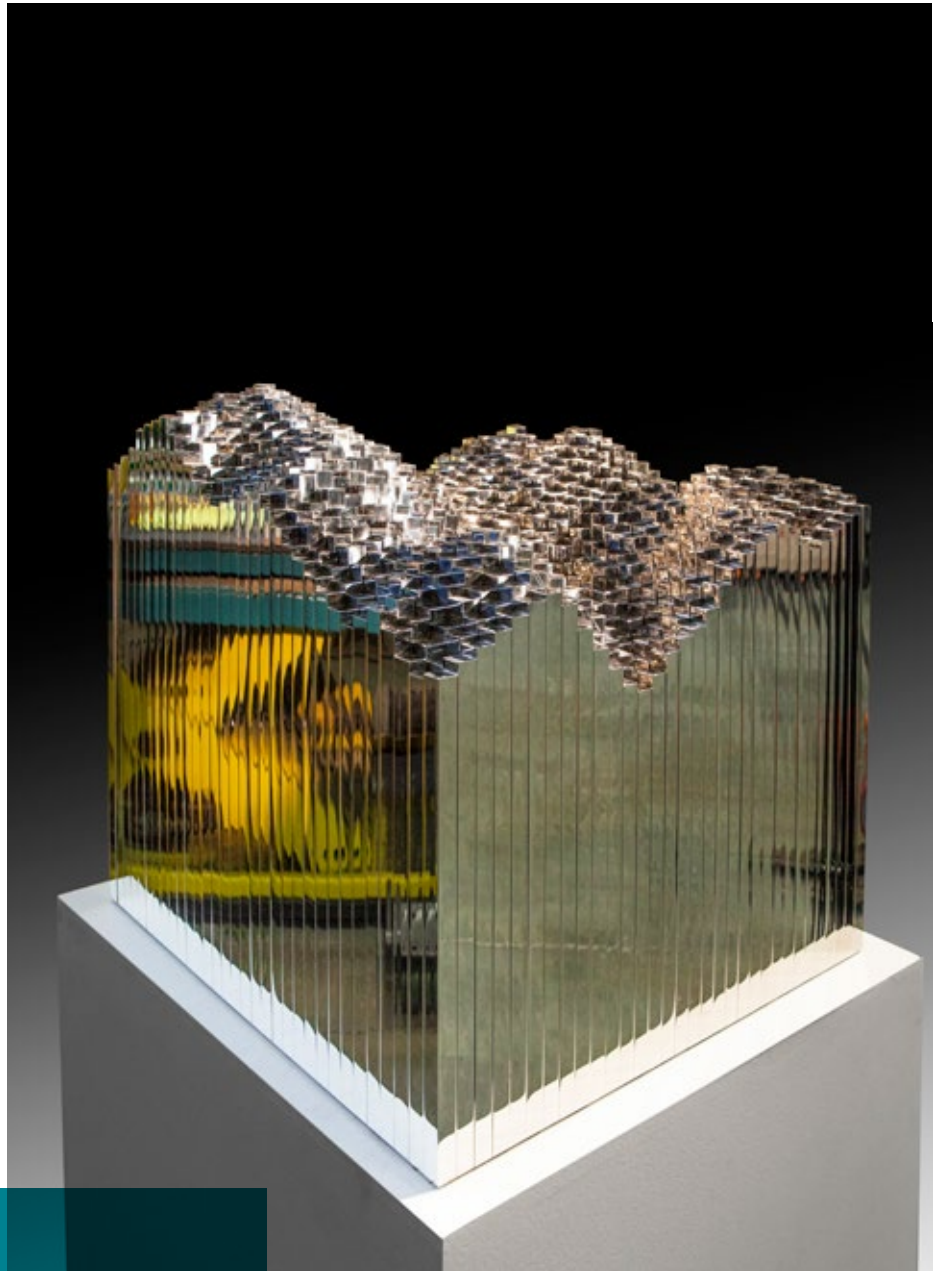
Other acclaimed artists have launched similar NFT projects, notably Damien Hirst, who released a limited collection of NFT spot paintings called *The Currency*. The caveat? Collectors had to decide if they would destroy either the physical artwork or burn its digital version after a twelve-month period.

The growing interest in NFTs linked to physical artworks shows that NFTs are finding applications beyond digital art. Physical NFTs are digital tokens linked to real-world assets and are often used to prove ownership over artworks, property deeds, and other assets. There are usually two components behind physical NFTs: the digital one stored on the blockchain and the physical one you own.<sup>74</sup>

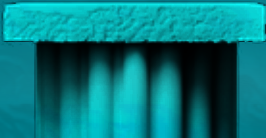
Blockchain technology that allows for the authentication of physical NFTs is now commonplace and widely used. However, it is increasingly applied to other areas, such as enhancing a consumer's overall experience and elevating in-person interaction with a brand. In particular, luxury brands are frontrunners when it comes to utilizing NFTs as access or utility tokens as a way to create more rapport between a product and its audience, for example.<sup>75</sup> A similar development is likely to take place in the art market going forward.

**Thanks to the following article, we explore new frontiers. Art always tests new dimensions and stimulates new dialogues.**

**PIXEL BLOCK**  
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INDUSTRY  
INSIGHTS\_



## Where art, science, space and tech meet

Interview with Mariam Brian, CEO of Holo Art



**Mariam Brian**  
CEO and Founder  
of Holo Art

**M**y name is Mariam Brian, CEO and Founder of Holo Art, where we believe the unification of art and science results in exponential innovation. Our focus is on space innovation, art, science and emerging technologies. We are defining the future of creativity with state-of-the-art tools and processes.

---

**What is Holo Art's mission, and what makes it unique? What are the milestones and current status?**

Holo Art's mission is to make large-scale, meaningful impact in the world. As a new frontier, we explore space at the edges of human-machine adaptations with new technologies, cutting through noise to provide trusted leadership, and reintroducing art-based principles into spatial discourse. We elevate the role of artists in society and redirect our collective gaze toward truth, beauty and wisdom. This tech-savvy approach is necessary to reach younger generations who perceive the world very differently.

Our team has participated in over 30 space missions and advised SXSW, Burning Man and leaders in ethical AI, who are shaping global governance policy and stand at the frontiers of their respective disciplines in art, science and technology. This means we can speak to the neuroscientific, cultural, historical, financial, and scientific aspects

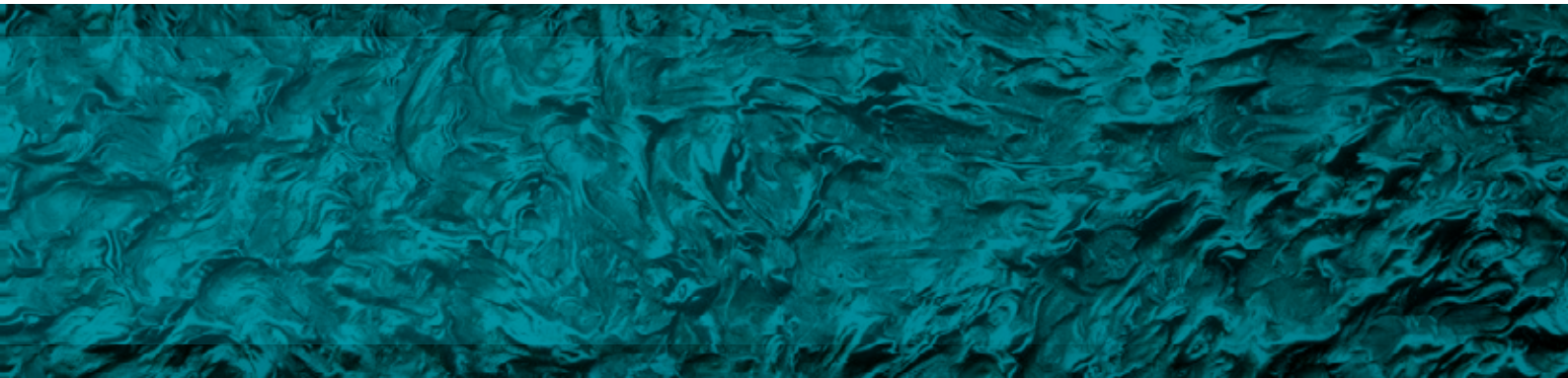
of various initiatives with rare leverage to fast-track creativity and innovation in global markets. Our success is a result of intentional processes to build deep trust and uphold a shared set of values that guide humanity's evolution.

This is a counterculture narrative in response to the devolution and dilution of art in the attention economy, where narrow marketing transforms our aesthetic antennae. The brilliance of art is that it is a conduit for "envisioning." We do not have to fear our own humanity in the technical age, and there is no dualistic choice between dystopia and utopia. We can find measured optimism in a "middle" way, and succor humanity to tap into our creative genius as a species—reimagining an aspirational and hopeful future with far-reaching impact.

At Holo Art, we incubate exponential creativity based on the holographic principle. What starts as impossible science fiction drives tomorrow's technological advances. At its core, it is artistic imagination that drives science fiction. With a return to renaissance polymathy, we are upgrading and advancing integral capacities and iterative, generative STREAM disciplines that combine Science, Technology, Resilience/Reading/Recreation, Engineering, Art, and Mathematics.

The Interplanetary Holo Art Space Station (iHASS) includes a "Holo Art Laboratory"—a futuristic Holo Deck Holo Ship, like hi-tech Florentine squares of the Renaissance—that enables people from around the world





to meet in an ultramodern playground to play and experiment with new technologies with unbridled curiosity. We need to elevate our art-making processes and learn how to co-create together at scale. As one six-year-old said, “I am practicing art so I can get good at it because I want to be a scientist.”

The Holo Art team comprises 72 renowned artists and advisors with past and current shows at Art Basel, the Venice Biennale, and other notable events in the art world. We now have a global reach of over 30 countries at the highest levels of influence. The team holds over 330 patents combined, and we are working with “never before” released proprietary technology. This uniquely positions us as a global, creative hub exploring the frontiers of art and science. As a for-profit venture, we translate concepts across specialties that result in unprecedented innovation, business development proposals, and far-reaching impact across different fields.

The team is a curation of thought leaders and pioneers at the frontiers of art, telecommunications and quantum internet aerospace engineering, neuroscience, neurotechnology, AI ethics, global finance and law, quantum physics, generative AI, and satellite spatial computing. This array of stellar expertise, coupled with our roster of respected and seasoned art patrons, front-line cultural shapers, smart cities, quantum futures partners, has resulted in exponential growth and interest

# The brilliance of art is that it is a conduit for “envisioning.”

from galleries, museums, and private organizations around the world.

Holo Art officially launched with a NASA astrophysicist, Dr. Matthew Greenhouse, from the Goddard Space Flight Center showcasing the art and science behind the James Webb Space Telescope and galaxy formation. We also had a seminal Art in Space collection beamed back to Earth from the International Space Station. The collection included pieces from all five continents, indigenous artists, and children. We are now concluding a bleeding-edge public global dialogue series while developing our laboratory and original STREAM education ecosystem.

---

## **You collaborate with partners like NASA, ISS and the UN. How do they contribute to the project, and why do they support it?**

Yes, we are blessed to be collaborating with many notable organizations. Our Art

in Space collection was sent to the ISS with NASA’s SpaceX Cargo Mission as a creative payload. Our global dialogues included a ground-breaking, world-first talk by the Head of Innovation at CERN about a Standard Model for Creativity.

We have partnered with the Institute of Electrical and Electronics Engineers’ (IEEE) Global AI Standards Committee to co-host a series of Future of ARTificial Intelligence panels specifically for family offices. This series probes the impact of digital identities, privacy and regulation related to investments, banking, healthcare, FemTech, and quantum computing in cybersecurity. Other partners include Unanimous AI, NeuroTracker, BCI Pioneers Coalition, and Project Eternity. We support international foundations like Girls in Quantum to cultivate the next generation of visionaries and collaborators.

We believe our partners see the substance and value of what we offer; the future of every single discipline on and off the

planet depends on art, creativity, and the cultivation of the imagination, collaboration and new perspectives. Throughout history, art revolutions have typically preceded scientific revolutions, and we are ushering in the quantum paradigm. This requires a shift in how we perceive ourselves, each other, and our world.

Our partners see our impact, buy into our long-term vision, and want to connect with the top—they want to be part of this moment in history. Referencing an African proverb, our partners know, “If you want to go fast, go alone. If you want to go far, go together.” We are aiming for beyond the Moon, to Mars and beyond, and we can do that with Ubuntu.

---

**Is Holo Art a global social-cultural impact project? How do you intend to measure its impact?**

Our goal is to make a meaningful impact in the world. We aim to showcase how a more peaceful global coexistence is possible in the co-design of civilization building, both on and off the planet. This means reimagining art itself and the telos of the human species. The future of art will be collective creative intelligence.

We can measure our impact to date by the caliber of our team, speakers and partners. We have been featured in an Associated Press global space innovation video and invited to join “Quantum Science” panels with senior NASA scientists, and keynotes at web3 conferences in Paris. We are also

looking forward to future collaborations with avant-garde movements.

The Head of Innovation at CERN shared that “Holo Art is a solution for humanity,” and Bill Viola’s wife Kira said, “Holo Art is essential.” These humbling encouragements affirm we are on a substantial path. With the visionaries we have on board, we believe artists can (and have a responsibility to) guide humanity’s gaze toward topics of great importance. This is the poetic nature of elevating consciousness at scale.

renaissance or “rebirth” summons us to focus our collective efforts on highlighting and appraising beauty, truth, and wisdom. In a way, we are working on building a post-Renaissance civilization to invite collective enlightenment. Designing culture on and off the planet is fun, serious play with high yield and high impact, as culture drives spending in every single industry.

A global ecosystem is emerging with space as the final frontier, a gateway to new worlds and cosmic possibilities. This economy is forecast to exceed 1 trillion US\$

# The future of art will be collective creative intelligence.

---

**What is in it for the de Medicis of the XXI century?**

Our unique value proposition is investing in the future. Helping own a piece of art history. Leaving a timeless legacy for all of humankind. As we face unprecedented complexity, accelerated pace of data generation and technological advancements, we are living in a time of science fiction realities. A modern

over the next few years, coupled with an art economy already exceeding 1 trillion US\$. The global marketing economy is estimated to be over 2 trillion US\$. To steward this mammoth 4 trillion US\$ opportunity, we need to balance ego, greed and vanity with pious servitude, virtue and grace. The juxtaposition of who we are and what it means to be a decent human being means stretching to engage with strategic foresight about the world we are designing

now and for generations to come. Multi-generational succession planning is the fruit.

In addition, building brand trust will be paramount for safe space travel and loyal space tourism. Ethics will play a huge role in the future, as a design team that does not cut corners will be the difference between life and death in space. The de Medicis of our time will understand this premise intuitively and viscerally, concretizing their place in space history and shaping the future of humanity for the benefit of all and the greater good. They will bequeath a valuable, priceless inheritance of designing type 1 future civilizations for our children and their grandchildren, both on Earth and in space. They have the power, will, and vision; the time is ripe now.

Art, science and space are for everyone. At the intersection of these fields, the de Medicis of the 21st century grasp the importance of such a responsibility and will sculpt the architecture of this new landscape, an exciting frontier of our cosmos and the evolution of humans toward Homo Planetarium, Homo Imaginaritius. As Albert Einstein posited, "The most beautiful thing we can experience is the mysterious – it is the source of all true art and science."



F

# ART MARKET OUTLOOK 2024

### Art market confidence deteriorates in the face of continued economic uncertainty

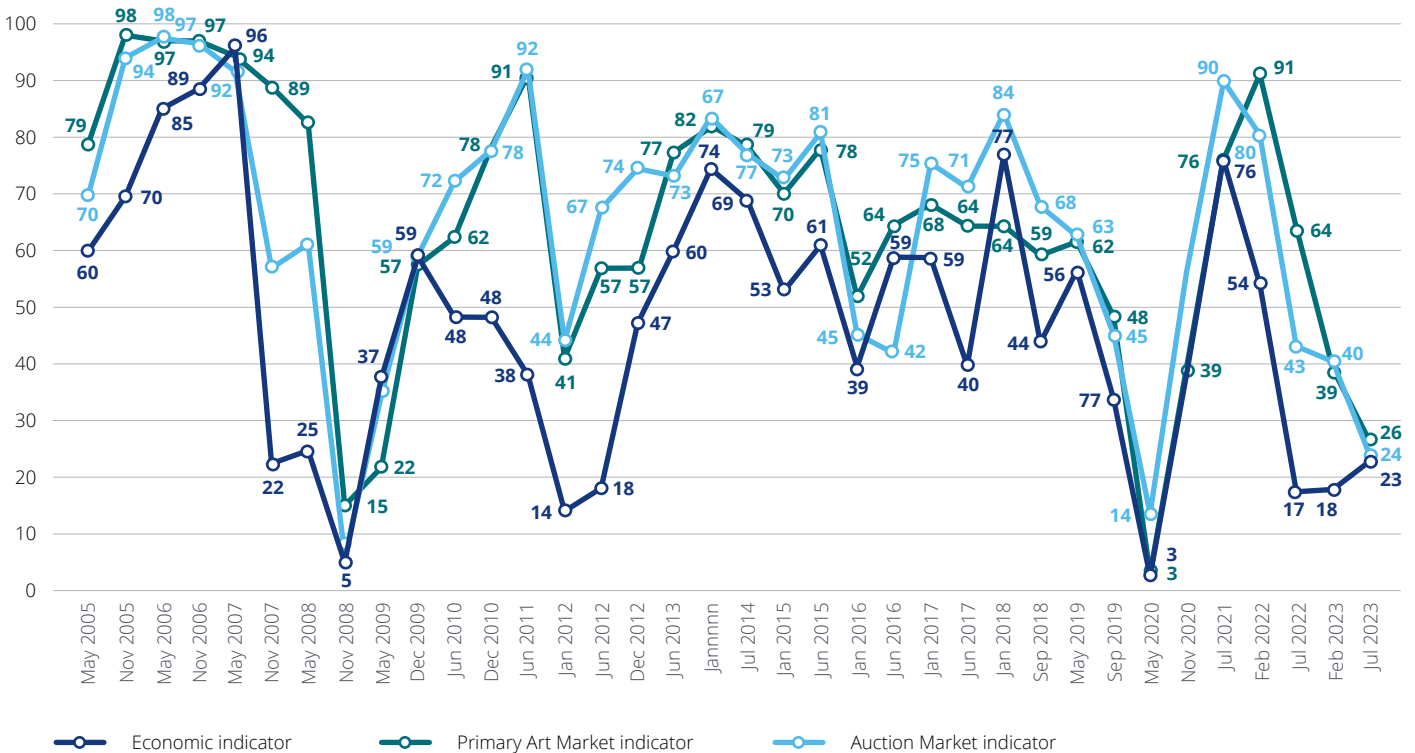
After a sharp fall in the ArtTactic Confidence Indicator<sup>76</sup> in July 2022, the majority of survey respondents have continued to take a negative view of the contemporary art market in the second half of 2023. The current reading came in at 24,<sup>77</sup> down 25% from February 2023. A reading below 50 signals there is more negative sentiment than positive in the current art market.

Higher inflation, rising interest rates and stagnant growth continue to weigh negatively on the economic component of the ArtTactic Art Market Confidence Indicator. However, while still in a deeply pessimistic territory, the economic indicator has risen from 18 in February 2023 to 23 in July 2023, with more respondents believing the economic situation could stabilize this year.

This is in line with the International Monetary Fund's (IMF) *April 2023 World Economic Outlook Update*,<sup>78</sup> which projects growth will fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3% in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. Global headline inflation is projected to fall from 8.7% in 2022 to 7% in 2023 as a result of lower commodity prices, but underlying (core) inflation is likely to decline more slowly.<sup>79</sup>

Figure 30: ArtTactic Confidence Indicators (Economic, Primary Art Market and Auction Market)

Source: ArtTactic





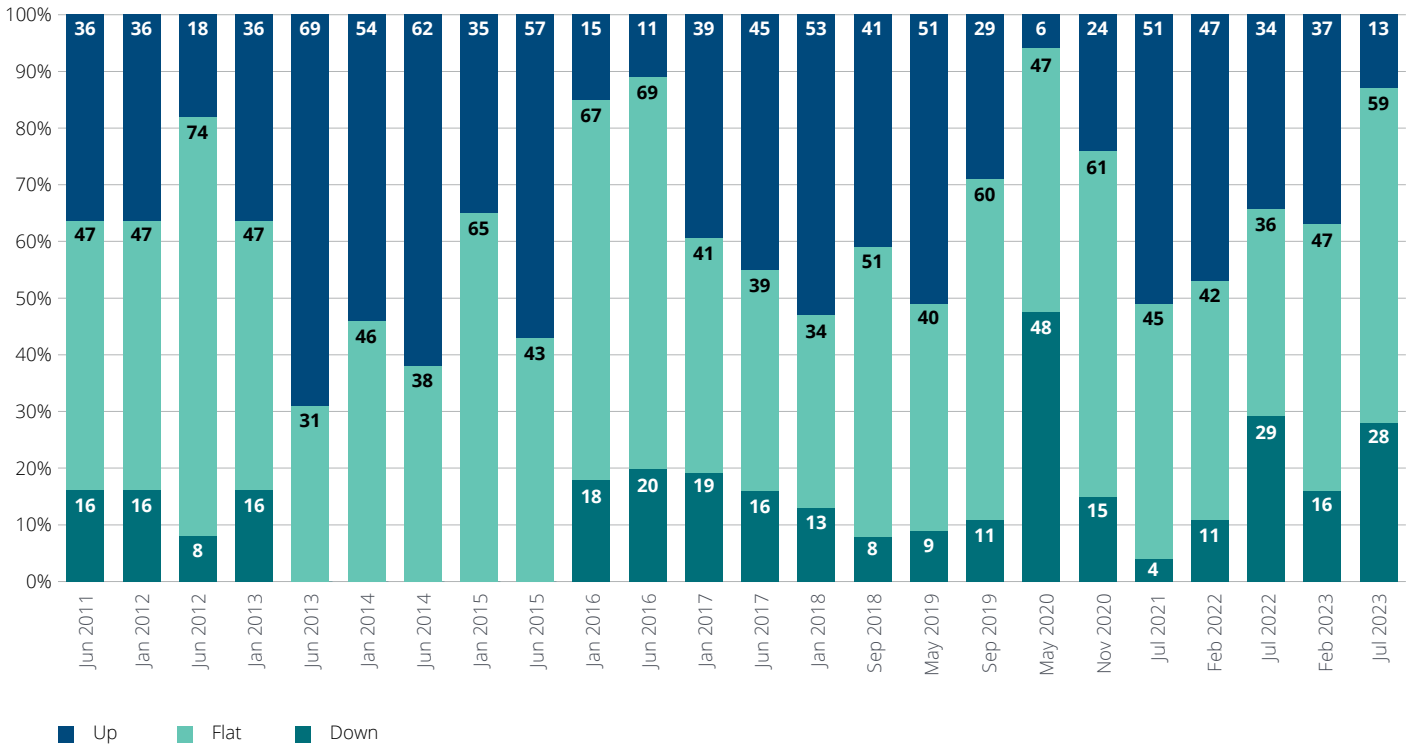
TORUS 340  
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**Neutral-to-negative 12-month art market outlook could mean that the market is settling at lower levels**

59% of art market experts surveyed believe the art market will remain flat over the next 12 months, and sales will settle at lower levels already seen in the first six months of the year. However, 28% believe there will be further downside in the art market over the coming year, while 13% believe the market has reached its bottom and will recover in the coming months.

**Figure 31: ArtTactic Confidence Survey: art market direction in the next 12 months**

Source: ArtTactic



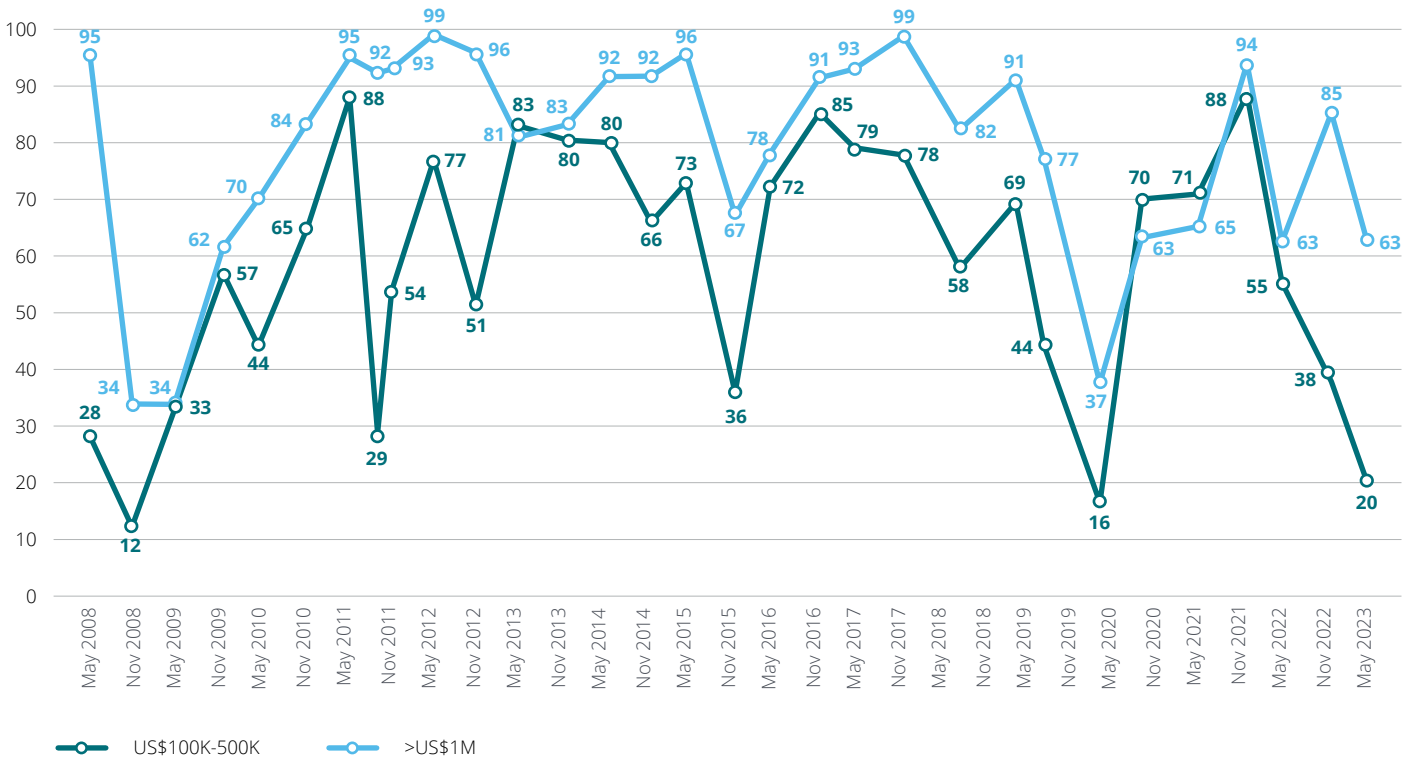
**Confidence is deteriorating across all price segments**

The ArtTactic's confidence indicators have weakened across all price segments since February 2023, with particularly low levels of confidence in the mid-market segment, or artworks priced in the US\$100,000–US\$500,000 range. Although the majority of respondents remain positive about the US\$1 million-plus segment, the indicator has fallen 26% since February 2023, which means even the top end of the art market is feeling the uncertainty. This is already evident in the lower levels of supply of US\$1 million artworks in the first half of 2023 (see Figure 32).

Although the majority of respondents remain positive about the US\$1 million-plus segment, the indicator has fallen 26% since February 2023, which means even the top end of the art market is feeling the uncertainty.

**Figure 32: Art market confidence by price segment**

Source: ArtTactic





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Part 3\_

# Regional breakdown\_



**GLOBAL  
TREND**



**UNITED  
STATES**



**UNITED  
KINGDOM**



**EUROPE**

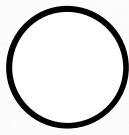
	GLOBAL TREND	UNITED STATES	UNITED KINGDOM	EUROPE	
<b>Real GDP growth 2022*</b>	3.5%	2.1%	4.0%	3.5%	
<b>ECONOMIC REVIEW 2022</b>	<b>Real GDP Growth Trend +/-*</b>	Negative	Negative	Negative	Negative
	<b>HNWI wealth growth 2021 to 2022**</b>	-3.6%	-7.4%	-1.1%	-3.2%
	<b>Real GDP growth outlook 2024*</b>	2.80%	1.00%	1.00%	1.50%
<b>ECONOMIC OUTLOOK 2022</b>	<b>Economic outlook trend (2023 vs. 2024)*</b>	Neutral	Negative	Positive	Positive
	<b>Wealth outlook 2027 (5 year growth in UHNWI population)***</b>	57%	47%	49%	47%
<b>AUCTION MARKET SALES IN 2020</b>	<b>Art market modern and contem- porary sales 2022 (US\$ million)</b>	4,294	2,717	777	191
	<b>Market share % in 2022</b>	100.0%	63.3%	18.1%	4.4%
	<b>Art market sales growth 2021 to 2022</b>	19.0%	23.4%	30.7%	-3.0%
	<b>5-year sales CAGR (2017-2022)</b>	0.6%	0.1%	0.2%	0.9%
<b>OUTLOOK ART MARKET</b>	<b>Art Market Outlook 2024</b>	⊕ <b>UP: 20%</b> ⊖ <b>FLAT: 41%</b> ⊖ <b>DOWN: 39%</b>	⊕ <b>UP: 31%</b> ⊖ <b>FLAT: 32%</b> ⊖ <b>DOWN: 37%</b>	⊕ <b>UP: 7%</b> ⊖ <b>FLAT: 45%</b> ⊖ <b>DOWN: 49%</b>	⊕ <b>UP: 15%</b> ⊖ <b>FLAT: 39%</b> ⊖ <b>DOWN: 46%</b>
	<b>Trend</b>	Neutral	Positive	Negative	Negative

\* Source: IMF World Economic Outlook, July 2023 \*\* Source: Capgemini World Wealth Report 2023 and complimented by Knight Frank Wealth Report 2023





**CHINA**



**JAPAN AND SOUTH KOREA**



**MIDDLE EAST**



**SOUTH ASIA**



**LATIN AMERICA**



**SOUTHEAST ASIA**



**AFRICA**

3.0%

1.1%

5.3%

6.8%

4.0%

5.5%

3.9%

Negative

Negative

Negative

Negative

Negative

Negative

Negative

-2.7%

-3.6% and -7.1%

1.5%

4.5%

2.1%

3.5%

1.6%

4.50%

1.00%

3.20%

6.30%

2.20%

4.50%

4.10%

Positive

Negative

Positive

Positive

Positive

Neutral

Positive

100%

15.5% and 92%

82%

108%

48%

75%

23%

117

148

18

120

125

45

35

2.7%

3.4%

0.4%

2.8%

2.9%

1.0%

0.8%

-33.1%

36.7%

-11.0%

7.0%

49.0%

45.0%

-5.0%

5.1%

5.2%

-10.8%

14.1%

11.7%

-2.4%

4.8%

⊕ **UP: 33%**

⊖ **FLAT: 29%**

⊖ **DOWN: 38%**

⊕ **UP: 27%**

⊖ **FLAT: 41%**

⊖ **DOWN: 32%**

⊕ **UP: 25%**

⊖ **FLAT: 51%**

⊖ **DOWN: 24%**

⊕ **UP: 12%**

⊖ **FLAT: 41%**

⊖ **DOWN: 47%**

⊕ **UP: 16%**

⊖ **FLAT: 44%**

⊖ **DOWN: 40%**

⊕ **UP: 12%**

⊖ **FLAT: 48%**

⊖ **DOWN: 40%**

⊕ **UP: 26%**

⊖ **FLAT: 36%**

⊖ **DOWN: 38%**

Neutral

Neutral

Neutral

Negative

Negative

Negative

Neutral

# Regional profiles

## UNITED STATES

Economic and wealth indicators	Modern and contemporary art market*
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HNWI wealth population (thousands) 2022 25,173	Auction sales in 2022 (US\$ million) US\$2.7 billion
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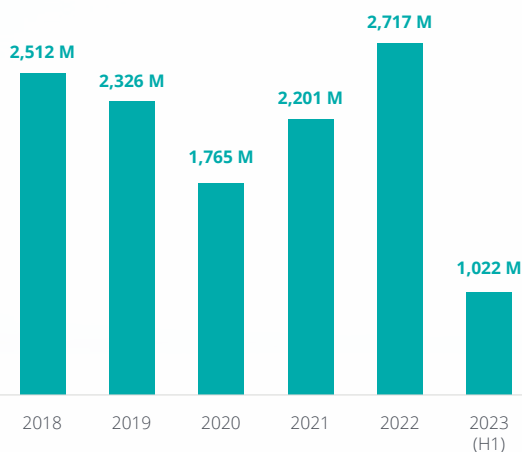
HNWI wealth population growth 2027 46.5%	Sales growth 2021-22 23.0%
---	-------------------------------

Real GDP growth 2022 2.1%	Global market share 63.3%
------------------------------	------------------------------

GDP growth outlook 2024 1.0%	Art market outlook 2024 ⊕ UP: 31% ⊖ FLAT: 32% ⊖ DOWN: 37%
---------------------------------	--

10-year CAGR (2010-2020)  
4.8%

Auction sales in US\$



Auction sales in the world's largest art market grew by 23% in 2022. However, sales slowed in the first half of 2023, and 37% of experts believe the US art market will fall further.

\* Art market analysis is based on post-war and contemporary evening and day auctions—Sotheby's, Christie's and Phillips in New York.

## UNITED KINGDOM

Economic and wealth indicators	Modern and contemporary art market*
--------------------------------	-------------------------------------

HNWI wealth population (thousands) 2022 2,857	Auction sales in 2022 (US\$ million) US\$775.5 million
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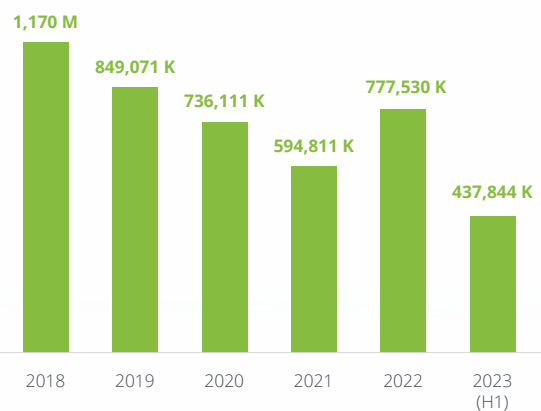
HNWI wealth population growth 2027 48.5%	Sales growth 2021-22 31.0%
---	-------------------------------

Real GDP growth 2022 4.1%	Global market share 18.0%
------------------------------	------------------------------

GDP growth outlook 2024 1.0%	Art market outlook 2024 ⊕ UP: 7% ⊖ FLAT: 45% ⊖ DOWN: 49%
---------------------------------	---

10-year CAGR (2010-2020)  
0.2%

Auction sales in US\$



Despite Brexit and the economic uncertainty of 2022, the UK art market experienced a healthy auction sales growth of 31%. However, a weaker sales performance in the first half of 2023 has dampened the short-term outlook, with 49% of experts believing the market will likely drop further in the next 12 months.

\* Art market analysis is based on post-war and contemporary evening and day auctions—Sotheby's, Christie's and Phillips in London.

## EUROPE

### Economic and wealth indicators

**HNWI wealth population (thousands) 2022**  
18,929

**HNWI wealth population growth 2027**  
46.5%

**Real GDP growth 2022**  
3.5%

**GDP growth outlook 2024**  
1.5%

### Modern and contemporary art market\*

**Auction sales in 2022 (US\$ million)**  
US\$191.6 million

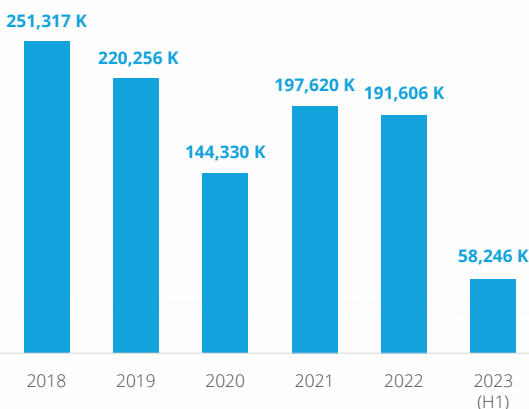
**Sales growth 2021-22**  
-3.0%

**Global market share**  
4.0%

**Art market outlook 2024**  
 ⊕ **UP: 15%**  
 ⊖ **FLAT: 39%**  
 ⊖ **DOWN: 46%**

**10-year CAGR (2010-2020)**  
6.2%

Auction sales in US\$



While the European art market witnessed a 3% drop in modern and contemporary sales during 2022, auction sales in locations like Amsterdam, Zurich, Geneva and Milan grew in the first half of 2023. Still, only 15% of experts predict a positive outlook for the market in the next 12 months.

\* Art market analysis is based on post-war and contemporary evening and day auctions—Sotheby's and Christie's in Paris, Amsterdam and Milan.

## CHINA

### Economic and wealth indicators

**HNWI wealth population (thousands) 2022**  
10,388

**HNWI wealth population growth 2027**  
100.4%

**Real GDP growth 2022**  
3.0%

**GDP growth outlook 2024**  
4.5%

### Modern and contemporary art market\*

**Auction sales in 2022 (US\$ million)**  
US\$116.7 million

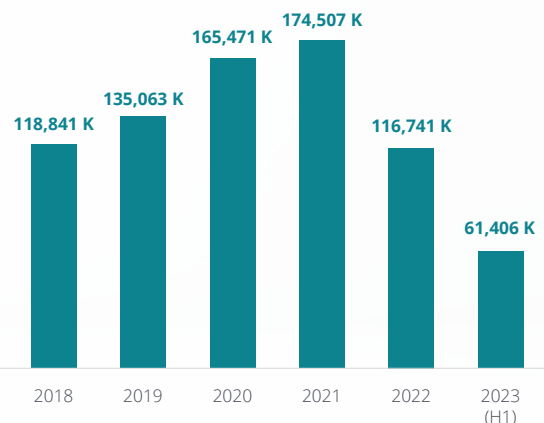
**Sales growth 2021-22**  
-33%

**Global market share**  
3.0%

**Art market outlook 2024**  
 ⊕ **UP: 33%**  
 ⊖ **FLAT: 29%**  
 ⊖ **DOWN: 38%**

**10-year CAGR (2010-2020)**  
-0.6%

Auction sales in US\$



China's strict lockdown policies during the COVID-19 pandemic negatively affected its contemporary art market in 2022. However, 45% of experts believe the market will stay at current levels in the coming 12 months, while 39% believe the market will strengthen over the same period.

\* Art market analysis is based on contemporary Chinese auctions—Sotheby's, Christie's, Poly Auction and China Guardian—Hong Kong and Beijing.

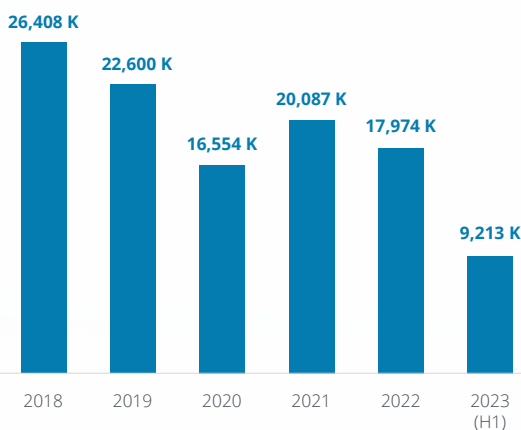
# Regional profiles

## MIDDLE EAST

Economic and wealth indicators	Modern and contemporary art market*
HNWI wealth population (thousands) 2022 1,006	Auction sales in 2022 (US\$ million) US\$18.0 billion
HNWI wealth population growth 2027 82.4%	Sales growth 2021-22 -11.0%
Real GDP growth 2022 5.4%	Global market share 0.4%
GDP growth outlook 2024 3.2%	Art market outlook 2024 ⊕ UP: 25% ⊖ FLAT: 51% ⊖ DOWN: 24%

### 10-year CAGR (2010-2020) 5.1%

Auction sales in US\$



Auction sales of modern and contemporary art slowed in 2022, experiencing an 11% decline. Most experts (51%) believe the market will level out from here.

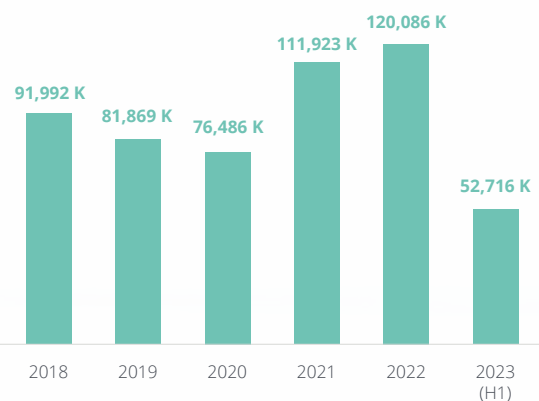
\* Art market analysis is based on modern and contemporary auctions—Sotheby's, Christie's, Bonhams and Tehran Auction—Dubai, Doha, London and Tehran.

## SOUTH ASIA

Economic and wealth indicators	Modern and contemporary art market*
HNWI wealth population (thousands) 2022** 797	Auction sales in 2022 (US\$ million) US\$120.0 million
HNWI wealth population growth 2027 107.8%	Sales growth 2021-22 7.0%
Real GDP growth 2022 7.2%	Global market share 3.0%
GDP growth outlook 2024 6.3%	Art market outlook 2024 ⊕ UP: 12% ⊖ FLAT: 41% ⊖ DOWN: 47%

### 10-year CAGR (2010-2020) \*\* The wealth population is based on India. 13.9%

Auction sales in US\$



While the South Asian art market grew in 2022, experts retain a neutral-to-negative outlook in the coming 12 months.

\* Art market analysis is based on modern and contemporary auctions—Sotheby's, Christie's, Saffronart and AstaGuru—Mumbai, New Delhi, London and New York.

## SOUTHEAST ASIA

### Economic and wealth indicators

**HNWI wealth population (thousands) 2022**  
2,642

**HNWI wealth population growth 2027**  
75.4%

**Real GDP growth 2022**  
5.5%

**GDP growth outlook 2024**  
4.5%

### Modern and contemporary art market\*

**Auction sales in 2022 (US\$ million)**  
US\$44.6 million

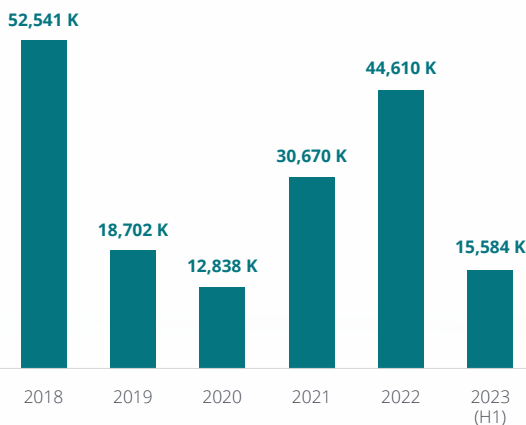
**Sales growth 2021-22**  
-45%

**Global market share**  
1.0%

**Art market outlook 2024** ⊕ UP: 12%  
⊖ FLAT: 48%  
⊖ DOWN: 40%

**10-year CAGR (2010-2020)**  
1.8%

Auction sales in US\$



Southeast Asian auction sales were up 45% in 2022. However, most experts take a negative-to-neutral view of the market's outlook for the next 12 months.

\* Art market analysis is based on modern and contemporary auctions—Sotheby's and Christie's—Hong Kong.

## LATIN AMERICA

### Economic and wealth indicators

**HNWI wealth population (thousands) 2022**  
1,120

**HNWI wealth population growth 2027**  
48.5%

**Real GDP growth 2022**  
3.9%

**GDP growth outlook 2024**  
2.2%

### Modern and contemporary art market\*

**Auction sales in 2022 (US\$ million)**  
US\$125.0 million

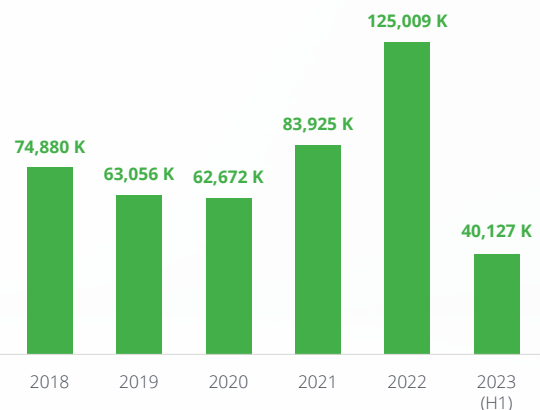
**Sales growth 2021-22**  
49.0%

**Global market share**  
3.0%

**Art market outlook 2024** ⊕ UP: 16%  
⊖ FLAT: 44%  
⊖ DOWN: 40%

**10-year CAGR (2010-2020)**  
4.3%

Auction sales in US\$



After years of modest growth, Latin American auction sales grew by 49% in 2022. However, experts do not believe this growth will continue over the next 12 months, with only 16% predicting the market will improve in this period.

\* Art market analysis is based on modern and contemporary auctions—Sotheby's, Christie's and Phillips—New York and London.

# Regional profiles

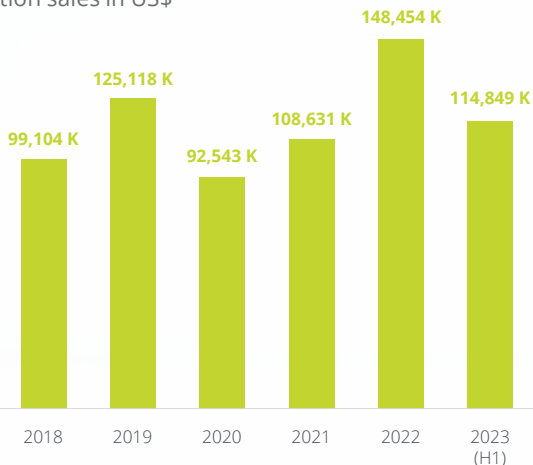
## JAPAN AND SOUTH KOREA

Economic and wealth indicators	Modern and contemporary art market*
HNWI wealth population (thousands) 2022 3,714	Auction sales in 2022 (US\$ million) US\$148.8 million
HNWI wealth population growth 2027 31.9%	Sales growth 2021-22 37.0%
Real GDP growth 2022 1.0%	Global market share 3.0%
GDP growth outlook 2024 1.0%	Art market outlook 2024 ⊕ UP: 27% ⊖ FLAT: 41% ⊖ DOWN: 32%

### 6-year CAGR (2010-2020)

9.7%

Auction sales in US\$



South Korean and Japanese modern and contemporary art sales increased by 37% in 2022. However, experts have a cautious outlook for 2024—34% believe the market will remain around current levels, 38% expect the market to decline, and 28% predict the market will go up in the next 12 months.

\* Art market analysis is based on modern and contemporary auctions—Sotheby's, Christie's and Phillips in Hong Kong.

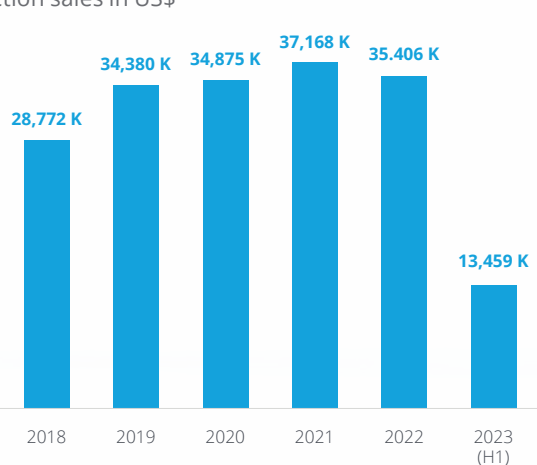
## AFRICA

Economic and wealth indicators	Modern and contemporary art market*
HNWI wealth population (thousands) 2022 134	Auction sales in 2022 (US\$ million) US\$35.4 million
HNWI wealth population growth 2027 23.1%	Sales growth 2021-22 -5.0%
Real GDP growth 2022 3.9%	Global market share 1.0%
GDP growth outlook 2024 4.1%	Art market outlook 2024 ⊕ UP: 26% ⊖ FLAT: 36% ⊖ DOWN: 38%

### 10-year CAGR (2010-2020)

30.5%

Auction sales in US\$



After years of strong growth, African auction sales in 2022 were down 5% year on year. The 12-month outlook is unclear, as only 26% of experts believe the market will strengthen, compared to 39% predicting the market could weaken further.

\* Art market analysis is based on modern and contemporary auctions—Sotheby's, Christie's, Phillips, Bonhams, Piasa, Strauss and ArtHouse Nigeria.



DISC FRAGMENT  
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INDUSTRY  
INSIGHTS\_

# Japanese art scene trends 2023



**Kiyohiko Nagai**  
Managing Director, New Business Development + FSI Competency, Risk Advisory, Deloitte Japan



**Ayari Mima**  
Senior Staff, Deloitte Japan

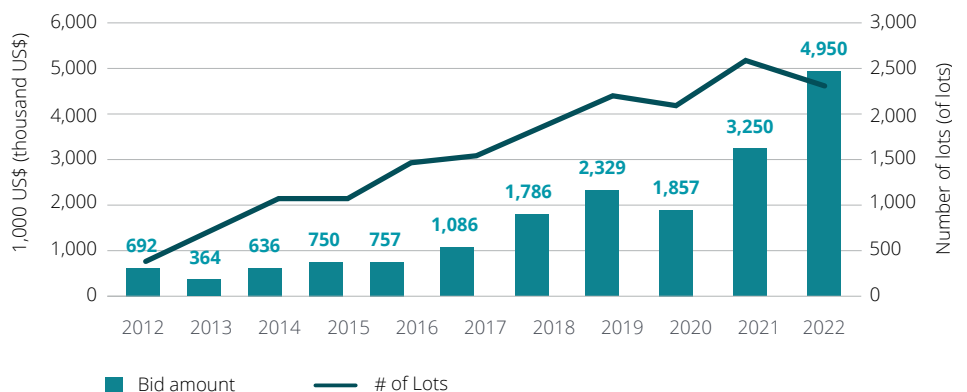
## 1. Excess funds from monetary easing are flowing into the art market

While the Japanese art market hovered around JPY250 billion from 2016 until 2019, the COVID-19 pandemic's impact saw it fall to JPY220 billion in 2021.<sup>80</sup> However, while the annual auction turnover in the US, the UK and France fell by more than 30% compared to 2020, Japan's decline was limited to 14%.<sup>81</sup>

Since 2020, the Japanese art market has been showing signs of a new boom. At Japan's first duty-free art auction at Haneda Airport in March 2022, a work by Andy Warhol was auctioned off for JPY2.3 billion, a record high for a domestic auction.<sup>82</sup> The turnover of SBI Art Auction, a major art auction company, has rocketed due to the influx of surplus funds in the art market (Figure 33). This influx is a result of the country's "extraordinary financial easing" and new investor types entering the market.<sup>83</sup>

**Figure 33: Final bid amounts and number of lots for SBI Art Auction**

Source: SBI Art Auction, Annual Report, January 2023





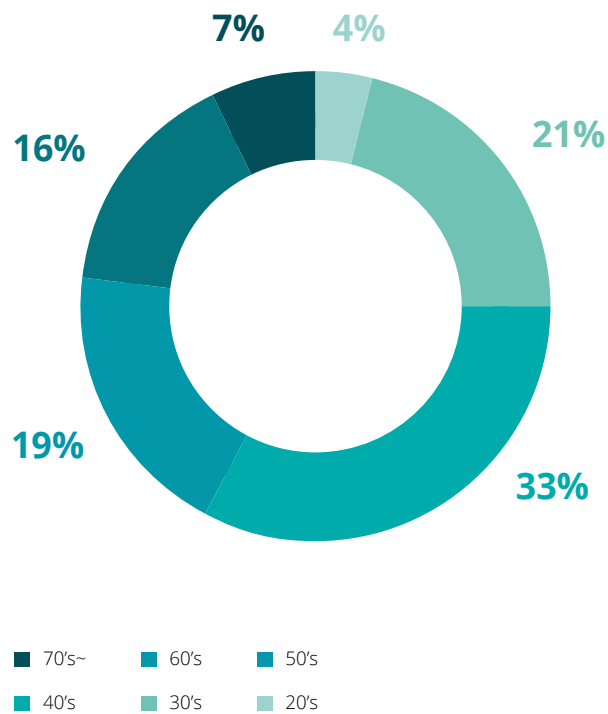
## 2. Emergence of new wealthy art collectors

The behaviors and preferences of Japan's active art players are changing, with new wealthy art collectors, especially young entrepreneurs, shaking up the market. In 2017, Yusaku Maezawa, the founder of ZOZO, made headlines when he won a Basquiat work for US\$110 million.<sup>84</sup> This popularized the trend of successful business people buying art, giving birth to "Maezawa's children"<sup>85</sup> art collectors directly and indirectly inspired by the billionaire entrepreneur. They collect art through interest groups and study sessions, using art to form connections and facilitate interactions.<sup>86</sup> However, their attitudes toward art vary; while some purchase contemporary art pieces to generate new ideas,<sup>87</sup> others are interested in speculative buying and selling to profit from resale.<sup>88</sup>

Furthermore, the COVID-19 lockdowns and social distancing restrictions also reshaped the market environment. SBI Art Auction launched its fully online bidding system in June 2020, leading to a boost in new registrants<sup>89</sup> By 2022, participants aged under 50 comprised more than half of total bidders (Figure 34).<sup>90</sup>

**Figure 34: SBI Art Auction's sale bidder age group ratio**

Source: SBI Art Auction, Annual Report, January 2023

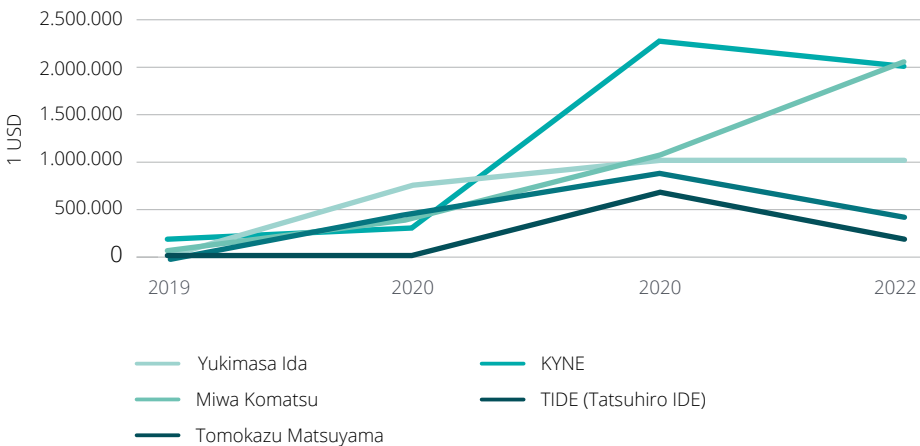


Additionally, the profile of art customers in department stores has notably shifted. Previously, the mainstay was typically older individuals or homeowners purchasing classic works of Japanese and Western art. Recently, however, younger and more casually attired buyers are entering the scene.<sup>91</sup>

One recent trend is the growing popularity of works influenced by street culture, such as those by KYNE and Ayako Rokkaku. These pieces garner high prices in art transactions, and the auction turnover for both artists in 2022 was more than five times that of 2020 (Figure 35).<sup>92</sup> Some young collectors even refer to owning works by Yukimasa Ida, KYNE, Miwa Komatsu, TIDE, and Tomokazu Matsuyama as a “full house”.<sup>93</sup>

**Figure 35: Auction turnover trend for “full house” artists**

Source: Deloitte created based on the data from [Artprice.com](https://www.artprice.com)



### 3. Birth of new art fairs

In response to this market surge, new art fairs and auctions are launching across Japan. In July 2023, the international art fair “Tokyo Contemporary” was held for the first time, while Art Collaboration Kyoto, first held in 2021, boasts a rich international flavor.

However, some doubts persist about the high expectations for Tokyo’s marketability in the global art scene, based on the participating galleries at the Tokyo Contemporary.<sup>94</sup> These new art fairs receive administrative involvement and subsidy support for tourism and regional revitalization purposes, and they are not fully self-sustaining as a business.<sup>95</sup>

On the other hand, Art Fair Tokyo, which started in 2005, has the largest number of participating galleries in Japan and set record sales in 2021 (US\$237 million) and 2022 (US\$258 million).<sup>96</sup> And ART OSAKA, first held in 2002, also achieved a record high of approximately US\$1.65 million in sales in 2022.<sup>97</sup>

### 4. Increase in gallery complexes

Another trend is for galleries that actively exhibit at overseas art fairs to increasingly cluster. Major galleries have been moving into Mori Building complexes in the Roppongi district since the 2010s.<sup>98</sup> For example, in the Tennozu district, Terrada Warehouse opened TERRADA ART COMPLEX I and II in 2016 and 2020, respectively, creating the largest gallery complex in Japan with 20 galleries<sup>99</sup> In addition, multiple galleries are expected to inhabit the “Maebashi Galleria”, which opened in Maebashi, Gunma Prefecture,

in May 2023, and in the “TODA BUILDING”, scheduled to be completed in the Kyobashi district in the fall of 2024. Taka Ishii Gallery and Tomio Koyama Gallery are each expanding into these gallery complexes, operating multiple spaces in the suburbs of Tokyo’s metropolitan area.

In addition, the Japan Contemporary Art Dealers Association (CADAN), established in 2015 and with 38 commercial galleries as active members, opened the “CADAN Yurakucho” space in 2020, enhancing collaboration among galleries.

## 5. Department stores actively entering the contemporary art field

The shifts in the art market’s customer base caused by the COVID-19 pandemic have helped boost sales in department stores. While sales of traditional Japanese and Western paintings have remained sluggish, sales of contemporary artists such as Banksy, who is associated with street culture, have expanded. As a result, the sales composition ratio of contemporary art at the Daimaru Matsuzakaya Department Store rose from 15% in 2019 to 35%<sup>100</sup> in 2020, and the store intends to boost art sales from just under JPY10 billion to JPY100 billion in the future. At the Seibu Ikebukuro Main Store, contemporary art sales for the February 2022 period were approximately three times the previous period, leading to expectations that they will catalyze the revival of the department store business.<sup>101</sup>

## 6. Auction numbers for 2023 are in flux

However, there are indicators that the market’s attractiveness and pace are

waning in 2023. The auction scene, where artworks from Japanese street artists once gained skyrocketing prices, are unexpectedly now being auctioned at or even below their estimated base prices, which may signal the start of a new trend.<sup>102</sup> For example, the rate of unsuccessful auction bids for Ayako Rokkaku’s works in Japan has mushroomed to 21.3% in 2023 compared to 1.2% in 2020.<sup>103</sup>

In contrast, post-war masterpieces are producing results. At the SBI Art Auction in May 2023, a work by Kazuo Shiraga became the top lot. This is the first time a Shiraga piece has contended for the top lot since it made the top 2 lots in November 2015. Works from the 1960s by Masaaki Yamada and Hisao Domoto and from the 1980s by Yoshishige Saito all exceeded 2.5 times their estimate highs.<sup>104</sup>

It is unclear whether young collectors who have newly entered the market will continue their involvement, which will influence future market trends.

## 7. Deloitte’s challenge for the future art market

The Japanese art market, which saw a brief downturn due to the pandemic, is now showing promising signs of a rebound. Many businesses are seizing opportunities within this resurgence. For instance, financial institutions are harnessing their fintech capabilities and networks to delve into innovative service offerings in the art transaction space. Similarly, real estate developers are examining the potential of integrating art to boost the allure of redevelopment areas. As experts in art and business, Deloitte provides advisory services to these companies, including support with formulating and executing their business.

In addition to catering to individual companies’ art-related needs, we are also committed to refining the regulations and operational systems that govern art transactions and management. The art market has long been known for its significant information asymmetry. Therefore, by collaborating with cultural policy authorities, we steadfastly support the development and enactment of policies aimed at securing market integrity. We strive to achieve this by advocating for the collection, integration, and disclosure of art transaction data.

We are also focusing on enhancing the level of sophistication in museum collection management. Deloitte has consistently taken part in long-term projects to standardize the management rules of national museums according to global standards, foster the proper management of collections, and encourage collaboration among museums. We fully intend to maintain our involvement in these areas.

Finally, we also offer services for wealthy individuals, including advisory services related to building art collections and managing assets, particularly for the emerging affluent class and young entrepreneurs.

INDUSTRY  
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## INTERVIEW

Demystifying the  
Japanese art market

**Josephine Ayako  
Yamada**

Head of Innovation &  
Governance, CEO Office,  
Corporate Planning—  
Startbahn

**J**apan has disappeared from the map in global art transactions for the last decades. Under the surface, there is a significant movement driven by UHNWIs and companies they lead. Away from the recent focus on art as an asset class, strategic philanthropy with culture at the core is key to understanding the Japanese market.

#### Introduction

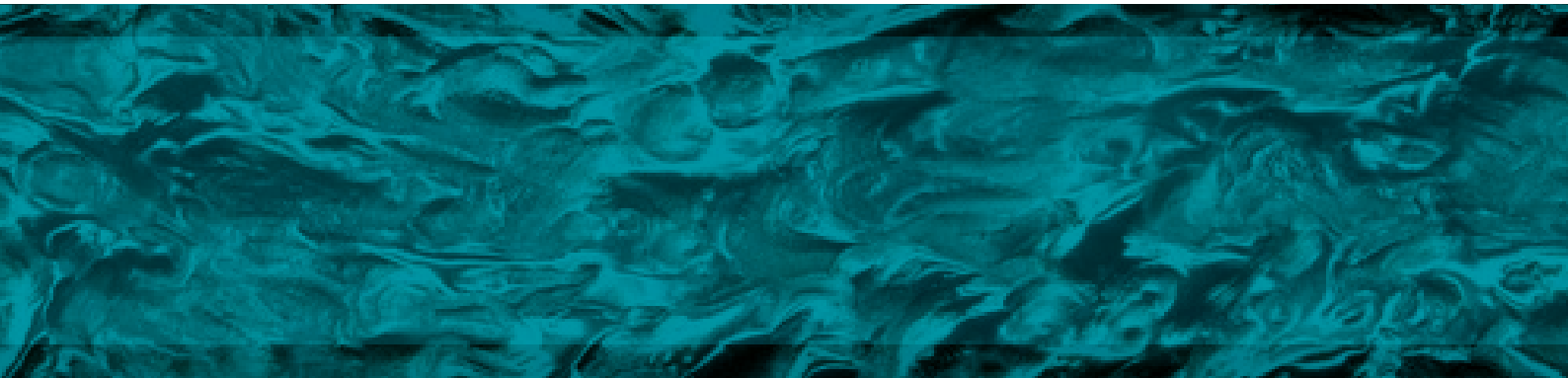
Japanese presence on the global market has steadily declined since the 90's. Import of artwork that stood around 600 billion yen during the bubble era shrank to 60 billion yen in 1992 – never recovering in the 30 years that followed<sup>105</sup>. Yet on the ground in Japan, art is experiencing a significant boom. From policy makers to corporations, art is very much in vogue again.

However, there is a sense of danger brewing – art as an asset has been hotly featured in various media, with little to no coverage of risks in seeing art purely as investment. While the danger of such stance is more prevalent in other markets, there is a quietly growing call by leading figures to revisit the concept of “value.” This report outlines developments on the ground, inviting Katsunori Takahashi – Head of SMBC Private Banking Division.

#### Operating outside trends Incubation over innovation

While trend cycle turns, there are those that seek to operate outside trends. In business they are the proponents of incubation over innovation, emphasizing slower, deep-rooted change for the better. In analysing why innovation has faced challenges, two pain points are often mentioned. First is the lack of refinement in why and for what an organization must innovate. Back-casting from the desired state or overarching strategic vision is done rarely, and even rarer to see that a mechanism for evaluating ideas is articulated beforehand. Second is the lack of focus on the processes for materializing the desired benefits. Both are driven by the need for new ideas, exacerbated by the pressure to innovate.

The call for the shift to incubation comes from the leaders of Japan Inc. They represent Japan globally and discuss where the society could and should be with longer time horizon. In the context of art, while many art-related businesses that boomed around 2017 have faced challenges in continuity, initiatives by large corporations led by Japanese UHNWIs have not only survived but thrived with growing recognition. There is a commonality in these initiatives -They do not simply focus on “art” as objects, but instead “culture” is the defining word for UHNWIs and leading Japan Inc.



**Katsunori Takahashi**  
Head of Private Banking,  
Sumitomo Mitsui Banking  
Corporation

## INTERVIEW

**Katsunori Takahashi**  
Head of Private Banking, Sumitomo  
Mitsui Banking Corporation

### How does SMBC observe the “Art as an asset” trend – are Japanese collectors buying for investment?

Despite the recent media coverage, we do not see our clients purchasing or owning art as investment. Collecting for investment purpose is more prevalent in segments outside the focus for wealth management. Our clients collect for passion, and supporting emerging artists form the core approach for our clients active in this sphere.

That said, actively collecting art is still limited to a few – perhaps due to the majority of PB clients heading the leading Japan inc. **There is a culture of regarding time spent on passion as being away from wholly dedicating oneself to growing and protecting businesses.** Our recent initiatives around opening the corporate lobby for exhibitions are intended to signal to the contrary – that **we believe art can enrich our lives and that cultural patrons are vital to harnessing this power.**

Rather than valuing art because it is art, our clients view it as means to initiate conversations around what we can and should leave to future generations. This also underlines SMBC’s recent activities in supporting contemporary artists who put a mirror in front of the society today. **Art is very much a way for us to signal vision alignment with our clients who lead the discussion around preserving and connecting the past to the future.** We also hope to play a part in spreading what we consider as the hallmark of Japanese soft power – to meet in the middle with any culture without reshaping them in the process of inviting them to Japan.

### What changes have you observed in Japanese UHNWIs?

While establishing foundation as a service has existed for many years, we see notable change in their desire to consider the best, most desired societal outcome. **Growing number of our clients see their foundations as an instrument of social impact.** They seek our support from the viewpoint of strategic philanthropy as opposed to merely deploying them for tax optimization. As ESG has become the operating license for our clients in their

## Younger generations of entrepreneurs form an important client segment we offer support.

business capacities, there is a slow but certain change where they seek social good in their private capacities.

Establishing SMBC Private Wealth came as a result of a similar soul searching for the best. Previously, SMBC Nikko Securities, SMBC and SMBC Trust Banks at times proposed separately to the same client at times. In seeking the best for our clients, we established SMBC private wealth in April 2020 to unify different expertise within the group.

### What challenges do Japanese collectors face?

There is a challenge in supporting collectors to pass on their collections to their heirs. At present, estate planning and family governance around art are not fully localized in the Japanese market. It is remarkable that different

professionals enter the art industry overseas. **Professionalization is certainly necessary as it would allow SMBC to consider integrating art and collectibles into wealth management services.**

Auction records are necessary to offer art-secured lending services with confidence, though such information is yet to be organized primarily, because the evaluation methods based on auction transaction examples are not sufficiently developed and widespread in Japan.

At the same time, we believe it is more important for art to be accessible by many before highlighting art as an asset class. This is especially the case as art education in Japan has traditionally focused on production techniques. How to discover, enjoy and connect through art is the key missing piece in our vocabulary and what we hope to change.

### Is there a demand for including art in estate planning? What is your experience in collaborating with tax professionals?

We have a history of collaborating with tax advisories, though it is still at an inception stage where they educate our clients on how to safeguard family legacies or establish a mechanism for family governance. While we see interests in hearing these propositions, they are often based on leading practices in other markets offered at higher price points than our clients are ready to bear. There is a strong sense of mismatch between what our clients desire and what advisors want to offer. Yet it is an important phase to explain how their proposals differ from mere calculations of tax cost – through articulating how they respond to the desire for generating social impact or supporting family members after their time.

Estate planning around art falls into this category. **In the absence of a defined structure for family harmony and inclusion in collecting from early on, many clients choose to part with their collection despite their wishes. Another challenge is in identifying advisors that combine art and tax expertise to win our clients' trust.** Additionally, there might be differences in the tax system compared to Western countries, and there might be a chance of it being revised in the future.

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### What are the major hurdles in launching art-secured lending in Japan?

Through our attempts to launch art-secured lending services, we now see a significant gap between our clients and those who require financing through collateralising artworks. Not only our clients have the funds at hand, there is also hesitation in treating their collection as an instrument to unlock liquidity. We feel this approach to financing is better suited to upper-mass segment.

By far the biggest challenge in service development has been assessing the validity of appraisals. An auction house, which has been observing actual transactions, is one of the promising partners that possess the historical data necessary for making valuation judgments. Yet the reality is that art-secured lending has not reached that stage in Japan for the reasons mentioned above.

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### How does SMBC view the growth of HNWIs?

Business succession within a family has declined remarkably. Only around 30% of succession occurs this way. Instead, people are coming to wealth through IPOs and M&A, which in turn diversified the clients needs wealth managers must cater to.

The increase in wealth is not only seen among traditional business owners, but also among the younger generation, driven by the recent upsurge in IPOs.

Younger generations of entrepreneurs form an important client segment we offer support.

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### In supporting the younger generation of HNWIs, have the value propositions changed?

While we do focus on supporting young business owners, we do not plan to change our value proposition as a private bank.

**Our clients seek trusted advisors, not just for managing their wealth, but also about their families or challenges they cannot share with others.**

**Regardless of the nature of their request, being available to hear and support them with long-term view is our core value that does not change depending on who we face.** While it is important to catch trends and innovations, we feel our value propositions should not change so easily.

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### What services do you hope to build through collaborating with overseas financial service institutions (FSIs)?

Over the years, we have seen our clients deciding to leave Japan. Younger generations have significantly less hurdles doing so. Keep serving our clients after their departure has been a shared challenge among Japanese FSIs. While we operate corporate banking globally, private banking is extremely limited with the recent exception of Singapore.

This is a challenge that we also see as an opportunity for growth. In the past SMBC has sought a solution within the group. We now understand this cannot be achieved without a wider collaboration with other FSIs. We seek collaboration opportunity with overseas FSIs with strength in building client relationship based on passion – whether it is art or motorsports - we welcome fresh perspectives for future collaborations.

INDUSTRY  
INSIGHTS\_Impact of import VAT on art  
circulation within Europe and  
implementation of new  
Directive (EU) No. 2022/542

After the “Brexit revolution”, which changed the balance of the European art market, a new VAT regulation could be a key step in rethinking preferential access points for importing works of art into Europe. This article outlines the current situation regarding import VAT rates, their effects on the circulation of artworks, and how the new legislation could impact the art market’s future.

What the European framework duly classifies as “works of art” is subject to a preferential tariff treatment under Chapter 97 of the Harmonized System, which provides an exemption from customs duty. This means any **import** into the EU from a non-EU country is free from customs duties, whatever the place of entry into the Common Market. Once introduced in the Common Market, it can freely move within the European area.

While custom duties are not an issue at the point of entry, the same cannot be said for the import VAT rate applied by each Member State to the specific good. Given the free movement of goods within the Union and the significant economic value that a work of art can assume, the VAT rate is a critical economic-financial factor that influences the buyer’s and/or the seller’s decision to select one regime over another.

Consequently, when transferring an artwork to a country with relatively high import VAT rates, it could be more

convenient to import it into a country with a lower rate and then transfer it freely to any other EU country. This tariff mismatch allows the market operators to select the European country of import based on the (legitimate) minimization of the VAT rate, to incur the least onerous import costs. This not only affects gallery owners residing in the country, but also foreign operators who participate in fairs and other initiatives around the world.

Table 3 illustrates how significantly the EU Member States’ import VAT rates differ, generating mismatches that, in turn, create preferential entry points of access to the European market.

Post-Brexit, France has become both the most convenient entry point in terms of VAT and the strongest European art market after the United Kingdom.

Compared to other major European art markets like Germany and Spain, France is the closest marketplace to the United Kingdom in market size and economic viability. The United Kingdom’s import VAT rate of 5% is also similar to France’s 5.5%. After Brexit, the art market is set to be revolutionized again by the introduction of Directive (EU) No. 2022/542, amending Directive (EU) No. 112/2006. The new European legislation, which must be implemented by 31 December 2024, allows Member States to introduce two reduced rates among 24 goods or services listed in the Directive, including “art objects.”

**Table 3: EU import VAT rates on artworks**

Country	Import VAT
Austria	13%
Belgium	6%
Bulgaria	20%
Croatia	25%
Cyprus	5%
Czech Rep.	15%
Denmark	25%
Estonia	20%
Finland	10-24%
France	5.5%
Germany	7%
Greece	24%
Hungary	27%
Ireland	13.5%
Italy	10%
Latvia	21%
Lithuania	21%
Luxembourg	8%
Malta	5%
The Netherlands	9%
Poland	8%
Portugal	6-23%
Romania	19%
Slovakia	20%
Slovenia	9.5%
Spain	10%
Sweden	12%





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By applying one of the two reduced rates on this type of good, Member States can equalize the import VAT to the domestic VAT on internal sales at a **5%** minimum standard rate.

However, it is important to stress that, according to the new Directive's amendment, the reduced rate's application is an alternative to the current **margin scheme**, that will be "subject to no reduced rate having been applied to the works of art, collectors' items and antiques concerned supplied to or imported by a taxable dealer"<sup>106</sup>. Notably, this special regime is generally used to tax resales made by professionals on the sole margin of the resale, which reduces the taxable basis to apply standard VAT. Therefore, the proposed reduced VAT rate cannot be applied in combination with the margin scheme<sup>107</sup>. Consequently, many dealers that work under this margin scheme will prefer to keep it rather than opting for the new one.

This tax approach could result in new access points aside from France for non-EU parties (without certainties on the overall additional revenues hopefully generated).

The other leading countries active in the art market are Germany, Spain and Italy.

For example, Italy's current preferential import VAT rate is 10%, which applies to a portion of goods attributable to Chapter 97 and detailed by Decree-Law No. 41/1995. While this reduction is not currently available for supplies by resellers, this may change. According to the Ministry of Culture Undersecretary Vittorio Sgarbi, and based on the draft delegated law for the new tax reform, the current government intends to implement the Directive by lowering the rate to 5.5% and extending it to all supplies related to the same type of goods. This is to revitalize the Italian art market and encourage the circulation of artworks.

In comparison to Italy, French market operators have opposed the Directive's text from the outset. Their main criticism is that, during the necessary regulatory alignment phase to standardize the VAT import rate to those of VAT domestic supplies, the French government may be tempted to apply the standard 20% rate to the entire supply chain, rather than dealing with shortfalls resulting from applying the reduced rate.

Of course, it is too early to conclude whether this proposed change in the European VAT regime on art market can be considered profitable to the general European VAT budget and, in particular, it is also too early to state whether this move will be positive for the trading of piece of art: however, it is possible to say that a scenario in which France renounces the reduced VAT import rate to keep the standard rate may strongly impact the overall digits and steer the choices of other Member States so leading to major changes in the European art market's map.

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# 02\_

## Art & Wealth Management Survey

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TUMBLER  
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# Highlights\_

## A 12-year perspective

Over the last 12 years, art and wealth management has gained broader acceptance and found its natural place in a holistic, goal-oriented wealth management offering.

 **Pressure on wealth management firms:** Client demand continues to evolve rapidly for new products and services such as private markets, personalized advice and seamless omnichannel experiences. **The evolving role of “advice” in wealth management will continue to become more holistic, experiential and consumer oriented.**

 **Convergence between stakeholders reaches new high:** Between December 2011 and October 2023, Deloitte Private and ArtTactic published eight Art & Finance reports. The results of our 12-year survey analysis of different art and finance stakeholders within the wealth management community (private banks, family offices and independent wealth managers), as well as collectors and art professionals show encouraging and positive trends

regarding the role of art and its importance in wealth management. We have seen a consolidation of the different stakeholders’ narratives and motivations for including and developing art wealth management services. Client demand for art and wealth management services has grown over the last 12 years. Furthermore, wealth managers now clearly understand the role of art in wealth management, as well as which services to offer. This year, we have seen the strongest convergence between the various stakeholders surveyed. **Around 90% believe art and collectible wealth should be part of a wealth management offering, vs. 80% in 2021. This is the highest percentage since we launched the report in 2011.**

**Holistic advisory relationships are the main driver:** As identified in our 2021 report, it is still not a question of whether art should be integrated into a wealth management offering, but rather how to do it and how we can best address any challenges. We believe interest in art and collectibles will continue as pressure on the wealth management industry to move toward a holistic, goal-based advisory wealth management model<sup>108</sup> continues. This year, we saw the highest percentage, with 90% of wealth managers affirming that the need to develop a holistic advisory relationship with their clients was a key driver.

**Significant share of wealth associated with art and collectibles:** Wealth managers reported that the average allocation to art and collectibles among their clients was 10.9%, split between private banks (8.6%) and family offices (13.4%). And around 63% of the wealth manager community have integrated art into their wealth management offering (67% of private banks and 60% of family offices), with the majority (75%) already offering a broad set of holistic services. Over the next 12 months, the focus will remain on consolidating and structuring their art wealth management capabilities. In addition to the preservation of art-related wealth, 22% of family offices show a stronger appetite for art investment services (art funds, managed accounts, impact investment, fractional investment, etc.) than private banks (14%). This could

mean that family offices are taking a more proactive interest in new art investment models, compared to the more conservative private banking industry.

**Wealth managers are increasingly addressing clients' demands:** It seems the COVID-19 pandemic was a catalyst for wealth managers to strengthen their service offerings. There is an increasing balance between wealth management offerings and the demand for art-related services valued as meaningful services by collectors.

**Art as an alternative capital asset:** Over the last 12 years, there has been an increased understanding of the financial attributes of art and collectibles. In general, high-quality art and collectibles have proven their ability to maintain and appreciate in value. And we have also seen stronger financial motivation among art collectors in recent years. There are signs that younger collectors are even more motivated by financial benefits surrounding art ownership compared with collectors from previous generations. Although investment and diversification remain key drivers, the main focus in recent years has been on store of value and preserving the capital allocated to art and collectible assets. The current high inflation environment is also playing its part, with 44% of collectors stating that they have seen a growing interest in art and collectible assets as stores of value, compared to 32% who said that they

have seen an increased interest in art as an investment due to higher inflation.

**A shift toward the underlying economics of art ownership:** While emotional value remains the key driver for buying art, this year's findings show for the first time in 12 years that financial value is replacing social value as the second most important motivation. There is a shift toward more financially driven considerations, such as looking at art from a perspective that centers portfolio diversification, protection against inflation and return on investment. It is a similar story for luxury collectibles, blurring the lines between fine art, collectibles and luxury assets. This means that **our Art & Finance approach (that has predominantly focused on fine art thus far) now also applies to collectibles and luxury assets.**

This development may require a new model of professional and economic stewardship and could have profound implications for the art market and its stakeholders going forward—particularly in terms of modernization of its business practices to meet the expectations of a 21st-century industry. Also, growing financialization and competition from other luxury collectible sectors mean that the art market industry needs to stay relevant, particularly when it comes to younger generations. And if it doesn't? It could mean missing out on the big wealth transfer and demographic shift, both of which are likely to impact taste, preferences and demand for all types of collectible assets. The industries that manage to connect to the next generation in the most effective way today are likely to be the leaders of the future.


**Outsourcing of services suggests closer connection with art professionals:** This year's survey findings show that wealth managers tend to focus on their core activities

There is a shift toward more financially driven considerations, such as looking at art from a perspective that centers portfolio diversification, protection against inflation and return on investment.



(e.g., client engagement and education, estate planning, and philanthropy), while art-specific services tend to be outsourced to third parties. As the wealth management industry moves toward a more holistic approach regarding its service offering, we have seen a strategic shift over the last 12 years toward partnerships with external providers to deliver art-related services. Survey findings this year show that most wealth managers (67%) outsource specific art wealth management services including valuation (76%), art investment services (73%) and art-secured lending (72%) to third-party providers. It also shows that certain classic wealth management services (e.g., art risk management (70%), art-related legal services (64%) and art market research (59%)) are also provided by third parties.

 **Financial gain and social impact are priorities to younger generation of collectors:** This year, 83% of younger collectors said that investment returns were a key motivation (up from 50% in 2021); 61% said that portfolio diversification was important (up from 51% in 2021); and just over half (51%) said that they saw art as a safe haven in times of uncertainty (up from 34% in 2021). This tells us something about the new generation of collectors and how they are likely to relate to art as an alternative capital asset class, both now and in the future. We also see a stronger motivation (41%) for social impact investment among younger generations that are seeking purpose-driven investment strategies (up from 31% in 2021).

 **Confirmation of the long-term trend that collectors expect more from their trusted advisors than from traditional wealth management services:** More than 50% of survey participants found most of the services to be highly relevant, with half (one out of two) of the participants finding all the services

relevant. At least 70% find valuation and market research services relevant, indicating an increasing interest in the financial attributes of art assets and the need to manage them professionally.

 **Obstacles to further growth:** Despite some improvements in recent years, the challenges of integrating art into wealth management remain. The lack of regulation and transparency still dominates, but the number of wealth managers identifying these as key obstacles has decreased since 2017. This suggests that recent developments around anti-money laundering (AML) regulation, as well as technology's role in increasing transparency, are starting to change wealth managers' perceptions of these challenges. Four out of 10 wealth managers said that lack of internal interest and leadership continues to be an issue. This could be due to a lack of understanding of the benefits considering that 44% of wealth managers said demonstrating the cost-benefit of including art in wealth management was a key challenge, and 42% said lack of internal expertise remains an obstacle.

 **Technology has the potential to reduce friction and elevate the role of art in wealth management:** The last 12 years have seen significant technological developments across all art market service areas. These range from more data, analytical tools and AI to support valuation and risk monitoring, to online sales, e-commerce and advancements in digital experiences like virtual and augmented reality (VR/AR). The adoption of blockchain technology to create a provenance and title register for art and collectibles is gaining traction and has the potential to create a new and much-needed infrastructure around ownership. The advent of this would not only help to address concerns around title, authenticity and provenance, but would also increase

the level of transparency in the art market. All these factors are likely to reduce friction in today's interactions between the art market and wealth management industry, paving the way for further development and growth in art wealth management services in the future.

We also see a stronger motivation (41%) for social impact investment among younger generations that are seeking purpose-driven investment strategies (up from 31% in 2021).

# Introduction\_

The purpose of this section is to offer an overview of some of the most important trends and developments emerging in the intersection between art and wealth management. Over the last 12 years, we have been monitoring various stakeholders across the Art & Finance industry (e.g., private banks, family offices, independent wealth managers, collectors and art professionals), and have reported on the changing role and importance of art and collectible assets within wealth management. This section of the report is structured as follows:

## Part 1\_

### Wealth management trends:

In this part, we take a closer look at some of the key factors shaping the global wealth management industry today—from the roles of technology and innovation to the need to adapt to changing client preferences and a younger client demographic.

This part is contributed by Deloitte Switzerland.

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## INDUSTRY INSIGHTS\_

### The advancements of art investment in the Middle East

by Arif Amiri

Chief Executive Officer, DIFC Authority

## Part 2\_

### 2023 Survey findings:

In this part, we give a 12-year retrospective overview of survey findings to provide a better picture of how the intersection between art and collectibles, and the wealth management industry, has evolved since 2011. We also specifically look at wealth managers' motivations for including art in their service offerings, as well as what type of art-related services they offer. We also explore the current challenges and future areas of focus.

In Section 2, we have grouped some of our findings into specific categories in order to be able to easily identify broader trends. These categories and new groupings are based on the following methodology.

### Wealth management services has been divided into three main categories:

#### CLASSIC WEALTH MANAGEMENT SERVICES

##### This includes...

- Estate planning
- Legal services
- Risk management
- Art philanthropy/individual giving to the arts (gifts, donations, etc.)

#### CLIENT ENTERTAINMENT AND EDUCATION

##### This includes...

- Client entertainment
- Client education

#### ART WEALTH MANAGEMENT SERVICES:

##### This includes...

- Art/collectibles investment funds
- Art advisory (buying/selling art)
- Art valuation
- Art lending/finance (using art as collateral for loans)
- Art collection management
- Art market research

Motivations to buy/ invest in art has been divided into three main categories:

#### FINANCIAL

##### This includes...

- Inflation hedge
- Safe haven
- Investment returns
- Portfolio diversification

#### SOCIAL

##### This includes...

- Social value
- Social impact investment

#### EMOTIONAL

##### This includes...

- Emotional value
- Luxury goods

**Arguments for including art into a wealth management has been divided into four main categories:**

#### **WEALTH MANAGEMENT INDUSTRY FACTORS:**

**This includes...**

- Need to develop a holistic advisory relationship
- Increasing industry competition
- The value of art is increasing, triggering a need for wealth management services to protect, enhance or monetize this value

#### **CLIENT ENTERTAINMENT**

##### **CLIENT RELATED FACTORS**

**This includes...**

- Art is accounting for a larger share of clients' overall asset value/wealth
- Clients are increasingly demanding their wealth managers to help with art-related issues (i.e., risk management services, reporting, valuation, market information, etc.)
- Client demand: investors are looking for new investment opportunities due to the economic situation.

##### **ART AS AN ALTERNATIVE CAPITAL ASSET CLASS**

**This includes...**

- Art is a store of value
- Art and collectibles offer portfolio and asset diversification
- Art offers protection against inflation

## **INDUSTRY INSIGHTS\_**

### **Five takeaways from five years of reflections on art and collectibles**

**by Monica Heslington**

*Head of Goldman Sachs Family Office Art & Collectibles Strategy*

#### **Part 3\_ Family offices, collectors and art professionals: wealth management trends:**

Here, we take a closer look at the responses and feedback from our extended sample<sup>109</sup> of family offices participating in this year's survey. This part focuses on how family offices are rising to the challenge of an increasingly uncertain economic environment and the role of art and collectibles within a family's overall wealth portfolio.

## **INDUSTRY INSIGHTS\_**

### **Why art collections need the same strategic risk management as other family assets**

**by Maria de Peverelli**

*Partner, Executive Chairman - Art Management, Stonehage Fleming Financial Services limited*

**by Anna Smith**

*Senior Collection Manager, Art Management, Stonehage Fleming Financial Services limited*

## **INDUSTRY INSIGHTS\_**

### **What family offices and principals need to know about the art market**

**by Hannes Hofmann CFA**

*Managing Director Global Head, Global Family Office, Citi Private Bank*

#### **Collectors and art professionals—motivations and behavior:**

In this part, the spotlight is on art-market stakeholders (art professionals and collectors), their motivations, and their demand for art-related wealth management services. As in Part 2, we also look at how this has changed over the last 12 years, and what role they see wealth managers having when it comes to protecting, enhancing and leveraging art and collectible wealth.

#### **Gap analysis—wealth management offering vs. client demands:**

Part 5 looks at expectations among collectors and art professionals compared to the service provisions that wealth managers currently offer in the realm of art and collectible wealth. The purpose is to identify whether the types of services are actually aligned with what clients are looking for.



**NEW GROWTH**  
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## Part 1\_

# Wealth management trends\_

## Macrotrends:

Key change drivers in global wealth management and their impact on the art and finance industry

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**Thank you to our colleagues at Deloitte Switzerland for their contributions to this section of the report.**



**Jean-Francois Lagasse**  
Partner, Financial Services Industry Switzerland and Global Wealth Management Leader, Deloitte Switzerland



**Dr. Christoph Künzle, CFA**  
Director, Monitor Deloitte, Wealth and Asset Management Industry Switzerland, Deloitte Switzerland

**Overview – General Context**

The global wealth management industry may have come to a critical juncture. Heightened geopolitical tensions, the war in Ukraine, stubborn inflation and a looming global recession could put increasing pressure on wealth management firms, as lower assets under management (AUM) and lower levels of growth strain profitability. At the same time, competitive pressures are intensifying, and client preferences continue to shift rapidly toward new products and services (e.g., access to private markets), relevant personalized advice, and a seamless omnichannel experience<sup>110</sup>.

**Deloitte Perspective – Wealth Management Market Trends<sup>111</sup>**

**Win the race for assets:** Client profiles and preferences are changing; a new generation of wealth management clients are eager to invest in new asset classes or get access to promising IPOs. Also, clients demand personalized financial planning and day-to-day financial management services. Purpose-driven impact investment strategies are also emerging. Over the next two years, 34% of clients are estimated to seek ESG investment advice. At least four out of 10 banks believe that clients expect them to be knowledgeable about social impact investing, and to offer suitable ESG products and services.

Similar trends may be observed in the arts and culture sector, which continues to increase its offering of social and cultural impact investment solutions.

**Product sophistication:** Clients have become more sophisticated in their investment decisions and are seeking access to alternative investment solutions, ranging from private markets to digital assets or crypto investments. This increasing sophistication may likely draw attention to “passion assets” such as art, collectibles and other luxury assets—a growing trend in recent years.



**ALEMBIC CUBE**  
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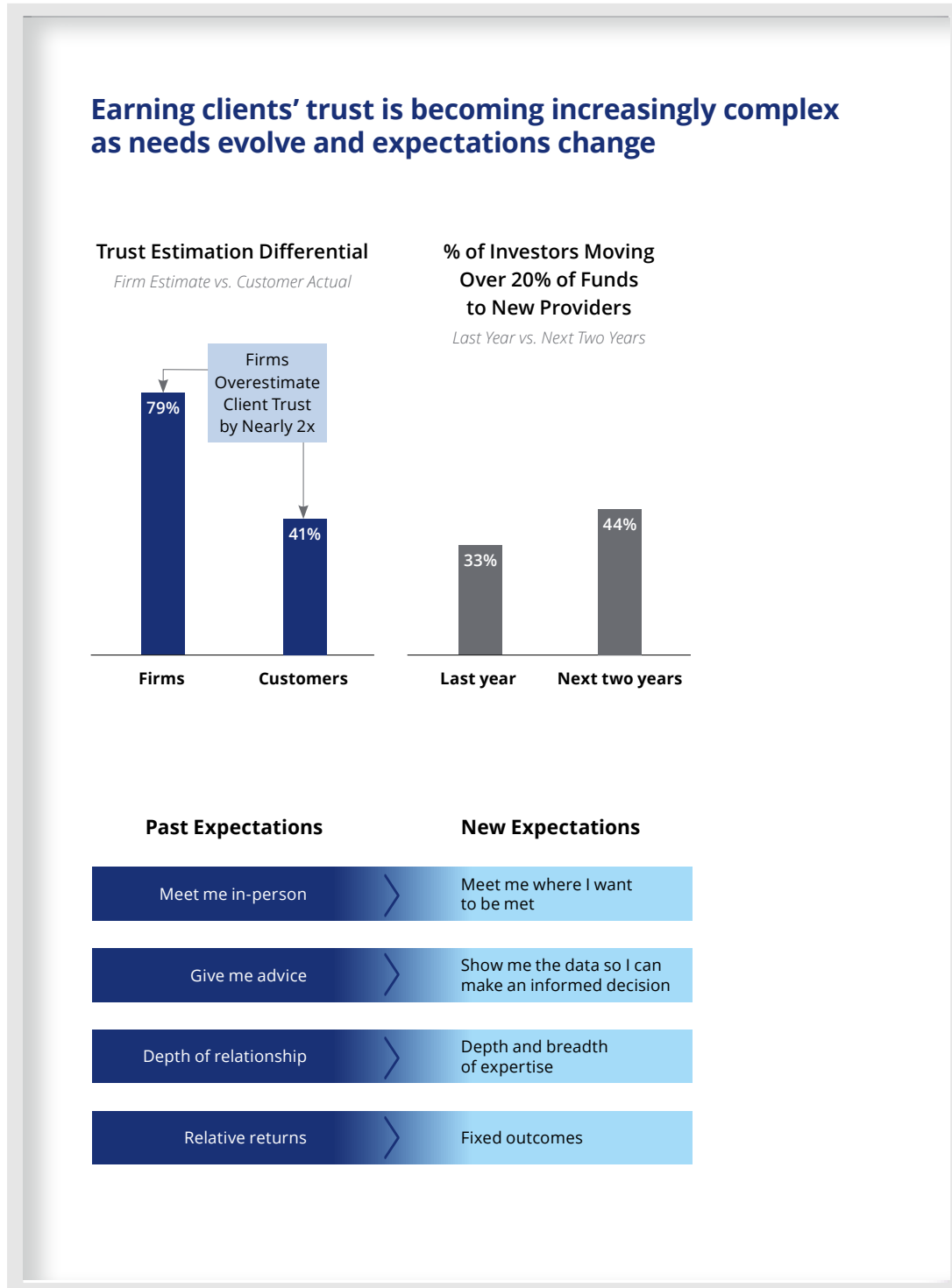
**Figure 36: Peer moves illustrate how they are aiming to address and take advantage of market trends**

Source: Deloitte - WM Market Trends and Competitive Moves - February 2023<sup>12</sup>

Strategic themes	Market trends	Peer observation
<b>Win race for assets</b>	<b>I</b> Clients want to know about ESG and invest with impact	Purpose-driven strategy clearly emerging
	<b>II</b> Clients engage over digital channels, mainly through mobile apps	
	<b>III</b> Digitized solutions for Front Office staff to drive effectiveness	
<b>Optimize offering</b>	<b>IV</b> Investors seek sophisticated products	Product (including private market), credit and advisory capability investments
	<b>V</b> Increased demand for crypto exposure	
	<b>VI</b> Differences in client preferences per segment and product offering	
<b>Lead industry consolidation</b>	<b>VII</b> M&A drives market defragmentation	Tactical acquisitions in core markets
<b>Streamline the platform</b>	<b>VIII</b> Emerging technologies driving digitalisation	Increased technology investments to renew platform
	<b>IX</b> Strong focus on cost discipline and scalability	
	<b>X</b> Largest Wealth Management centres grow fastest, limitation of booking centres	

**Figure 37: Building trust with clients is being re-defined**

Source: Deloitte ThoughtLab Wealth 4.0 eBook, FT Partners 2021 FinTech Almanac



Source: Deloitte September 2022<sup>113</sup>

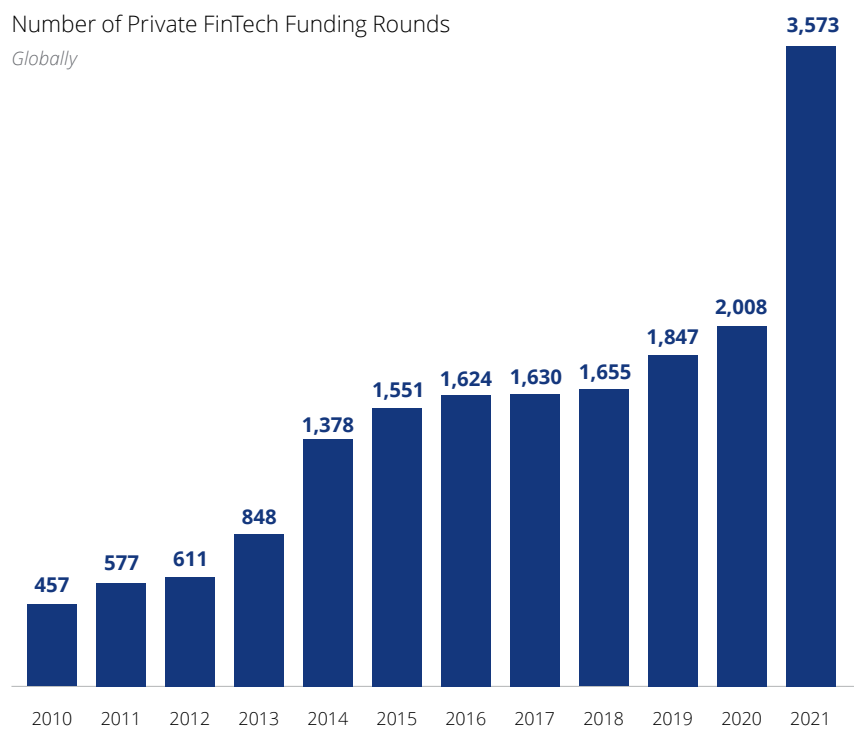


### Figure 38: New digital technologies

Source: Deloitte ThoughtLab Wealth 4.0 eBook, FT Partners 2021 FinTech Almanac

## Digital technologies are acting as catalysts for change as demographics shift and client preferences evolve

Number of Private FinTech Funding Rounds  
Globally



### Key Dynamics

- Wealth firms **expect 75% of all their interactions to be digital** in two years.
- Many people **start their financial journeys outside of branch offices.**
- **Digital channel preferences are largely the same for millennials and the oldest and richest investors** despite longstanding misconceptions.
- Clients **strongly desire choice in how they engage** with advisors and firms.
- Clients expect digital capabilities to support omnichannel experience and **89% of them prefer mobile apps.**

Source: Deloitte September 2022<sup>114</sup>



TUMBLER  
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**Strengthening client trust in wealth managers:**

Earning clients' trust is becoming increasingly complex as their needs evolve and their expectations change. Findings reveal that wealth managers significantly overestimate clients' trust, as only 41% of clients say they place great trust in their wealth managers. Over the last year, one-third of clients moved over 20% of their funds to alternative providers that offered what they were looking for. Over the next two years, 44% intend to do the same. This indicates that building emotional connections with clients may be a way of preventing them from switching providers.

Passion and emotional assets have proven to be effective models for building deeper levels of trust with valued clients. In addition, they allow wealth managers to showcase the depth and breadth of their expertise outside traditional asset classes.

**Digital access will become the norm:**

As a result of the COVID-19 pandemic, 40% of investors stated that digital access has become a greater priority. Furthermore, 75% of bank executives expect digital interaction to be the norm in just two years—case in point: 89% of clients say their preferred channel going forward will be mobile apps.

**Data is increasingly at the heart of decision-making:**

Leading wealth managers are taking more and more of a data-enabled approach to client advisory by leveraging sophisticated analytics solutions. In addition, clients benefit from enhanced access to digital channels and an increasingly seamless omnichannel experience, putting data in their hands and allowing them to have more ownership when it comes to their investment decisions. These trends may lead to a surge in AI-enabled advice and services in an increasingly hybrid wealth management environment.

**New technology and digitalization triggering a paradigm shift:** The global wealth management industry may undergo a paradigm shift fueled by increasing digitalization. Clients are demanding a wider range of investment options and an improved, seamless omnichannel experience, empowered by access to real-time data as well as multichannel and digital tools. According to Forrester's *Future Fit Survey 2022*, 62% of technology professionals at wealth management firms expect increased spending on emerging technologies over the next 12 months.

The art market has undergone a similar digital transformation in recent years, and emerging technologies—from VR and AR to blockchain technology and AI—could help facilitate the integration and adoption of art-related services within wealth management going forward (see Section 7).

Clients are demanding a wider range of investment options and an improved, seamless omnichannel experience, empowered by access to real-time data as well as multichannel and digital tools.

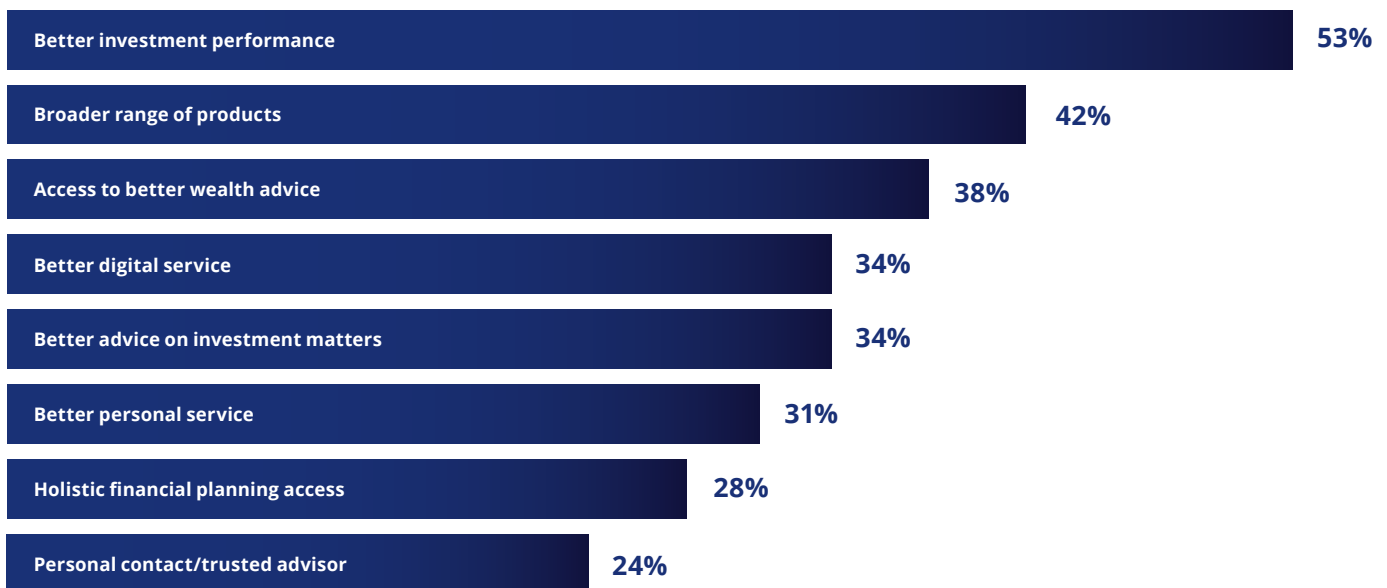
**Reasons Clients Switched Wealth Managers (2022)**

**Five out of the top eight reasons for switching wealth managers are linked to a broader, deeper and more personal spectrum of services:** Better investment performance was the most common reason for switching wealth managers (53%). Other factors including

broader range of products (42%), better advice (38%), better personal service (31%), access to holistic financial planning (28%), and personal contact with a trusted advisor (24%) were also key reasons for switching. Therefore, an increasing focus on art and collectibles may be a promising retention strategy that addresses clients' key concerns.

**Figure 39: Top eight reasons for switching wealth managers**

Source: "Wealth and Asset Management 4.0" (Deloitte/ThoughtLab 2022), Press releases<sup>115</sup>



**“Advice” becoming more holistic, experiential and consumer oriented:**

A decade of favorable macroeconomic conditions has likely come to an end. High inflation has pushed interest rates in many developed countries to a 20-year high, and a stagnating global economy is providing a challenging backdrop. In this macroeconomic context, there is an increasing urgency for wealth managers to evolve from focusing on clients’ portfolios

to better understanding the overall impact and risks these developments may have on clients’ total wealth. This requires rethinking the approach to relationship management and the importance of developing a holistic understanding of clients’ overall wealth. This will include proactively helping clients navigate a complex and challenging investment environment across multiple bankable and non-bankable assets, including art and collectibles.

**Figure 40: Evolving Role of “Advice” in Wealth Management**

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	Providing Unique Investment Opportunities	Diversification and Capital Appreciation	Financial Planning	Emerging: Providing Holistic “Advice”
<b>Advisor Value Proposition</b>	Provide privileged access or differentiated insight on unique investment opportunities	Construct a bouquet of investments based on client risk profile and outperformance targets	Broaden portfolio construction toolkit by incorporating financial planning activities (e.g., estate and tax planning)	Holistic wealth planning and management of a client’s financial life focused on delivering services across all facets of wealth
<b>Advice Delivery Mechanism</b>	Ad hoc products and access to investments delivered to clients	Initial planning session with regular touchpoints to review portfolio performance	Long-term consultative approach (mostly) in-person to continuously review wealth plan	Omnichannel access inclusive of self-service tools to meet customers in their preferred medium(s)
<b>Key Performance Indicators</b>	Investment performance	Portfolio outperformance vs. benchmark	Measuring “outcomes” around clients' life events	Potential: Client satisfaction ratings
<b>Advisor Model</b>	Technical investment specialists	Investment specialists with strong portfolio allocation expertise and deep client relationships	Increased specialization with formation of advisor teams	Specialists to provide guidance across all facets of the wealth plan
<b>Economic model</b>	Transaction-based brokerage fees	Asset-based fees	Lowered fees on assets with premium for financial planning	Diversified revenue streams that promote objectivity and a client-first mindset

**Specific Trends to Drive Bespoke Offerings Related to Art & Collectibles: Generational wealth transfer creates opportunities to connect with the next generation:**

With an estimated US\$80 trillion<sup>116</sup> set to transfer from baby boomers to their Generation X and Millennial offspring in the coming years, this trend will remain critical to wealth managers. The transfer of family wealth across generations could become a defining and enduring trend for wealth managers in the decades to come and may increasingly involve art and collectibles.

**Women will hold more wealth:** Women currently hold an estimated one-third of today's global wealth<sup>117</sup>. The growing number of wealthy women comes as a result of new approaches to global wealth distribution, changing cultural attitudes and inter-generational wealth transfers. With women outliving men by approximately five years, a significant portion of the US\$30 trillion asset pool held by Baby Boomers could be controlled by women in the coming years. This may drive different priorities around how wealth is managed and could dictate the type of services, communication and engagement channels, as well as how to make emotional connections with this demographic. This trend may trickle down to art and collectibles, where women's motivations around ownership and legacy planning could also be distinct.

**More value placed on environmental and social factors:** Multiple studies have shown that a new generation of investors are seeking investments that better reflect their core values. Investors are often motivated by environmental and social considerations and clearly articulate their demands for ESG-compliant portfolios. In an annual survey by Art Basel and UBS<sup>118</sup>, sustainability topics were among the top 10 concerns for high-net-worth collectors for the first time. Approximately 70% of collectors, for example, now think about "sustainability options" when purchasing art or managing their collections; 64% felt

## Mass-affluent clients may become more interested in alternative investment products such as digital assets, art and other non-bankable assets.

it was essential to reduce their personal travel to art-related events; and 68% were concerned with trying to use more environmentally conscious delivery methods when shipping art.

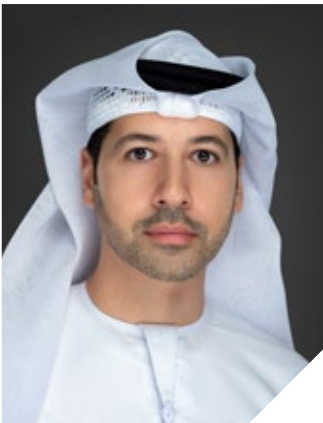
Research<sup>119</sup> also suggests that a new generation will increasingly look toward private markets for opportunities to deploy capital in a way that aligns with their core values, and to drive a positive impact on society, while still delivering attractive returns. These trends are likely to affect how the next generation collects and invests in art, opening up possibilities for new forms of investment (such as social impact models covered in Section 4 of this report).

**Targeting the mass affluent through non-bankable assets:** Historically, mass-affluent clients (those with assets between US\$250,000 and US\$1 million) have been largely ignored by the wealth management sector. Mass-affluent clients may account for approximately 10% of the global population and include a high proportion of young and digitally engaged professionals. In the United States, the mass-affluent market is forecast to control wealth of more than US\$47 trillion by 2025<sup>120</sup>. New FinTech players are increasingly entering this space, aiming to capture a significant portion of this untapped market. Mass-affluent clients

may become more interested in alternative investment products such as digital assets, art and other non-bankable assets. This trend is already noticeable in the art and collectibles market with a growing interest in digital art and NFTs, not to mention the emergence of a market for fractional ownership in art and collectibles. We take a closer look at these trends in Section 6 of this report.

INDUSTRY  
INSIGHTS\_

# The advancements of art investment in the Middle East



**Arif Amiri**

Chief Executive Officer,  
DIFC Authority

## For Deloitte Art & Finance Report 2023

Art investment in the Middle East is one asset class that seems to be defying global trends among many fluctuations in comparative markets, particularly the sector of contemporary or ultra-contemporary art.

The Knight Frank Wealth Report 2023 Luxury Investment Index<sup>121</sup>, which tracks 'investments of passion,' highlighted that prices for collectable art rose 29% in 2022, beating inflation and outperforming the majority of mainstream investment classes, including equities. Art as an asset class grew by 29% globally in 2022<sup>122</sup> and in 2021, the aggregate sales of art reached USD65.1 billion.<sup>123</sup> These numbers are impressive, but the Index hints at something even more important about considering art as an asset class – something entirely more ephemeral.

Art investment is an investment of passion. It is an investment that reflects the investor, their tastes, their perceptions of the world and how they wish to be perceived by their contemporaries for collecting such an asset. And as such, there is another metric that needs to be taken into consideration which is an uncoded benefit of art collection, the 'joy of having' and how contemporary (and ultra-contemporary) art reflects the society which collects it.

The performance of contemporary (1950 to now) and ultra-contemporary (a controversial definition but generally

seen as artists under 40 who are yet to be established) art has performed particularly well. Artnet's recently published Intelligence Report<sup>124</sup>, which reports that global sales for ultra-contemporary art have risen from around USD110 million in 2018, to nearly USD750 million in 2021, represents a significant growth for such a niche area of investing. Artists that have seen individual demand for their pieces rise dramatically include Joe Bradley<sup>125</sup>, the American color field artist, and the late Canadian artist, Matthew Wong, whose sales value eclipsed USD70 million in 2020-2021.<sup>126</sup>

Of course, the conversation around how modern investors are investing their money has to include the sometimes-controversial digital art and NFTs, like the Bored Ape Yacht Club, which have sold for USD300,000 each. Whether or not we argue about their artistic merit is a moot point, but it cannot be denied that a market, a very viable one, has been created and is a point for collectors to dive in and make some profit.

To meet the demand for digital art and NFTs, Art Dubai has dedicated an entire section to digital art and DIFC has recognized the need to regulate this trillion-dollar asset class and recently proposed to enact a first-of-its-kind Digital Assets Law to enshrine the potential for future innovation and market opportunities and the fundamental benefits brought about by blockchain technology.



Additionally, the first dedicated NFT gallery, 37xDubai, will soon open in DIFC to raise awareness of the importance of digital art. Further steps are being taken by independent organizations to protect their digital investments, like Arts DAO, the largest NFTs and Web3 community in the Middle East. Arts DAO has taken a step to partner with Ledger, one of the world's leading 'cold storage' solutions for digital assets, to provide hard wallet solutions for its members, which takes them off exchanges and protects them from market volatilities.

To understand the market, you must understand the drivers. Why is the Middle East such a burgeoning center for this type of art investment? Studies have pointed to the demographics of the region to identify the reasoning behind this trend, highlighting that Dubai, and the GCC more broadly, has a higher youth population with over 12% of the population in the UAE between the ages of 15-24 years.<sup>127</sup> Rising Gen Z and Millennial wealth has had a huge influence on the changes in luxury investments, and this has been reflected in investments in art, particularly in the Middle East. Another key driver is the increasing number of family offices in the region, with the UAE alone seeing a 20% increase in family offices,<sup>128</sup> that wish to diversify their investment portfolios and look to art investments to make that diversification a reality.

There is also the Middle East's ever-growing cultural calendar that drives the desire for art investment, like the internationally renowned Sharjah Biennial, which brings together over 150 artists from more than 70 countries<sup>129</sup>; DIFC Art Nights and Sculpture Park, which are a hub for local and international artists to display their works; and awards like The Art Circle Awards. Dubai also hosts the Dubai Calligraphy Biennale, which focuses on keeping the art of calligraphy (particularly from the Arab world) thriving. These events and awards also help to raise the collective understanding about art generally and enshrine cultural and traditional histories in Middle Eastern countries, so that the rich fabric of our artistic histories can be preserved for future generations.

In the UAE, we have also seen growing hubs for art and design springing up, like Alserkal Avenue and Warehouse 421, as well as the magnificent Louvre Abu Dhabi, which helps to attract artists from across the world into our nation. The UAE is a progressive nation that prioritizes quality of life and happiness. Part of this includes a commitment to art and culture which is visible in the design of our cities. Instead of retrofitting art into the seams of our cities, we can plan and purpose-build our lifestyles and city planning to include public art in a deliberate way. Dubai is a great hub for celebrating newness and innovation and welcomes the world with open arms, which extends to the artistic community.

As Dubai and the wider UAE continues to expand in development and population, so will the appetite for art investment. Trend-driven art investments, like NFTs, will continue to have their place alongside technological advancements<sup>130</sup> as will more traditional forms of art, even within the ultra-contemporary space. As with all investments, nothing is without risk, but investing in art is a calculated one that investors in the Middle East are willing to take.

Part 2\_

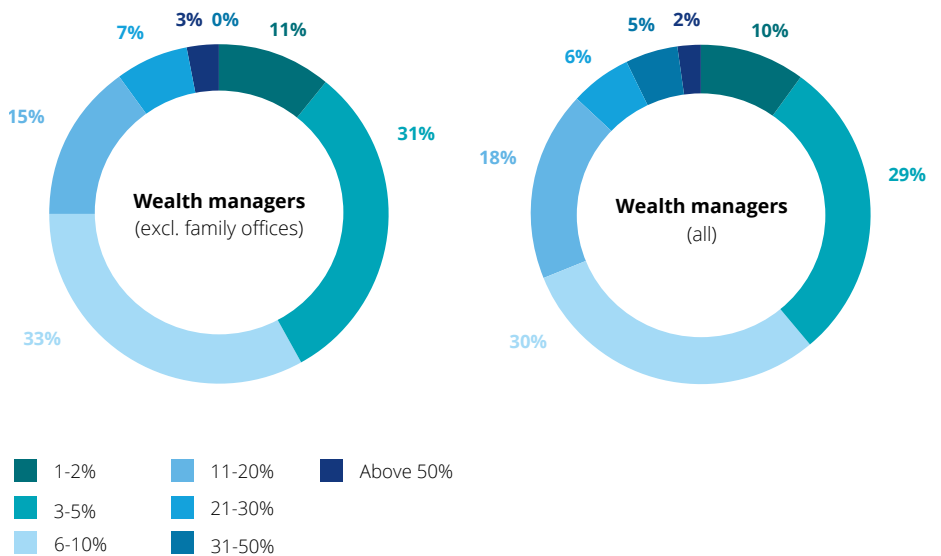
# 2023 Survey findings\_

**Significant share of wealth associated with art and collectibles:** Based on this year’s wealth manager survey, we conservatively estimate that 10.9% of clients’ overall wealth is allocated to art and collectibles. There is a difference between private banks and family offices, with private banks stating that average allocation is 8.6%, while findings from family offices show a higher proportion of 13.4% allocated to art and collectibles. The majority (83%) of wealth managers said that

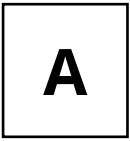
their clients have significant art collections, and this has remained relatively constant since 2019. This year shows a weighted average of 11% of total wealth allocated to art and collectibles. Specifically, 29% of wealth managers said that art-related wealth accounted for 3% to 5% of their overall wealth; 30% said it accounted for 6% to 10%; 18% said it accounted for 11% to 20%; and 13% that it accounted for more than 20%.

**Figure 41: On average, how much of your clients' overall wealth is allocated to art and collectibles?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023







# ART

## as part of a wealth management offering – a 12-year perspective

**Approximately 90% of all stakeholders agree that art and collectibles should be part of a wealth management offering—the highest result on record since our first analysis 12 years ago.**

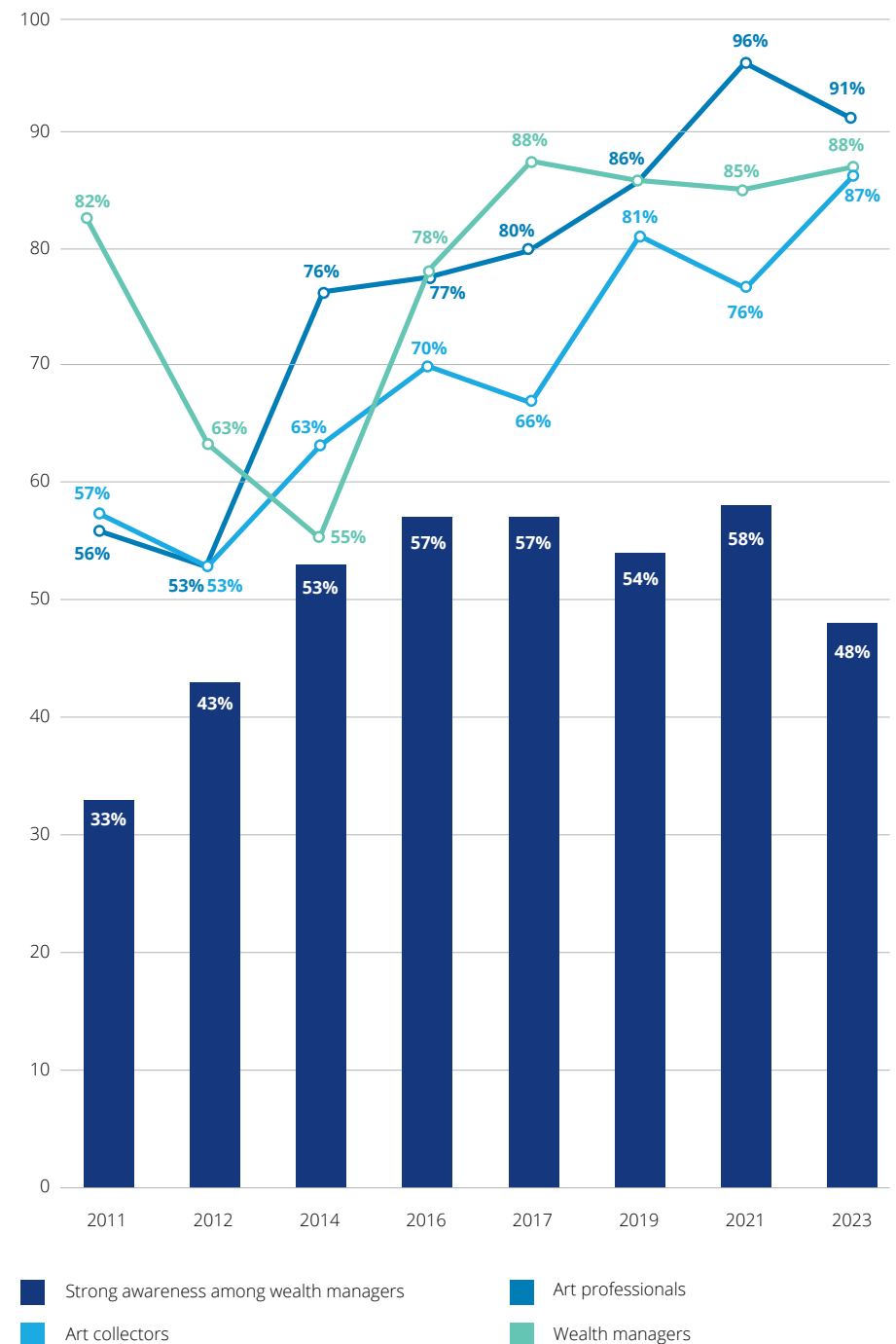
This confirms the importance of art and collectible assets within a wealth management service offering. Wealth managers saw an increase from 85% (in 2021) to 88% (in 2023). This sentiment is also echoed by collectors, as demonstrated by an increase from 76% of collectors saying art and collectibles should be a part of wealth management in 2021 to 87% in 2023. The focus now continues to be on how to develop this offering, as highlighted in the 2021 report.

**Awareness is lower this year:** When asked about the awareness linked to developments around art as an asset class, and art and wealth management services, a smaller percentage of the wealth management community<sup>131</sup> (48%) said they were aware/very aware of these developments (down from 58% in 2021). There was decreased awareness in the family office sample (42%) and in the wealth manager sample (36%), but a higher awareness in the private banking sample (55%). This could be attributed to a larger sample of family offices and wealth managers, but it may also be an indication that more information and education is needed.

Over half (56%) of the wealth management community mentions “lack of information and research on these markets” as their second highest-ranked challenge when it comes to developing an offering around art and collectible wealth.

**Figure 42: Do you think that art and collectibles should be part of a wealth management offering? (% saying ‘yes’)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**B**

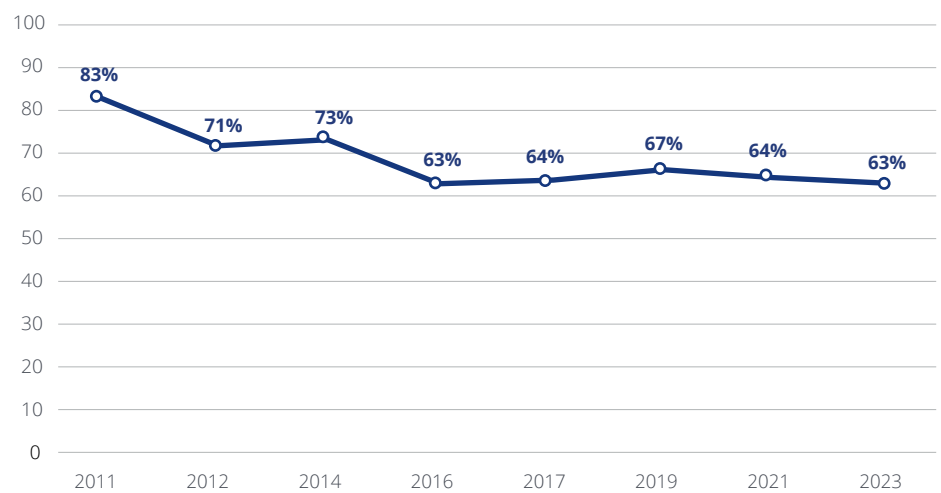
# ART-RELATED SERVICES

offered by the wealth management industry

Of the wealth managers surveyed in 2023, 63% have integrated art and collectibles in their wealth management offering—a stable figure since 2016.

**Figure 43: Share (%) of wealth managers with art already integrated into their wealth management offering**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



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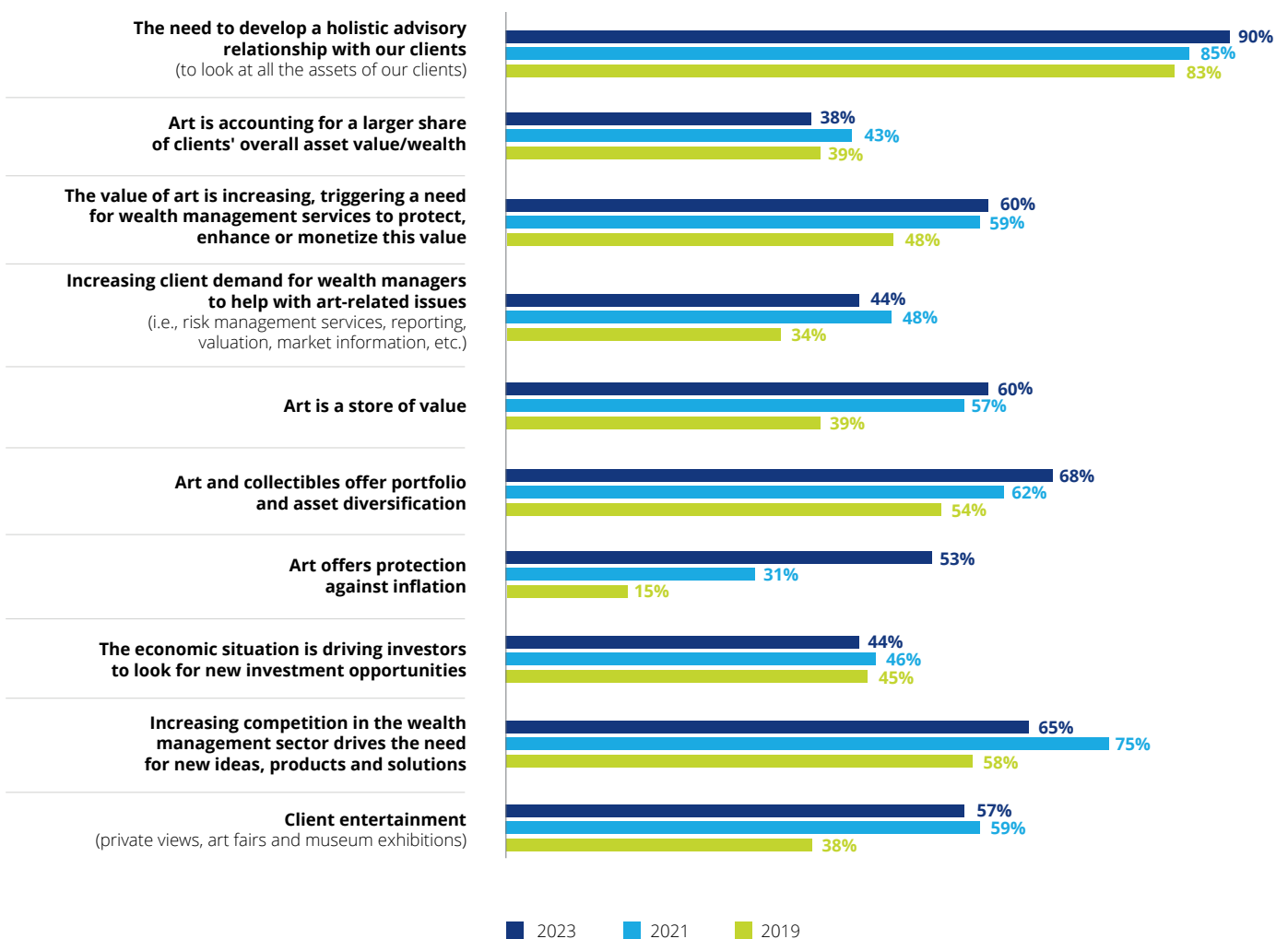
# C

## MOTIVATIONS AND RATIONALE

for wealth managers to include art and collectibles in their wealth management offering

**Figure 44: Wealth managers: what do you consider to be the strongest arguments for including art and collectibles in wealth management?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

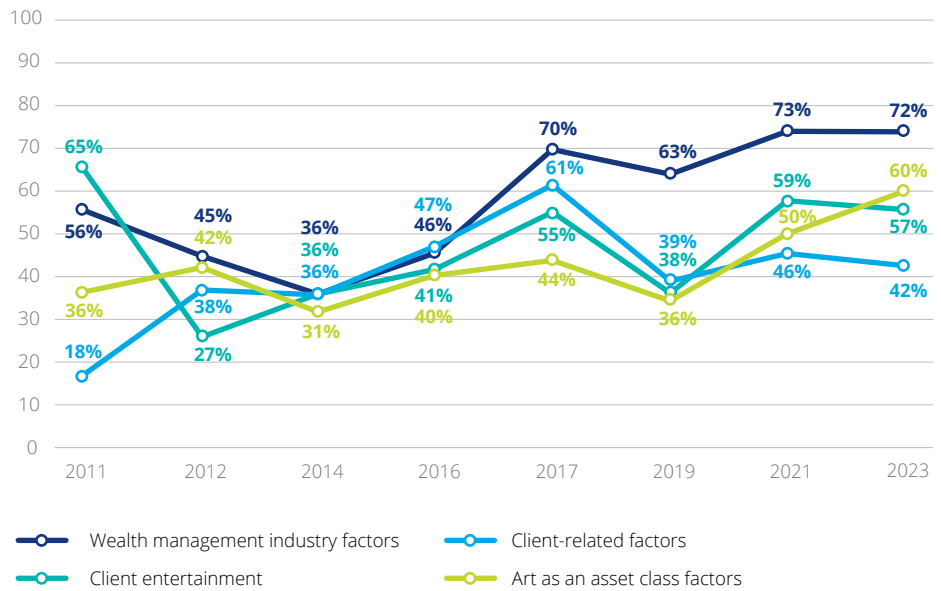


**The wealth management industry under pressure to change:** Increasing wealth management industry competition and the continued push toward a holistic advisory model will drive further attention to art and collectibles within traditional wealth management strategies. **This year we saw the highest results, with 90% of wealth managers expressing the need to develop a holistic advisory relationship with their clients.** The family office model is already spearheading this trend, as outlined in recent findings in Capgemini's *Top Trends in Wealth Management 2023*<sup>132</sup> and illustrated by family offices surveyed for this report. The Capgemini report found that family offices will continue to gain momentum by offering services that feature coordination, advice, monitoring, analysis and assessment of clients' overall investment choices, putting pressure on the broader wealth management community to follow suit.

**A better understanding of the financial attributes related to art and collectibles will lead to a greater focus on art as a viable alternative capital asset class:** This year's survey findings show that financial motivations are among the prime drivers for including art and collectibles in wealth management. These are driven by asset diversification benefits, store of value, search for new investment opportunities and fear of inflation, all of which underpin the increasing interest in art as an alternative capital asset class this year. This trend is found across all stakeholder groups (wealth management community, collectors and art professionals), and **confirms the increasing interest in the financial aspects of art ownership.**

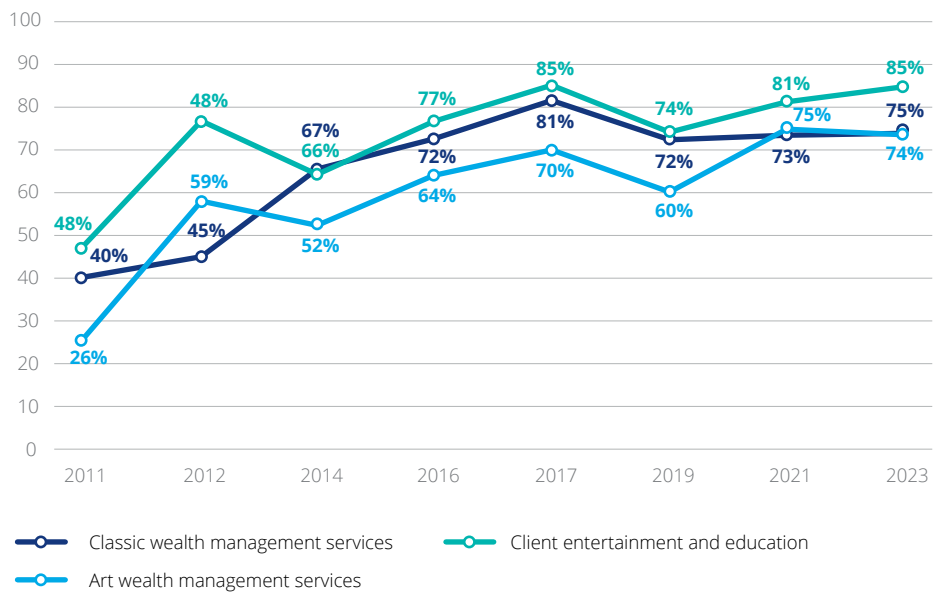
**Figure 45: 12-year perspective (wealth managers): what do you consider to be the strongest arguments for including art and collectibles in wealth management?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 46: 12-year perspective (wealth managers): which of the following services do you offer?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Confirmation that the wealth management industry is adopting a wide-ranging set of art-related services:**

Since our first survey in 2011, we have gone from a dispersed and fragmented offering of art-related wealth services toward a gradual, more equal-weighted set of holistic services: Now, 75% of wealth managers intend to offer art-related services as part of classic wealth management services (legal services, estate planning, risk management and philanthropy), and 74% intend to offer art-specific wealth management services (art investment funds, art advisory, art valuation, art finance, collection management and art market research).

**This clearly demonstrates that a broad and diversified art service offering is now becoming the norm for the wealth managers surveyed.**

Of the wealth managers surveyed, 85% said they have offered client entertainment and education related to art and collectibles, allowing them to connect and engage with clients on a topic of personal interest. However, as we see in the gap analysis (page. 175), **clients are clearly expressing an interest in more specific, hands-on art wealth management services from their trusted advisors, going far beyond entertainment.**

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D

# OUTSOURCED EXPERTISE—

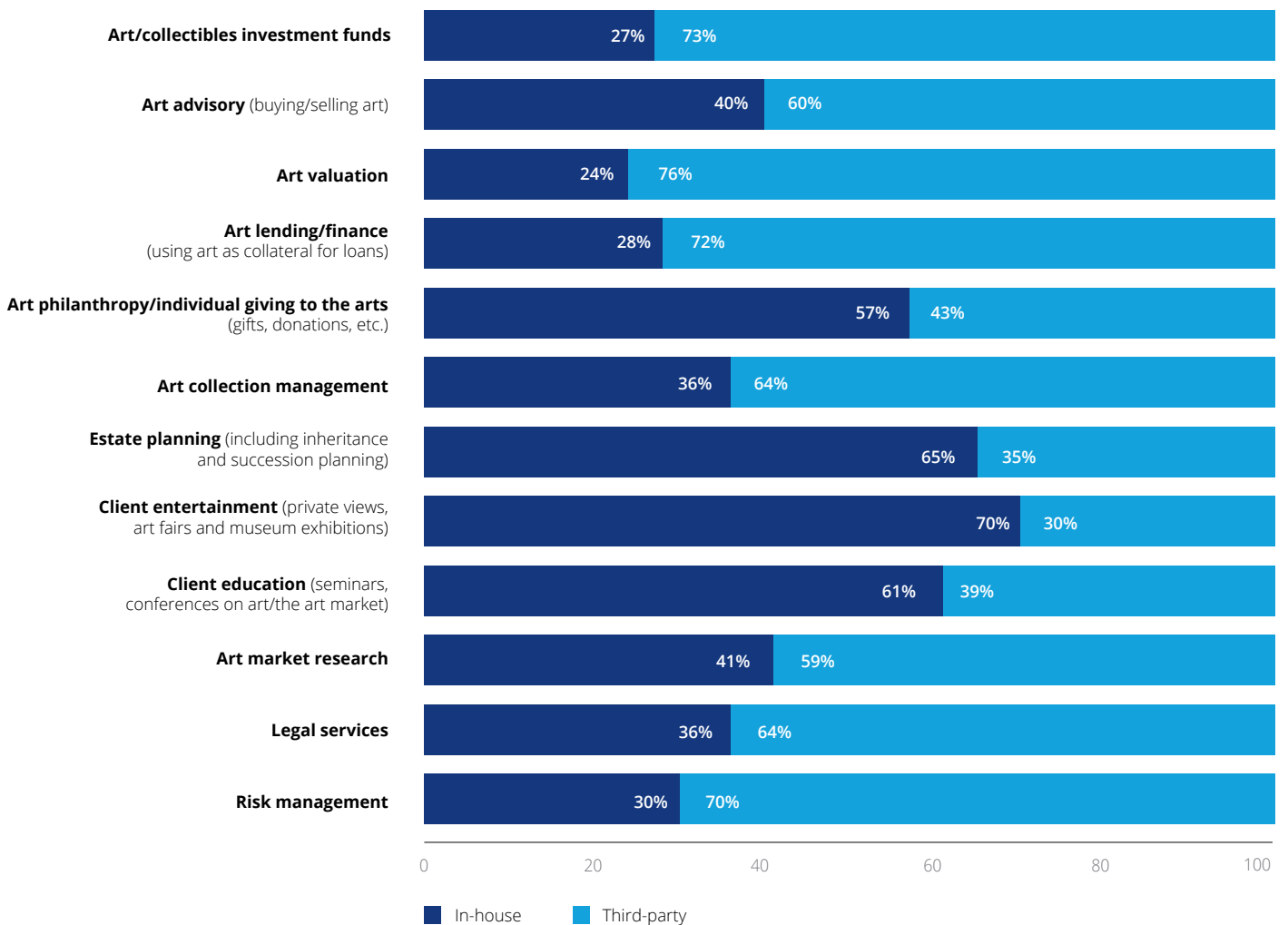
wealth managers are collaborating with third parties to provide services related to art and collectible assets

As the art ecosystem is complex, fragmented and poorly regulated, wealth managers are increasingly relying on outsourced expertise. This trend can be seen across the wealth management industry, where the global outsourced chief investment officer (OCIO) industry

grew from US\$1.29 trillion in 2016 to \$US2.46 trillion in 2021 in assets under administration<sup>133</sup>. Our survey findings also confirm this outsourcing trend when it comes to art-related wealth management services.

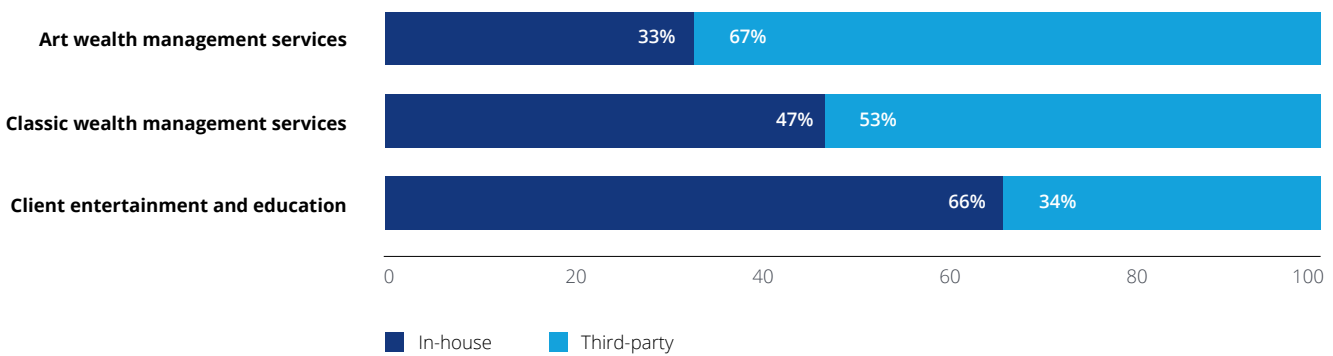
**Figure 47: Wealth managers: Which of these art-related services do you offer in-house vs. offered by a third party? (in percent)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 48: Wealth managers: Which of the art related services do you offer in-house vs offered by a third party? (in percent)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Outsourcing for services that require in-depth knowledge of the art market:**

This year’s survey findings show that wealth managers tend to focus on core activities such as client engagement and education, estate planning, and philanthropy, while art-specific services tend to be outsourced to third parties. Survey findings show that most wealth managers (67%) outsource specific art wealth management services (e.g., valuation (76%), art investment services (73%), and art-secured lending (72%)) to third-party expert providers. Certain classic wealth management services, such as art risk management (70%), art-related legal services (64%) and art market research (59%), are also provided by third parties according to this year’s wealth management survey.

Although this can be seen as an opportunity for art professionals to build stronger relationships with the wealth

management sector, there is also a clear need to modernize existing business practices to meet the compliance and professional requirements of a highly regulated wealth management industry. As discussed in Section 8, there are still multiple challenges that professionals within the art market need to overcome to facilitate integration with the wealth management sector.

This year’s findings also show how dependent the wealth management industry is on external expertise when it comes to building an art-related service offering. This year’s survey findings show that—according to 39% of wealth managers— the challenge of identifying external experts is still a hurdle. However, this is down from 48% in 2021, which could signal that this sticking point is being addressed. Over the last 12 years, we have seen a gradual professionalization of the

art market, with an influx of new services emerging in risk management, the legal domain, collection management tools, valuation services, art-secured lending and art investment services. These services are clearly enabling wealth managers to take a more sophisticated approach to art and collectible wealth. We have also seen a certain number of initiatives in art advisory companies that are turning themselves into dedicated art family offices or boutique art advisors, providing a one-stop shop for wealth managers. The increasing size and visibility of these entities are likely to decrease friction in terms of finding and incorporating third-party expert services around art-related wealth in the future.



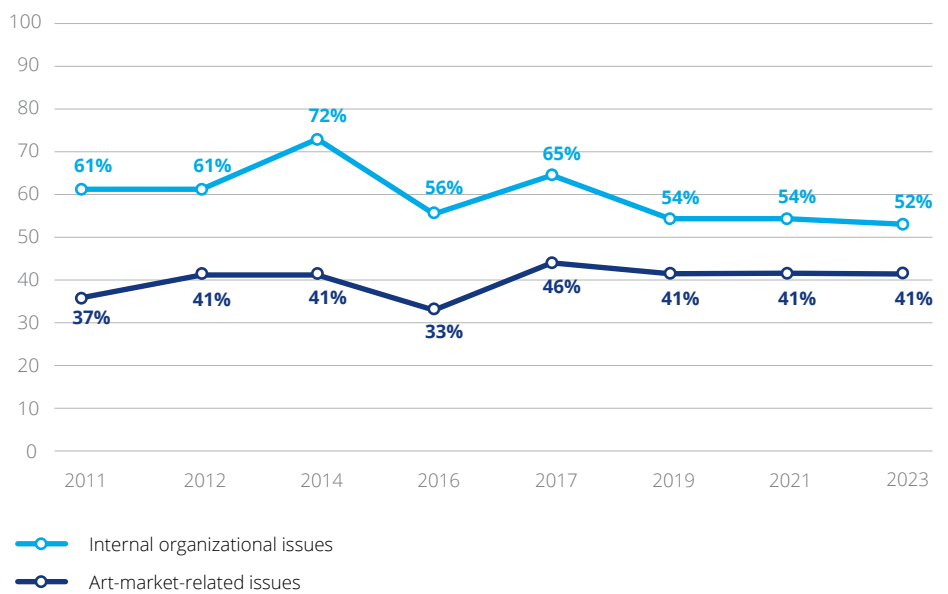
# KEY CHALLENGES

## Why are wealth managers struggling to incorporate art and collectibles into their services?

Over the last 12 years, we have noticed a slight improvement regarding the challenges wealth managers face when it comes to offering art-related services. The lack of regulation and transparency are still the two biggest hurdles, despite these concerns being significantly lower than a decade ago. Recent developments around AML regulation and the role of technology are likely to have played a positive role in changing wealth managers' perceptions. One challenge that has become more of a concern this year is the lack of leadership.

**Figure 49: 12-year perspective (wealth managers): what do you see as the biggest challenge in offering art-related services/products? (in percent)**

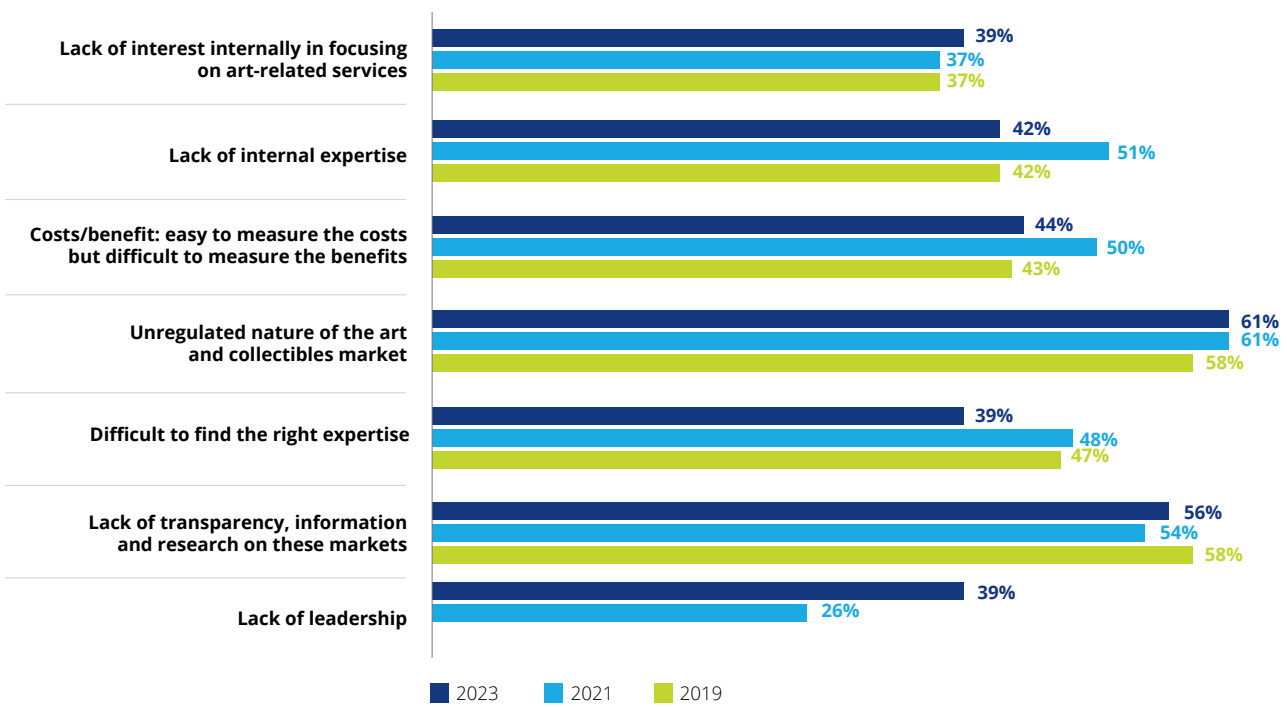
Source: Deloitte Private & ArtTactic Art & Finance Report 2023





**Figure 50: Wealth managers: what do you see as the biggest challenge in offering art-related services/products? (in percent)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

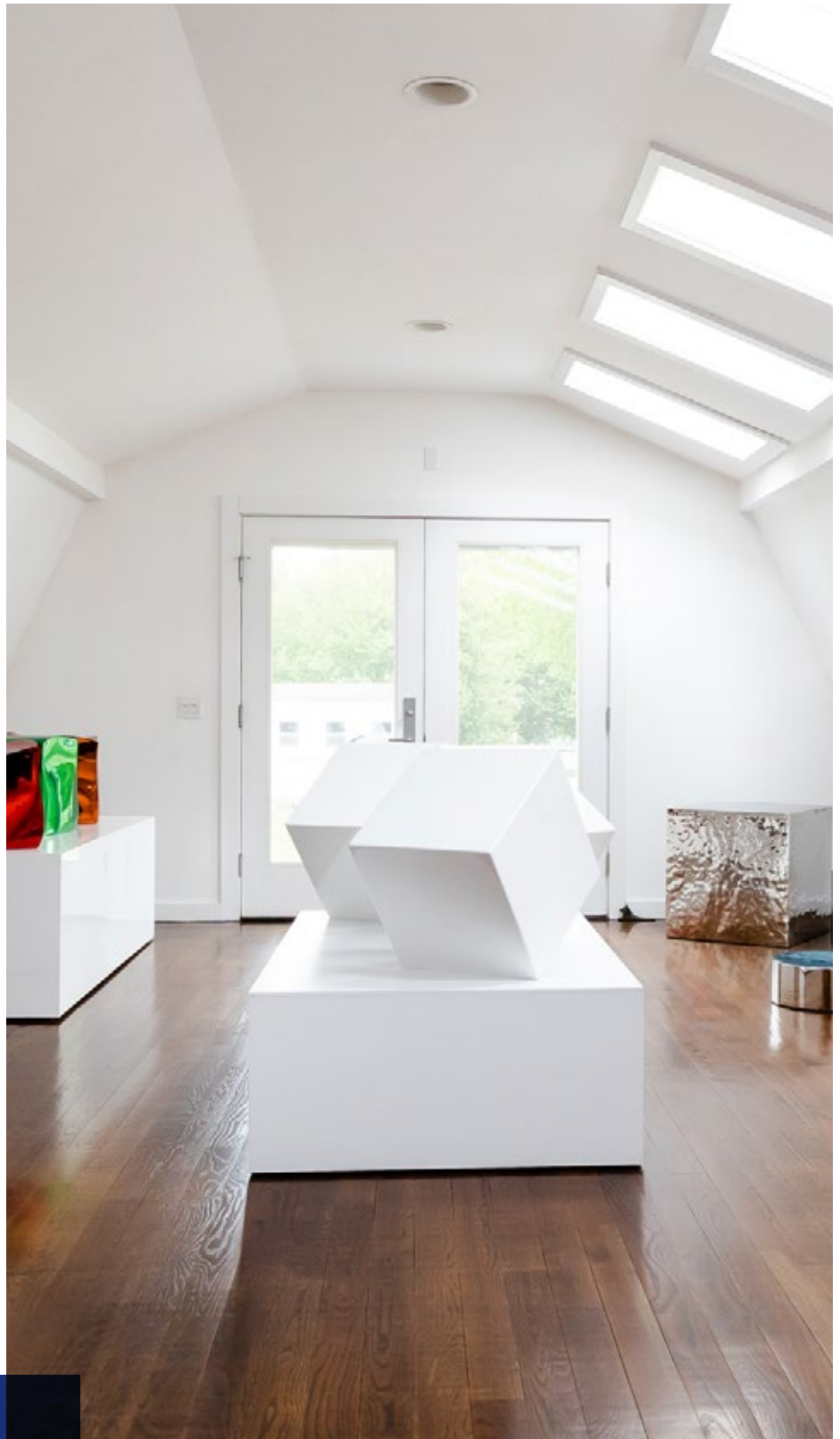


**Regulation and lack of transparency remain key hurdles:**

Over the last 12 years, lack of regulation and low levels of transparency have been the key challenges for wealth managers when it comes to embracing art as part of their wealth management offering. Specifically, 61% of wealth managers in 2023 (same as in 2021) said that lack of regulation was a key challenge when it came to developing art-related services, and 56% said that lack of transparency was a key hurdle (compared to 54% in 2021).

**Lack of leadership and vision may be due to a limited understanding of the benefits:**

Since the 2021 survey, more wealth managers (39% compared to 20% in 2021) said that “lack of leadership” in their organizations was a major obstacle to creating a strategic offering around art and collectible wealth. This lack of leadership and vision could be due to a limited understanding of the benefits that art wealth management services could have in terms of building more holistic and meaningful client relationships. While the benefits might not be directly measurable (e.g., increased revenue), art wealth management services can clearly create a deeper and more trusted connection with the client—a critical component in an increasingly competitive wealth management industry. It is worth remembering that art wealth management services are typically not stand-alone products but are usually part of a package of holistic services offered to (U)HNWIs.



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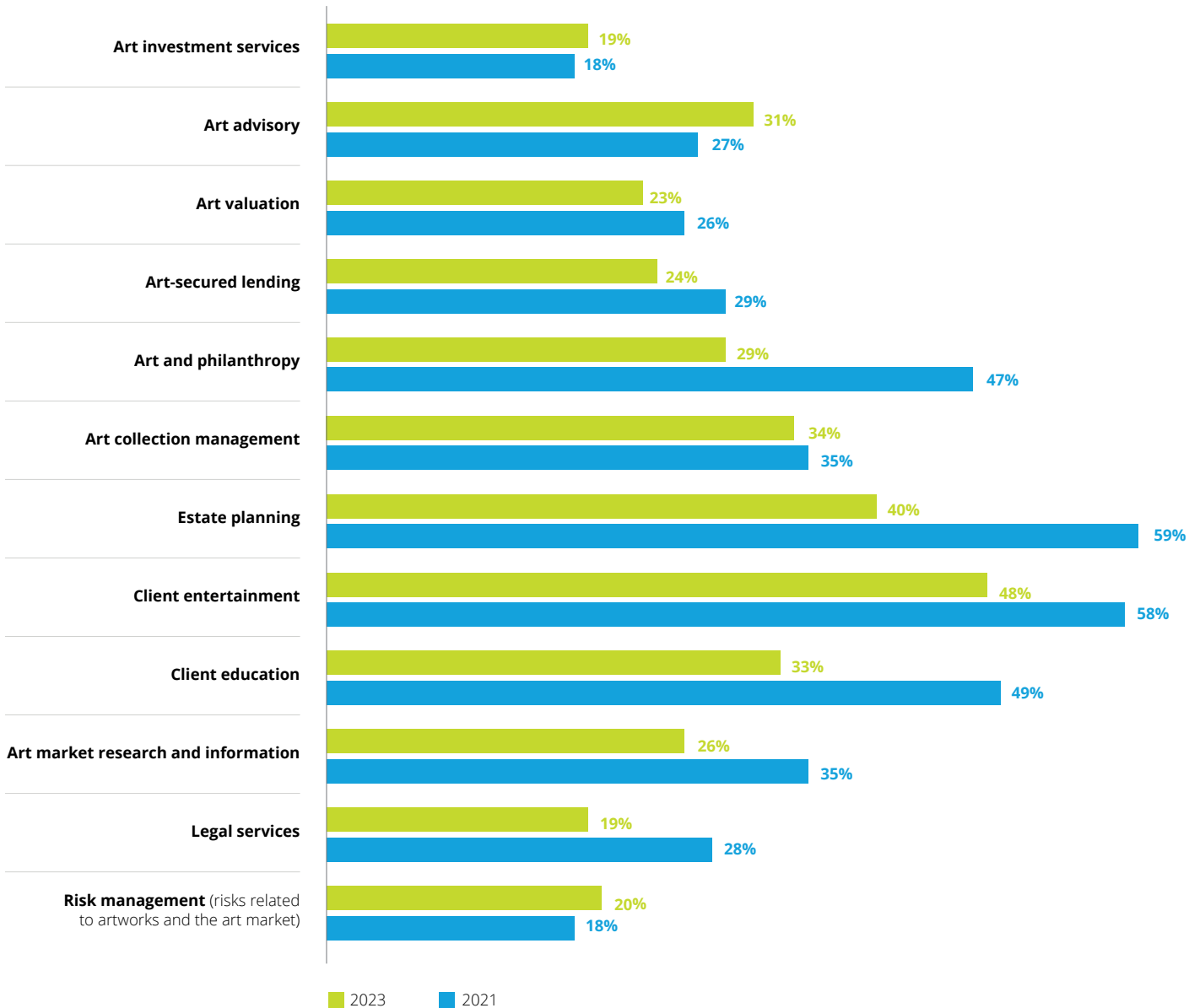
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# FUTURE FOCUS

What should those who already have a wealth management offering for art and collectible assets do in the next 12 months? Continue strengthening art-related wealth services.

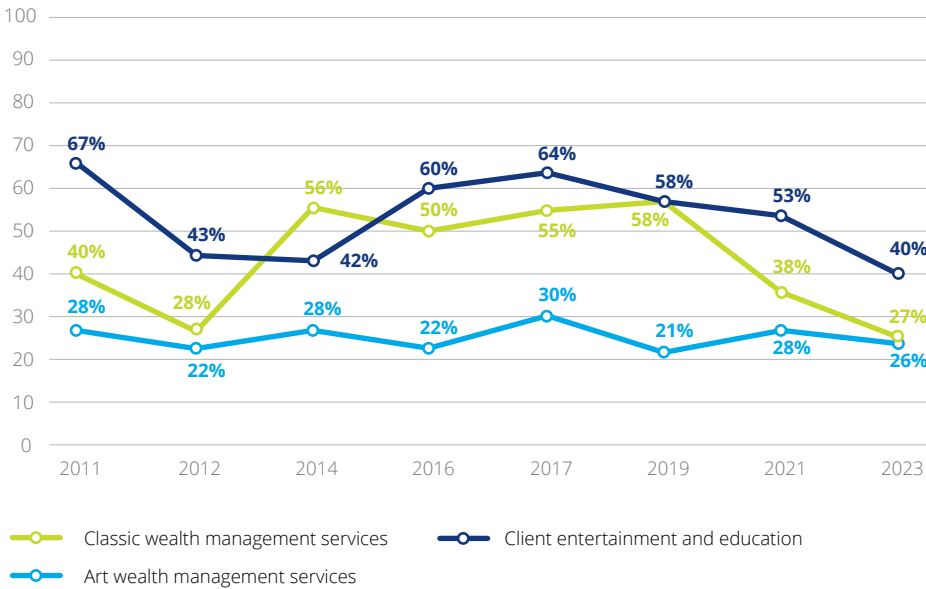
**Figure 51: Wealth managers: how likely are you to provide the following services in the next 12 months, in addition to what you are currently offering?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 52: Wealth managers: which services will you focus on in the next 12 months?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Are art wealth management services reaching a level of maturity?** Since 2019, we have seen a decline in wealth managers' focus on both classic art-related wealth management services (27% said this was a key focus in 2023, down from 38% in 2021), as well as client entertainment and education (40% said this was a key focus in 2023, down from 53% in 2021). This could imply that wealth managers with an art-related service offering have already invested in and adapted their classic service offering around art-related wealth. Interestingly, 20% of wealth managers are planning to focus slightly more on art-related risk management services in the next 12 months (up from 18% in 2021).

**The focus is on art-related wealth management services:** Survey findings among wealth managers indicate a decreased focus over the next 12 months on 'classic wealth management services around art' as well as less focus on 'art and client education', while the focus on art-specific wealth management services remains constant. Although 26% of wealth managers said they would focus on this over the coming 12 months (down from 28% in 2021), two services have seen a slight increase this year: art investment services (according to 29% of wealth managers in 2023, up from 28% in 2021), and art advisory services (31% in 2023, up from 27% in 2021).

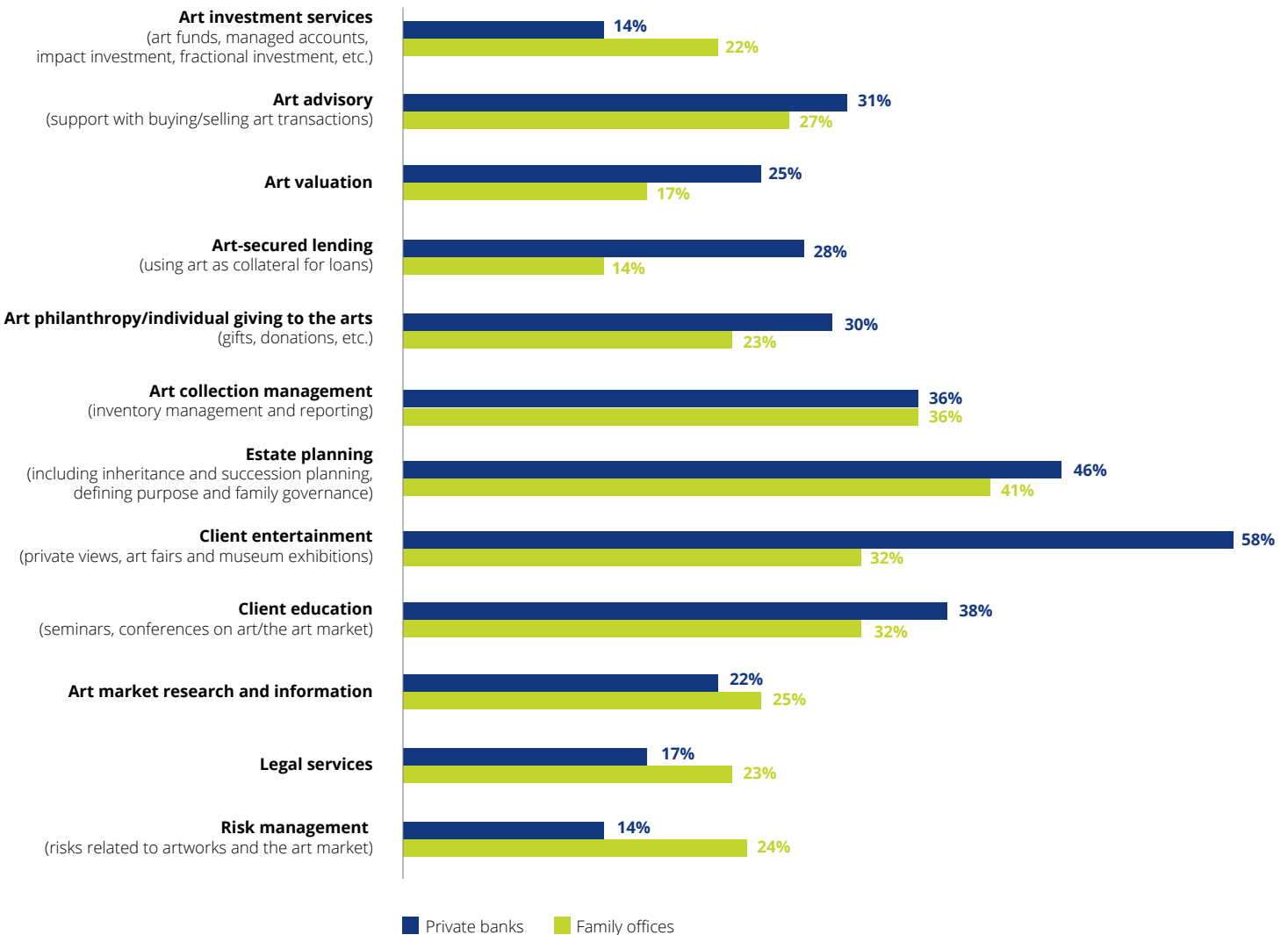
**High-level profile of the art wealth manager:** This person usually holds a senior position and has the expertise and a deep understanding of the art market, bringing to the table an extensive network and specific knowledge on art-related tax, legal and lending issues, for instance.

TUMBLE SERIES  
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**Figure 53: Private banks vs. family offices: which services will you focus on in the next 12 months?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**INDUSTRY INSIGHTS\_**

**by Monica Heslington**

*Head of Goldman Sachs Family Office Art & Collectibles Strategy*

**Five takeaways from five years of reflections on art & collectibles**

- 01. There is increased global demand for art and collectibles-related services within a private wealth management offering.
- 02. There is a need for objective assistance with transactions, as well as sophisticated tax education with respect to art and collectibles-nuanced philanthropy and estate/succession planning.
- 03. Culture, as well as local tax and legal regimes, have

- a direct impact on the type of art and collectibles-related conversations that occur, so cultural fluency and multi-jurisdictional tax expertise is required.
- 04. Since 2019, there has been a noticeable worldwide surge in interest on the topic of art and collectibles as an investment.
- 05. For collectors, an art and collectibles service offering is unrivaled when it comes to establishing and building relationships.

INDUSTRY  
INSIGHTS\_  
INTERVIEW

# Five takeaways from five years of reflections on art and collectibles



**Monica Heslington**  
Head of Goldman Sachs  
Family Office Art &  
Collectibles Strategy

**B**y analyzing the trends and activities of the last five years of the global art industry and the Goldman Sachs Family Office Art & Collectibles Strategy group, we have distilled several key findings for players in the private wealth management space who are considering incorporating art and collectibles-related services into their offering.

## 01. A rising global demand for art and collectibles-related services in private wealth management offerings

In working with our own clients, we have seen the demand for art and collectibles-related services steadily climbing year-on-year. The 2023 Goldman Sachs *Eyes on the Horizon: Family Office Investment Insights* report revealed 38% of our family office clients allocate capital to art and collectibles.<sup>134</sup> If this sampling is representative of the larger ultra-high-net-worth (UHNW) population, there are clear opportunities to leverage internal art experience to enhance client relationships in a private wealth management offering.

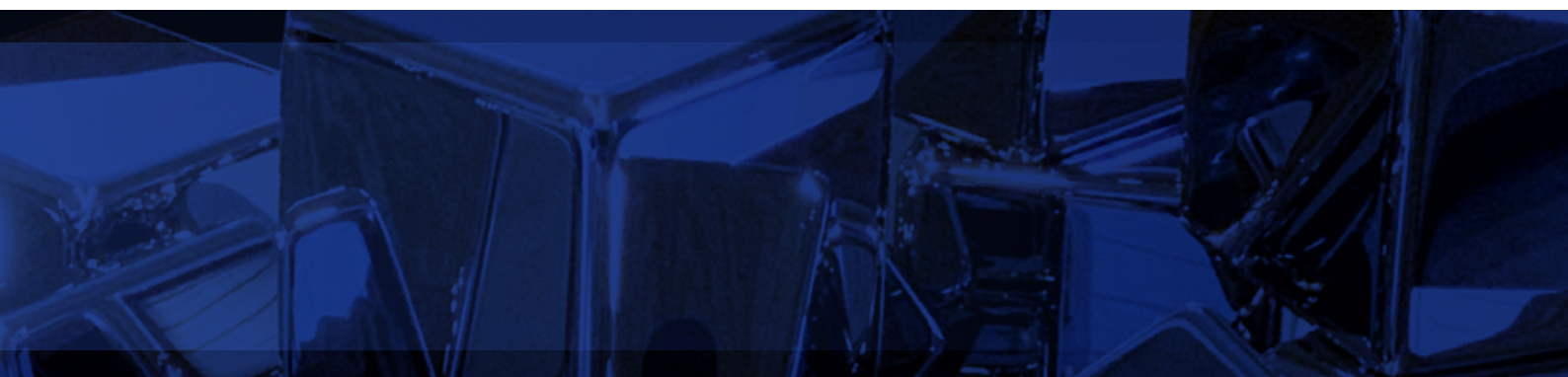
Based on our findings, the locations where art experience is needed are major global art market hubs. Therefore, it is unsurprising that in the

US, most art and collectibles activity originates in the New York City, Miami/Palm Beach and Los Angeles offices, while in Europe, the majority is in London.

## 02. UHNW clients need objective assistance with art transactions and sophisticated tax education regarding philanthropy and estate and succession planning

Top of UHNW clients' minds are acquisitions, sales, philanthropy, and estate and succession planning. In our experience, most of the new collector base comprises entrepreneurial clients who IPO or sell their businesses, and then indulge their passion for art and collectibles with their post-transaction proceeds. As a result, education on the art market, and best practices and due diligence for acquisitions may be frequent requests, as well as which art advisors are best suited for a particular situation.

Because selling art is a more complicated process than acquiring art and generally needs a different skill set, many collectors, regardless of their years of collecting experience, will seek feedback on potential sales strategies from an objective party. This could include the pros and cons of private



and public sales and which art and legal experts should be at the table during sales and consignment negotiations.

In addition, UHNW clients often have very complex philanthropy and estate and succession planning profiles. Given the opaque nature of the art market, these clients can struggle to find experts who understand how tax and estate planning laws intersect with the art world.

Although there will be opportunities to assist with collections management-related topics (e.g., cataloging, shipping and storage, and restoration and conservation), this is unlikely to be the main focus of a private wealth management offering's art practice. Art advisors, galleries, and auction houses usually provide or arrange for these services as part of a specific transaction, or recommend reputable and reliable providers.

**03. Culture, as well as local tax and legal regimes, directly impact collectibles-related conversations, making cultural fluency and multi-jurisdictional tax expertise essential**

Estate planning conversations differ depending on the jurisdiction involved.

Some countries have cultural and heritage property exceptions that allow collections to pass to the next generation without triggering an estate or inheritance tax. However, in the US, a collector's estate may need to have

## Top of UHNW clients' minds are acquisitions, sales, philanthropy, and estate and succession planning.

40–50% of the collection's value in cash for taxes if children are inheriting the collection. As a result, much of US estate planning involves preparing for the future sale of most (or all) of the collection.

In jurisdictions like the US, where a strong philanthropy culture is bolstered by a tax code providing generous benefits for charitable art donations in life and after death, art-nuanced philanthropy is a more frequent topic of conversation than in other countries.

**04. Since 2019, interest in art and collectibles as an investment has surged**

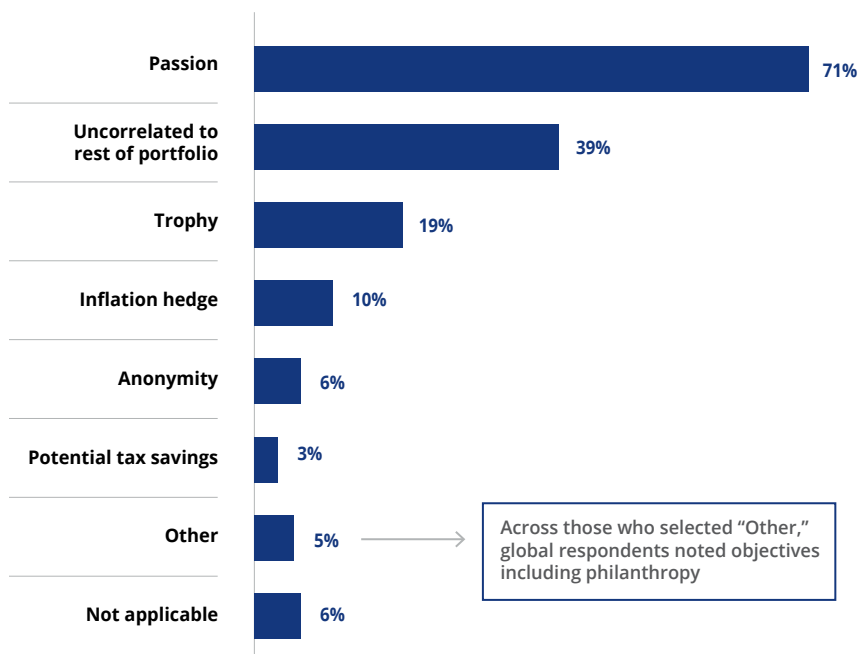
In the past, most collectors were drawn to collecting for aesthetic, intellectual or emotional reasons, so living with, driving, wearing, and drinking their collections were non-negotiable. However, with the emergence of new fractional ownership platforms, more people want to participate in the potential appreciation of art and collectibles, without having actual physical ownership.

Our recent report adds color to the motivations for acquiring art and collectibles. Although 71% of our family office clients who acquire art and collectibles gave passion as their primary objective, 39% indicated generating returns uncorrelated to the rest of their portfolio (Figure 54).<sup>135</sup>

Additionally, over the last two years, there has been a rise in the number of art investment funds and “clubs” looking to raise capital or draw more UHNW individuals and family offices into their client base. All private wealth management funds should carefully consider how to tackle the growing client demand for these investment types within the current regulatory and legal frameworks.

**Figure 54: Primary objectives for investing in collectibles**

Source: Goldman Sachs, *Eyes on the Horizon: Family Office Investment Insights*, May 2023.



Respondents were able to select up to three options.

**05. For collectors, the topic of art and collectibles is unrivaled for opening doors and building relationships**

It’s common knowledge that collectors are almost always extremely passionate about their collections. Private wealth management firms leveraging an internal art offering can tap into

that passion and enrich their client relationships. Being privy to conversations about a private museum in creation, being invited to a home for an exclusive tour of a collection, or attending an engaging art-related event together forms special bonds that enhance client relationships.





**TUMBLE I**  
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Part 3\_

# Family offices, collectors and art professionals: wealth management trends\_



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# Family offices

Since 2017, we have monitored a select number of family offices and their responses to the increasing interest in art and collectibles, and how it fits into a family's overall wealth portfolio. This year, we have increased the sample of family offices included in our survey (from 28 in 2021 to 38 in 2023), reflecting our increased focus on this group of stakeholders and how they currently manage and develop services around art-related wealth. Each of the main sections in this report will offer dedicated insight into how family offices currently respond to client demands and broader industry developments.

## Significant wealth allocation to art and collectibles among family offices:

Over a quarter (26%) of family offices reported that they allocate between 3% and 5% to art-related wealth, while 26%

said they allocate between 6% and 10%. A total of 41% of family offices said they allocate more than 10% (with 15% of family offices saying it was as high as 31%-50%). Family offices have clients with more wealth allocated to art and collectibles than seen in the average wealth management community. Compared to the wealth management community, the average percentage allocated to art-related wealth is higher with family offices at around 13.4% vs. 8.6% for private banks.

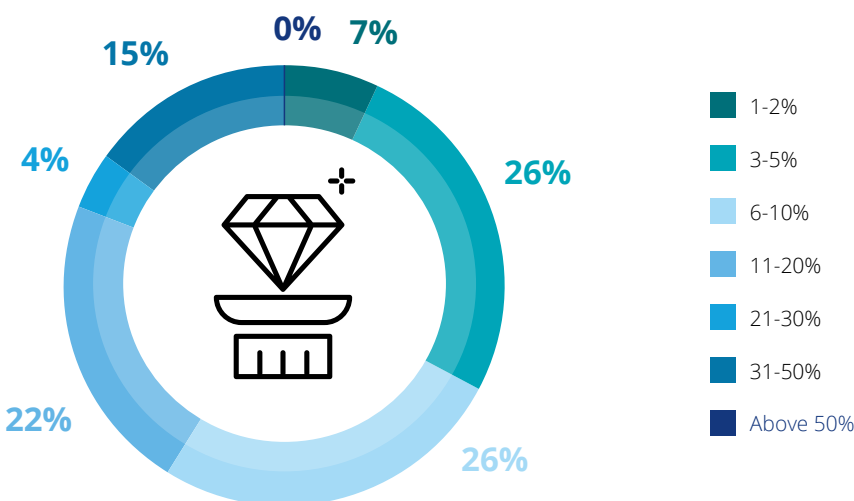
Our findings resonate with other external research conducted in this area. According to the Goldman Sachs Family Office Investment Insight report *Eyes on the Horizon Family Office Investment Insights* published in 2023<sup>136</sup>: "As part of their investment strategy, 38% of family offices allocate capital to collectibles. Unsurprisingly, art is the most invested

asset (27%), followed by wine (14%) and aircraft (14%). Among family offices that invest in collectibles, the large majority (71%) selected 'passion' as their primary reason for doing so, while 39% indicated their potential to generate returns that are 'uncorrelated to the rest of their portfolio,' mirroring conversations that we have had, particularly in the current inflationary environment"<sup>137</sup>. In its article page 162, Stonehage Fleming reports: "Our family office survey findings show that a weighted-average allocation to art and collectibles was 10.9% of total wealth."

According to the *UBS Global Family Office Report 2023*, art allocation represents around 2% of family office portfolios (same as private debt or gold/precious metals), while 14% of family offices are exploring ways to increase their art and antiques allocation in the coming year.

**Figure 55: Family offices: on average, how much of your clients' overall wealth is allocated to art and collectibles?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



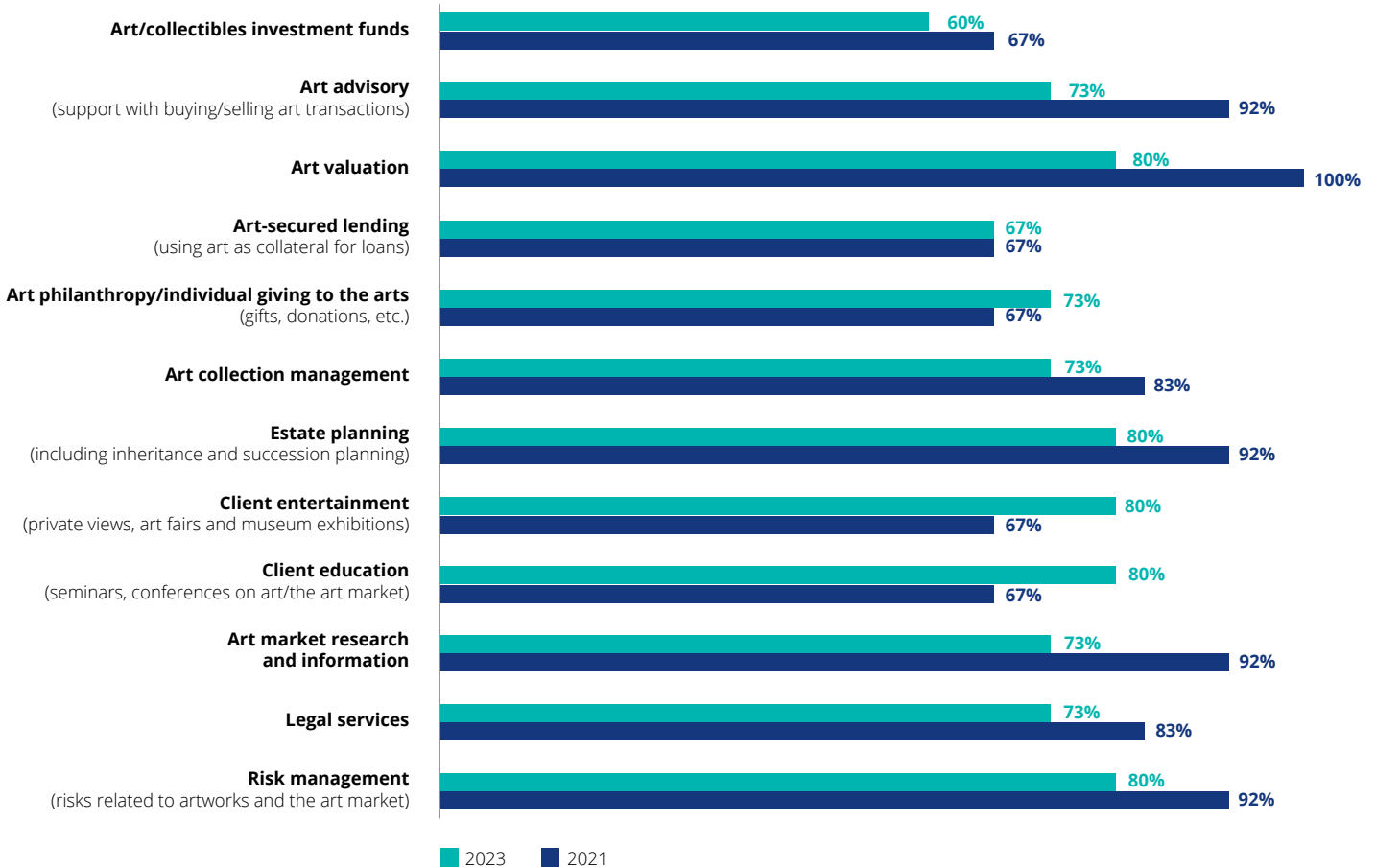
**Figure 56: Does the family office currently offer any art and collectibles services (including entertainment)? (saying yes, in percent)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



Figure 57: Family offices: which of the following services do you offer?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



Several of this year’s numbers are lower than those of 2021, and this is likely to be a result of the 50% increase in the family office sample.

**A larger share of family offices offer art-related services, but it is still lower than private banks:** More than half (60%) of family offices (the highest percentage since 2017) said they offer services related to art and collectible wealth. This growth in proportion—despite having increased the sample size—demonstrates the importance family offices are placing on wealth management services around art and collectibles. It is worth noting that this is still lower than the 67% of private banks that said they offer art-related services, which could imply that there is room for further growth among family offices when it comes to servicing art-related wealth.

**Legal services, estate planning and philanthropy:** Of the family offices surveyed this year, 73% said they offer legal services, with 80% offering art-related estate planning services. More family offices said they offer services geared toward art philanthropy (73% in 2023 compared to 67% in 2021). Several of this year’s numbers are lower than those of 2021, and this is likely to be a result of the 50% increase in the family office sample. Overall, however, a large majority (around two-thirds) offer a holistic set of art-related services.



**ALEMBIC CUBE**  
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**Risk management, estate planning and philanthropy:** Of the family offices surveyed this year, 80% said they offer art-related risk management services.

**Art advisory, collection management and valuation services:** Of the family offices surveyed this year, 80% offer art valuation services; 73% offer art advisory services and art market research; and 73% offer collection management services.

**Client entertainment and education:** We have seen an increase in client education (80% of family offices said they are providing this service this year, up from

67% in 2021). Client entertainment showed a similar development (80% of family offices said they are providing this service this year, up from 67% in 2021).

**Art-secured lending:** Of the family offices surveyed, 67% said they offer art-secured lending (same as in 2021), with these services fully outsourced to third parties.

Figure 58: Family offices: which of the following services do you offer?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

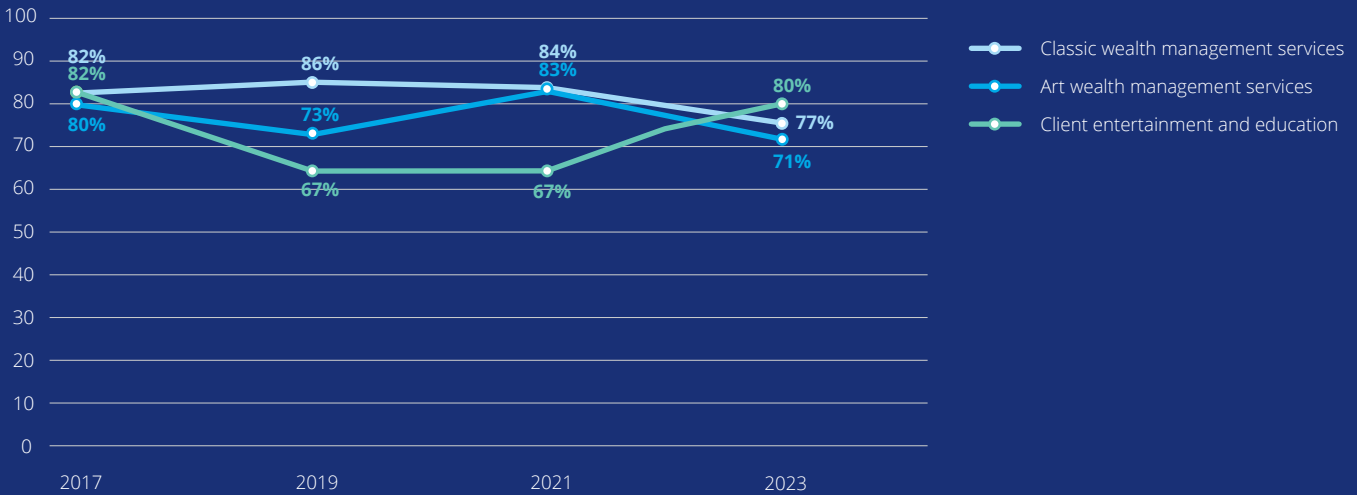
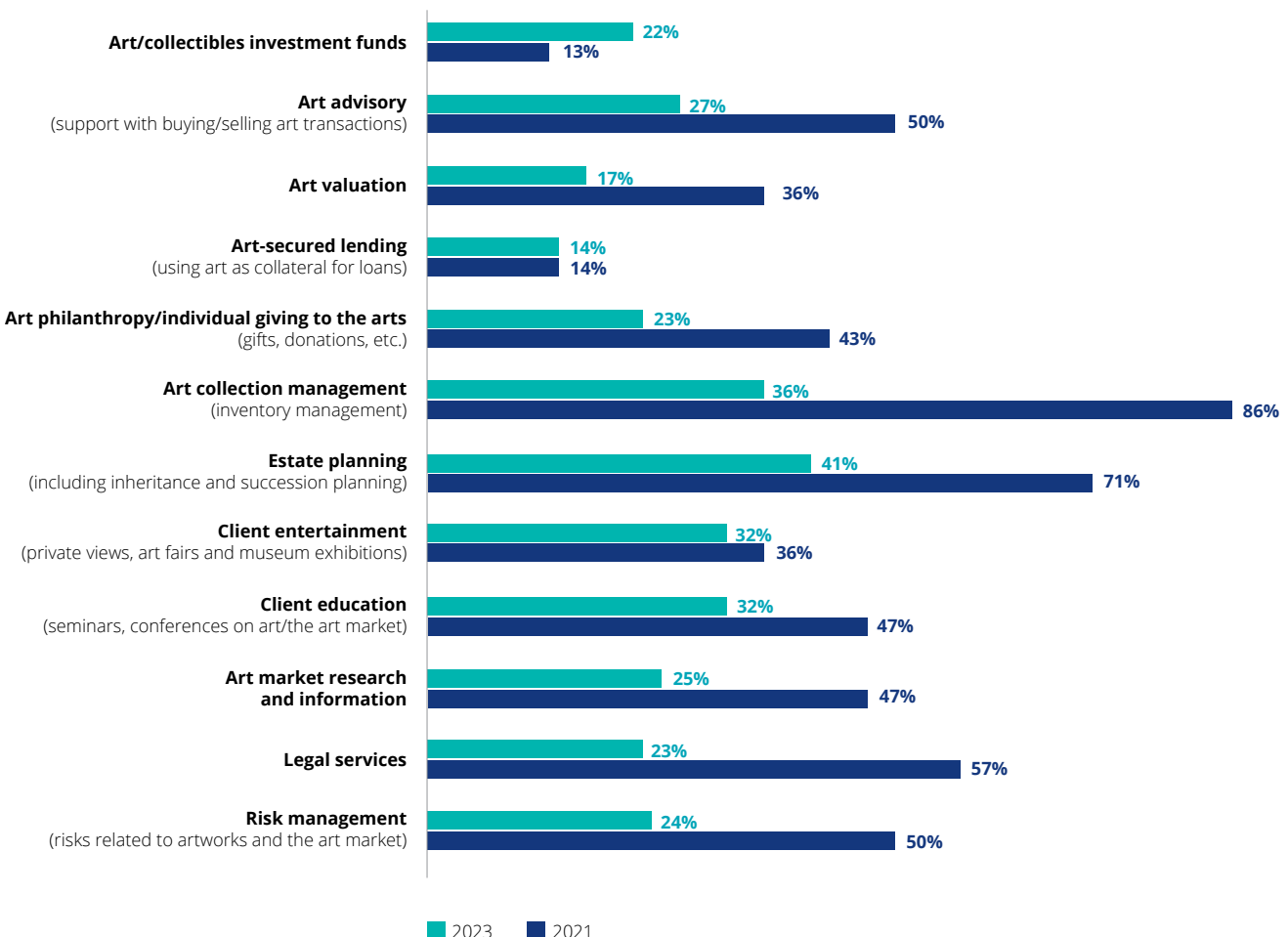


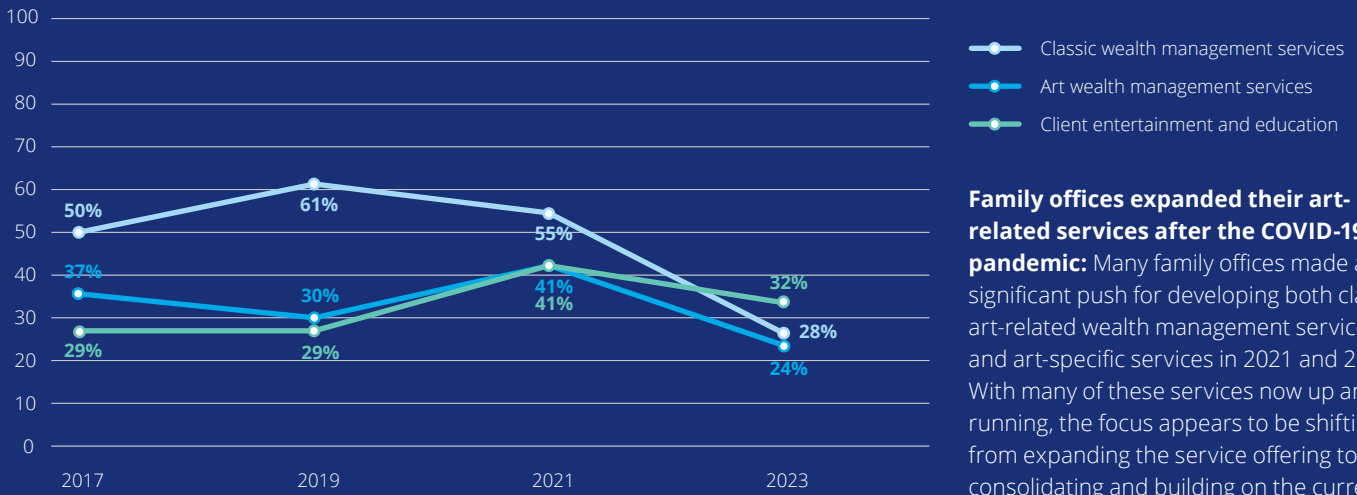
Figure 59: How likely is the family office to get involved in the following services in the next 12 months?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 60: How likely is the family office to get involved in the following services in the next 12 months?**

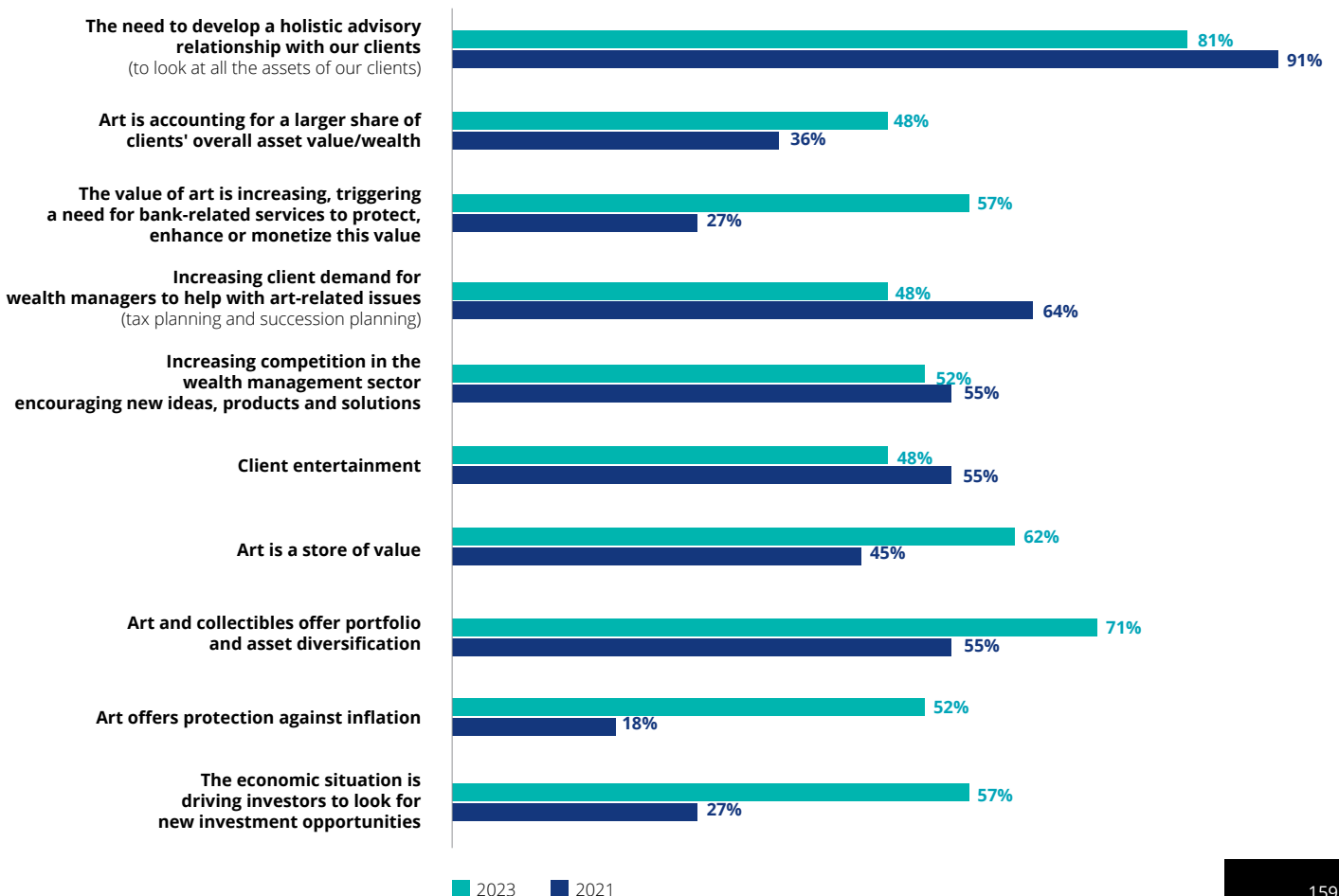
Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Family offices expanded their art-related services after the COVID-19 pandemic:** Many family offices made a significant push for developing both classic art-related wealth management services and art-specific services in 2021 and 2022. With many of these services now up and running, the focus appears to be shifting from expanding the service offering to consolidating and building on the current service infrastructure.

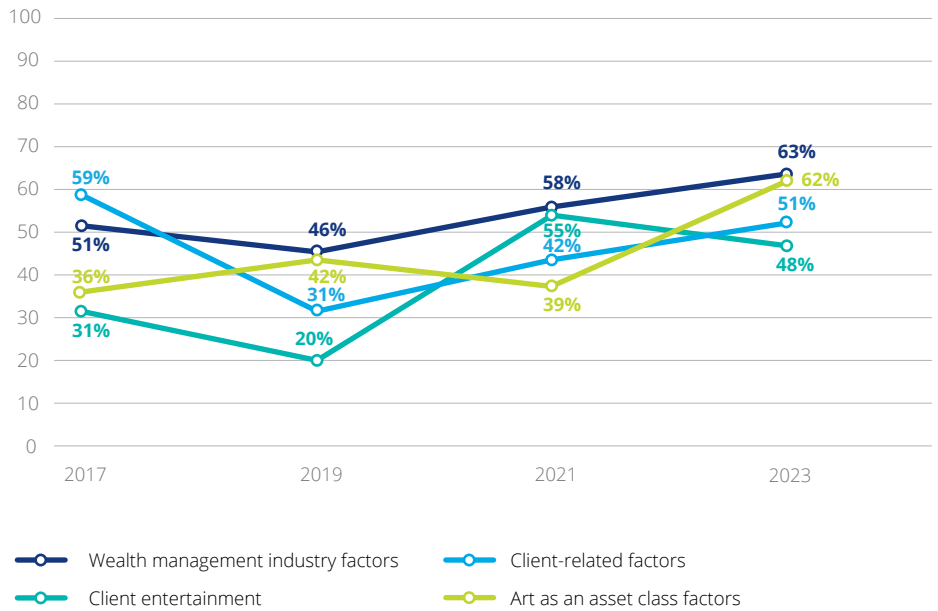
**Figure 61: Family offices: what do you consider the strongest arguments for including art and collectibles in traditional wealth management?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 62: Family offices: what do you consider the strongest arguments for including art and collectibles in traditional wealth management?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Over the last four years, art seems to have gained increasing recognition in family offices alongside more classic assets.** This is supported by the following four main trends:

**Art as an alternative capital asset:**

The most significant change we have seen in 2023 is that family offices are increasingly embracing art as an alternative capital asset (62% this year, up from 39% in 2021). Similarly, we have also seen a strong interest in art as a store of value (62% of family offices affirmed this in 2023, compared to 45% in 2021). A large majority (71%) of family offices said that art and collectibles offer portfolio and asset diversification (up from 55% in 2021), with 52% deeming that art offers protection against inflation (up from 18% in 2021).

**Wealth management industry factors:**

When asked why including art and collectibles in traditional wealth management has become increasingly important, 63% of family offices highlighted changes in the overall wealth management industry (up from 58% in 2021). One of

the main drivers has been the increasing value of art, triggering a need for wealth management-related services to protect, enhance or monetize its value (57% affirmed this in 2023, up from 27% in 2021).

**Clients are driving change:**

Another key factor in the changing perception around the importance of art in a wealth management strategy is driven by client-related factors, according to 51% in 2023 (up from 42% in 2021). As art and collectibles account for a larger share of clients' overall wealth, 48% of family offices said that this was the main driver behind their inclusion of art-related services (up from 36% in 2021).

**Client entertainment:** While softer services in art entertainment was the second most important category and a primary motivation for including art in wealth management offerings in 2021, this year we see a shift toward a more financial and client-driven approach.



## Why art collections need the same strategic risk management as other family assets

"The continuing growth of the art market means that, today, art collections might represent a far larger proportion of a family's total wealth than ever before. Our family office survey findings show that **a weighted-average allocation to art and collectibles was 10.9% of total wealth**. This suggests that families should apply the same strategic risk management to their art collections as they do their financial interests and investments. Most of our clients recognize that the biggest risks to their wealth result **from shortcomings in their approach to passing on the baton to successive generations.**"



by **Maria de Peverelli**

*Partner, Executive Chairman - Art Management,  
Stonehage Fleming*

TUMBLE III  
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## What family offices and principals need to know about the art market

For families and family offices looking to engage in the art market, there are four crucial (but frequently overlooked) considerations for art collecting families and the family offices that manage their wealth:

- **A disciplined approach is essential.**
- **Not all artworks can be used as collateral.**
- **Storage: unglamorous but vital.**
- **Planning can never start too early... and better late than never.**



by **Hannes Hofmann CFA**

*Managing Director Global Head,  
Global Family Office, Citi Private Bank*

INDUSTRY  
INSIGHTS\_Why art collections need the  
same strategic risk management  
as other family assets

**A**rt management is becoming more vital—as artwork values continue to rise as a proportion of family wealth, so does the importance of preserving and managing art collections for families’ legacies.

As an adviser to some of the world’s leading families and wealth creators, Stonehage Fleming seeks to add value across all areas of a family’s wealth, with many of our services stemming from our clients’ specific needs. We talk about “practical wisdom”—sharing the knowledge gained from working with a diverse group of families over several generations to address our clients’ many and varied challenges and opportunities.

### Risks to long-term family wealth

Most of our clients recognize that the most significant risks to their wealth are not from a lack of financial risk management, but shortcomings in passing the baton to successive generations. In our *Four Pillars of Capital: The Next Chapter* report, we found that “While most families only have formal risk management processes for business and financial assets (external risks), there is increasing recognition that the biggest risks lie in family issues such as disputes, inadequate planning, failure to engage the next generation and a lack of leadership (internal risks).”<sup>138</sup>

While methods of managing family wealth and legacy have constantly been evolving, the current pace of change is unprecedented.

Art management services vary considerably from family offices’ traditional wealth planning and investment management offerings. As a real asset,<sup>139</sup> there is a myriad of elements to consider when holding art as part of someone’s portfolio. These include location, the implications of moving artwork between jurisdictions, provenance and, as with property, changes in value and condition—all despite the lack of recognized international standards for measuring these factors.

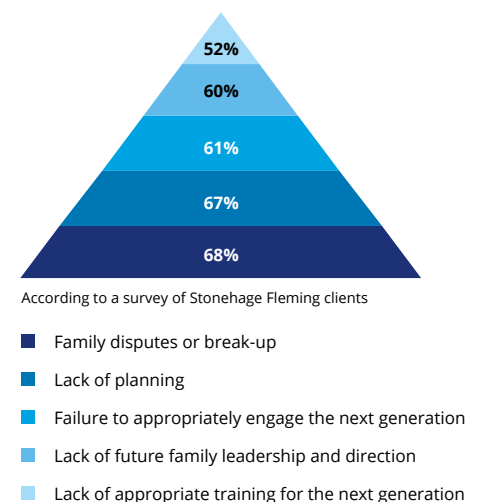
For example, provenance and attribution issues, new restrictions on trade from the ivory ban to the Fifth Anti-Money Laundering Directive, changes in fashion, and market volatility mean the salability of an inherited family collection can be increasingly challenging today.

### Climate change

Another major issue collectors face today is the art world’s contribution to the climate crisis, specifically its carbon footprint. While awareness is growing, this doesn’t necessarily translate into tangible change.<sup>140</sup> While air travel of both people and artworks represents 40–50% of the total art world’s CO2 emissions, it remains the sector’s favored method of transport, with art fairs a prime example.

On the other hand, the conversation around climate change can be amplified by renowned collectors and museums leveraging their resources and platforms. For example, TBA21–Academy’s mission

**Figure 63: Top 5 risks to long-term family wealth**



is to create awareness of preserving the world’s oceans, and the Patrizia Sandretto Re Rebaudengo foundation is committed to investing in cultural initiatives that address these issues.<sup>141</sup> While ecologically minded museum exhibitions include the Hayward Gallery’s *Dear Earth* or the Sainsbury Centre’s *The Stuff of Life | The Life of Stuff*.

### Loan financing and art as an asset

We are also increasingly seeing art being used as collateral for loan financing, demonstrating an evolution in mindset from the traditional, illiquid notion of an artwork toward the idea that valuable capital can be released and used for other investments.



**Maria de Peverelli**  
Partner, Executive Chairman  
Art Management, Stonehage Fleming  
Financial Services limited



**Anna Smith**  
Senior Collection Manager,  
Art Management  
Stonehage Fleming Financial  
Services limited

This trend is confirmed by the rising demand for these loans and the proliferation of specialist art lenders and art funds. For example, Sotheby's Financial Services' portfolio of art loans rocketed by 50% between 2021 and 2022.<sup>142</sup> For the most part, the majority of art lenders are focused on artworks with more liquidity, such as modern and contemporary art. However, other platforms like Artex and Masterworks are opening the art market to more investors by offering fractional shares of artworks, the latest example of art as an asset class.<sup>143</sup>

### **Provenance and authenticity**

The biggest challenges facing collectors today are provenance and authenticity, especially those not concentrating on emerging or living artists. These issues have grown more relevant with the increase in online sales.

Provenance plays a vital role in assuring artworks are authentic. According to provenance researchers The Clarion List, "To say that a work of art has 'impeccable provenance' implies rarity. In the art market, rarity translates to

value."<sup>144</sup> Researching provenance and confirming authenticity is essential to successfully manage a collection, whether public or private, as failing to obtain this documentation can greatly affect a collection's value.

Until recently, provenance was not considered to have negative consequences for the ownership of a collection; however, reputational risks have risen over the last few years, mainly due to high-profile tax evasion cases, increasing transparency in the market, and social media.

### **In-house art risk management**

Notably, while most single- or multi-family offices have clients with substantial art collections, very few, if any, offer these services in-house. The deep specialization and expertise required for these services, as well as their lack of scalability, make them an unattractive investment for commercial enterprises.

The scale and complexity of the first collection Stonehage Fleming was asked to manage warranted the creation of a small in-house department, Stonehage Fleming

Art Management (SFAM). The department's services were inspired by the business practices and standards that museums have long used to manage their collections. Since then, SFAM has received increasing inquiries from other families recognizing the value of its services. These families benefit from SFAM's experience of working with other collections and the economies of scale from joining an existing structure.

Today, around 70% of our clients are SFAM only, representing around US\$2.5 billion in value held in art, while approximately 30% of the main firm's clients have art collections of some sort (but not necessarily managed internally).

### **Conclusion**

The healthy growth of the art market means that, today, art collections often represent a weightier share of a family's total wealth than ever before. This suggests that families should apply the same strategic risk management to their art collections as to their financial interests and investments.

INDUSTRY  
INSIGHTS\_

## INTERVIEW

## What family offices and principals need to know about the art market

**Hannes Hofmann CFA**

Managing Director  
Global Head,  
Global Family Office,  
Citi Private Bank

**F**or millennia, many wealthy families have built collections of fine art. Amid the rapid wealth creation of the last two decades, the number of family offices has significantly increased.<sup>145</sup> More and more, we see these two trends converging, with principals involving their family offices in the oversight, administration and management of their artworks.

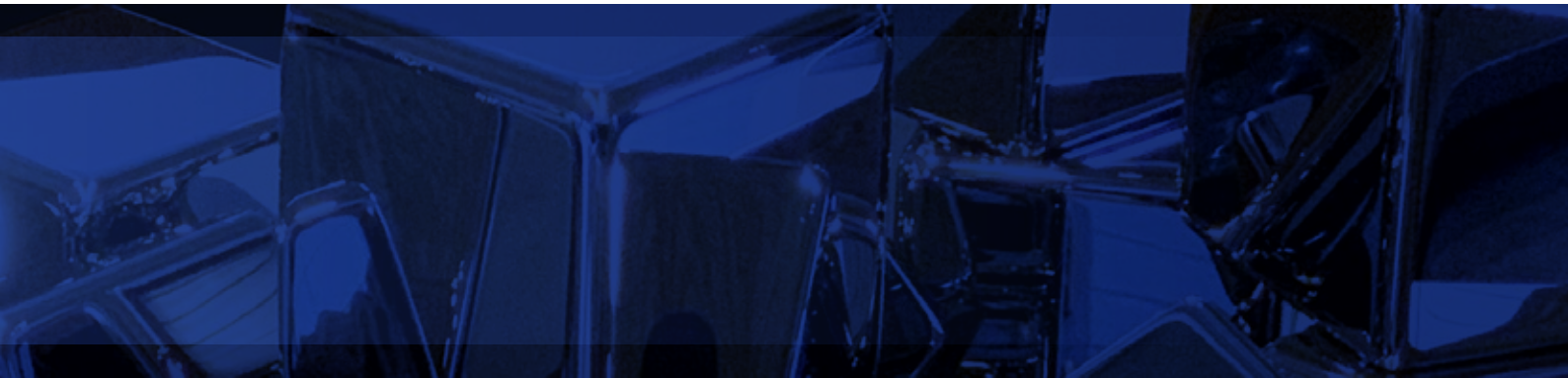
Be it a nascent or long-established collection, these family offices face substantial responsibilities. In our experience, these are best managed by in-house specialists who work in partnership with external advisors and service providers, spanning art finance, conservation, insurance, administration and more. Ideally, family offices add discipline to the collecting process, helping family members to realize their vision and maximizing their artworks' potential now and for future generations.

Citi Private Bank is one of the only private banks with a global art advisory team that combines experienced in-house advisors from renowned museums, auction houses and art galleries with a bespoke art lending program. We can help clients build museum-quality art collections and provide transparency in this market. Families can consult a global team of specialists, each with over 20 years' experience, who provide impartial opinions on every work of art considered for purchase or sale.

Based on our ongoing conversations with clients globally, we see differences between regions and generations on how and when to collect art. Where North America is well established with over 45% of the market and the UK a close second, we are seeing significant growth in Asia.<sup>146</sup> China particularly is building new museums and foundations and needs to fill them with quality works of art. The Middle East is following suit with the development of new mega-museums in Qatar and UAE.<sup>147</sup>

Families have also begun to increase their next generation's involvement in collecting art, allocating them the funds to do so.<sup>148</sup> This is a difficult task for those less experienced, as we see a shift in the type of art acquisitions being made.<sup>149</sup> The baby boom generation's collections in blue chip art are often not to the taste of subsequent generations, who are far more interested in contemporary art. This trend will see increased demand and rising prices for emerging artists. Keeping on top of these developments and being first to market is why our clients enlist our advisory services to aid them on their art journey.

For families and family offices looking to engage in the art market, we highlight four key—but frequently overlooked—considerations for art-collecting families and the family offices who serve them.



### A disciplined approach is essential

Great collections typically require significant time and expense to build. However, patience and deep pockets alone are not enough. The best results come via a disciplined approach, beginning with a coherent vision and followed by a strategic approach to making acquisitions. Dedicated art personnel within the family office help family members define the collection they desire, as well as any philanthropic goals such as lending out or gifting.

In the case of an existing collection, introducing a family office may also bring structure to ownership and management. One example is where artworks are acquired unsystematically over a long period. Taking an inventory, assessing insurance needs, transferring works to safe locations and reconstructing missing paper trails are some of the vital tasks that the family office may begin performing.

In recent years, the art market has become ever more accessible, with galleries, auction houses and fairs opening up to new collectors and enthusiasts from around the world.<sup>150</sup> The advance of online sales and auctions—particularly during COVID-19—has accelerated this process. With all the information now available and the busy schedule of international fairs and sales, keeping abreast and adjusting collecting strategies accordingly can be a challenge. By working with outside advisors, family office staff can help the family navigate this complex environment.

### Not all artworks can serve as collateral

Especially compared to publicly traded securities, artworks are illiquid. Buying and selling typically incurs substantial commissions and takes time.<sup>151</sup> However, even for families with sizeable collections, there is no need for this wealth to be “tied up”. For decades, some family offices have managed to realize liquidity from artworks belonging to their principals, using products such as art finance, which Citi pioneered in the 1980s.

**TUMBLER (MAQUETTE)**  
© JONATHAN PRINCE





TUMBLER

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By borrowing against artworks, they have freed up funds for expanding their collections, making financial investments, or other purposes. An art lending program such as Citi's is helpful for family offices to consider in order to strive to maximize

## Loving an artwork—while vital—cannot be the only criterion when buying.

their art collections' potential. An art loan can be particularly helpful when the wealth generator needs to allocate funds to family members, especially when the family is facing a generational shift in responsibilities. For those with—or planning to build—a large portfolio, tapping into a private bank with a robust balance sheet that can take on bespoke high-value artwork can be helpful.

Making the family balance sheet more efficient in this way need not involve forfeiting the principal benefit of art ownership. Even when the art is used as collateral for a loan, it may remain on display in, say, the family's residence for their enjoyment. Likewise, the arrangement can stay confidential, with the lender discreetly undertaking annual appraisals wherever the art is housed.

However, despite these potential attractions, it is important to remember that not all artworks may qualify as collateral. While some lenders may consider high-value paintings, sculptures, drawings and photographs, many pieces are hard or impossible to borrow against. These include those where an artist has a small following, where the artwork is extremely fragile or where there are provenance issues, such as an opaque ownership history or past legal disputes.

Where there is a desire on the part of the family to borrow against art, this should be reflected in the acquisition strategy. Loving an artwork—while vital—cannot be the only criterion when buying. Its potential to serve as collateral should be assessed, with the family office's art specialists seeking independent views from outside specialists. Finding the right specialists is crucial for any family. An art advisory team with sound research, transparency and advice can help families buy quality artworks that retain their value over time and avoid overpaying.

### **Storage: unglamorous but vital**

The aesthetic value of fine art is enormous. But the emotional returns from appreciating its physical beauty come with risks attached. Without care and conservation, artworks can deteriorate, eroding both their appeal and salability. Nevertheless, it is not uncommon to find collections of artworks and other heirlooms stored inadequately in homes. Valuable objects acquired many years earlier are sometimes consigned to closets or basements, perhaps by those oblivious to their worth.

Compared to the thrill of an auction or the joy of a private viewing, arranging storage can seem like an unglamorous chore. However, getting it right is vital and calls for a systematic approach. A storage policy should be carefully mapped out, whether the collection is to reside in a home, office or specialist storage facility. Climate-controlled facilities, high levels of security and appropriate insurance are among the highest priorities. Dedicated family office art specialists may be well placed to undertake these tasks confidentially on behalf of the principals, particularly when the principals are based across multiple jurisdictions, who could take advantage of the proper structuring of art collections and the efficiencies of storage.

### **Planning can never start too early, and better late than never**

Settings matter in art—an unattractive frame or plinth will detract from the beauty of the object it bears. A similar principle applies to creating a wealth plan and appropriate ownership structures around art collections. Failure to implement these elements can bring about undesirable consequences far beyond aesthetic damage. These include family disharmony, needlessly large tax bills and the breakup of a collection.

Put simply, planning can never begin too early, and a family office can play a vital role in helping to initiate and manage this process. For a family just beginning to collect art, this should be a simpler matter.

Naturally, where art has been amassed randomly over long periods, complexities are much likelier. Nevertheless, planning late is still better than never doing so.

The first steps typically involve taking stock of what is owned and establishing the principal's vision for their collection. We have clients who opt to hand over responsibilities to our Art Advisory team, who can effectively handle collection management, structuring and liquidity management in the form of art loans. This has proven significantly helpful when collections are held typically with the head of the family.

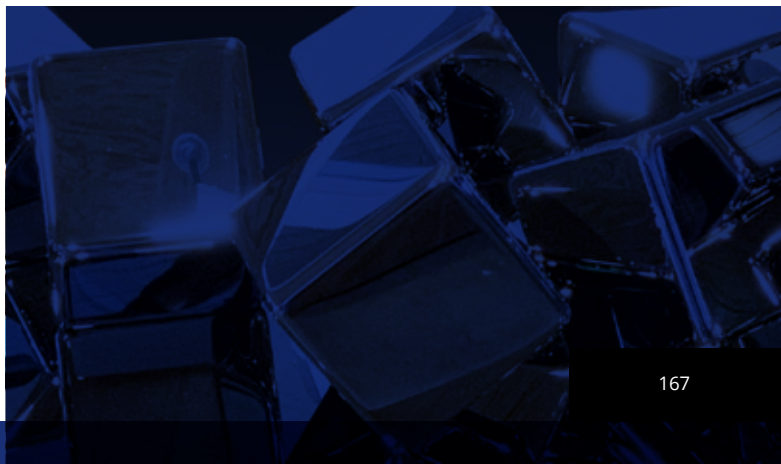
As well as coordinating inventorying efforts and helping to codify the principal's long-term wishes, our family office specialists can facilitate vital conversations between family members. This can help clarify intentions and reach an understanding over a collection's future, be it retention, disposal, philanthropic lending out or gifting. Based on these discussions, the family office can work with lawyers, tax advisors and other professionals to craft a suitable wealth plan and ownership structures.

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Citi Private Bank's Global Family Office Group provides services to over 1,800 single family offices, private investment companies and private holding companies, including family-owned enterprises and foundations, around the world. The team offers clients comprehensive private banking and family office advisory services, institutional access to global opportunities and connections to a community of like-minded peers.

By advising on best practices, leadership, and family learning initiatives, our family office team aids the vision realization process and looks to engage the next generation to maximize the potential growth of the family's wealth through art and beyond.

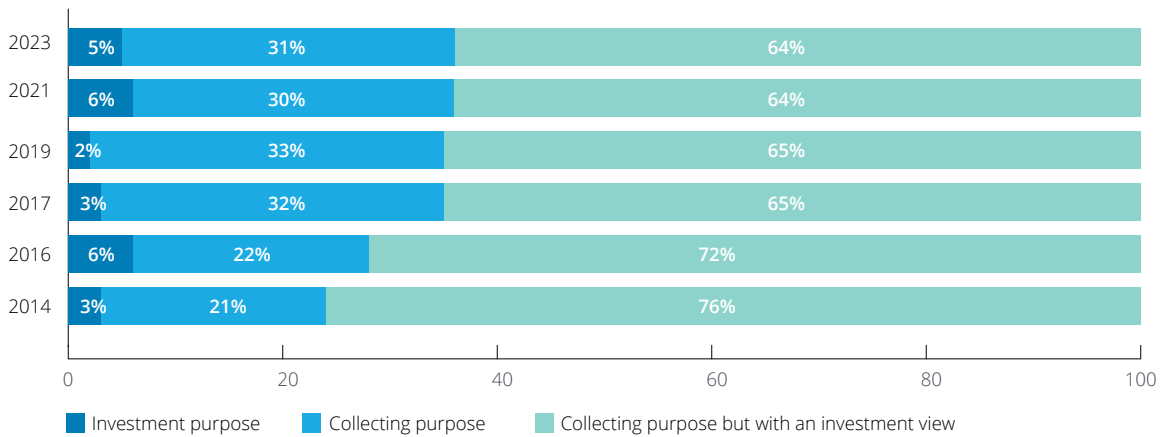
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# Collectors and art professionals—motivations and behaviors

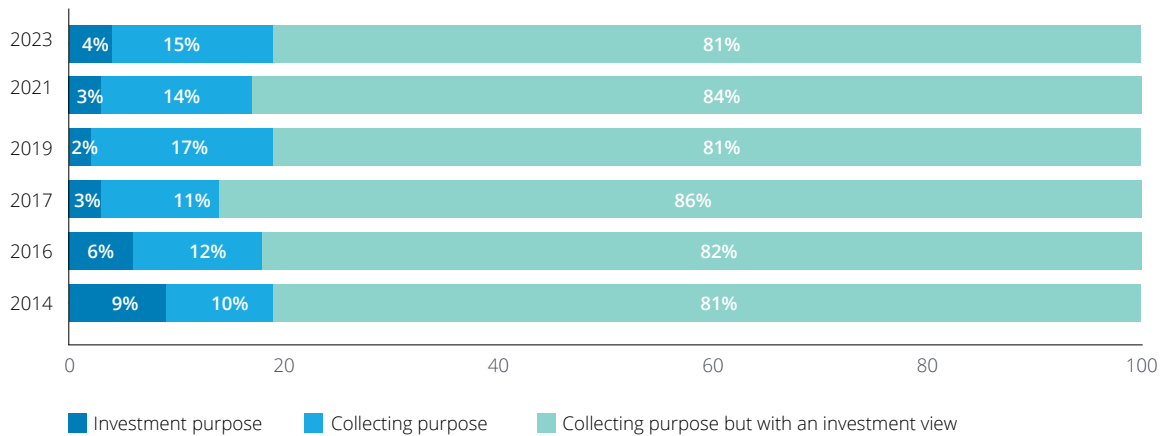
**Figure 64: Emotion vs.investment: why do you buy art? (collectors)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 65: Emotion vs.investment: why do your clients buy art? (art professionals)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023





This is confirmation that for around 70% of art buyers who participated in the survey, investment view is part of the decision-making process, clearly indicating that art buyers may prefer buying artworks that have a likelihood to keep their value over time. There is a strong incentive, therefore, for all art and finance stakeholders to

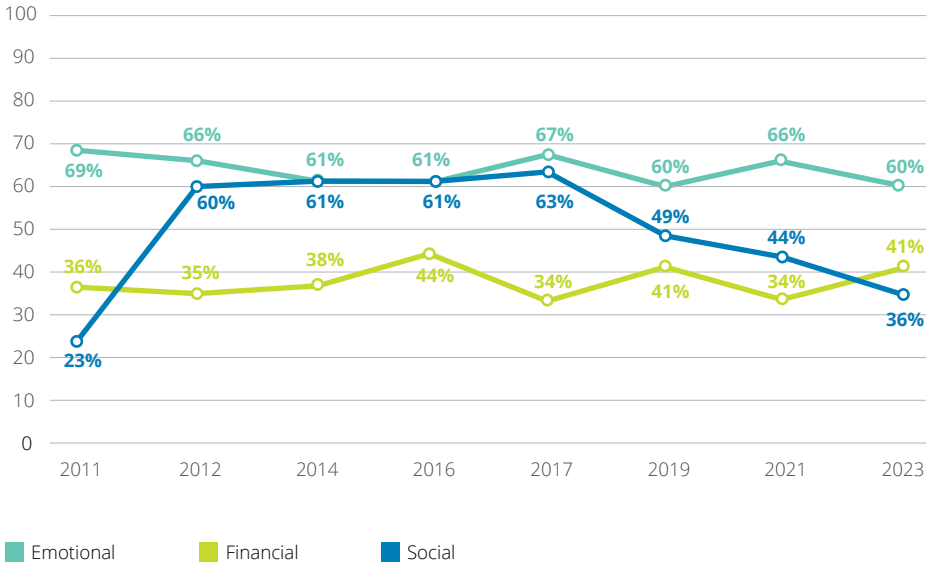
incorporate this into the decision-making process and to adequately manage this aspect, as well as to provide independent, unbiased information and advice on it. This is a trend that is also spreading to other collectible and luxury categories, increasing competition between these goods.



**VESTIGAL BLOCK**  
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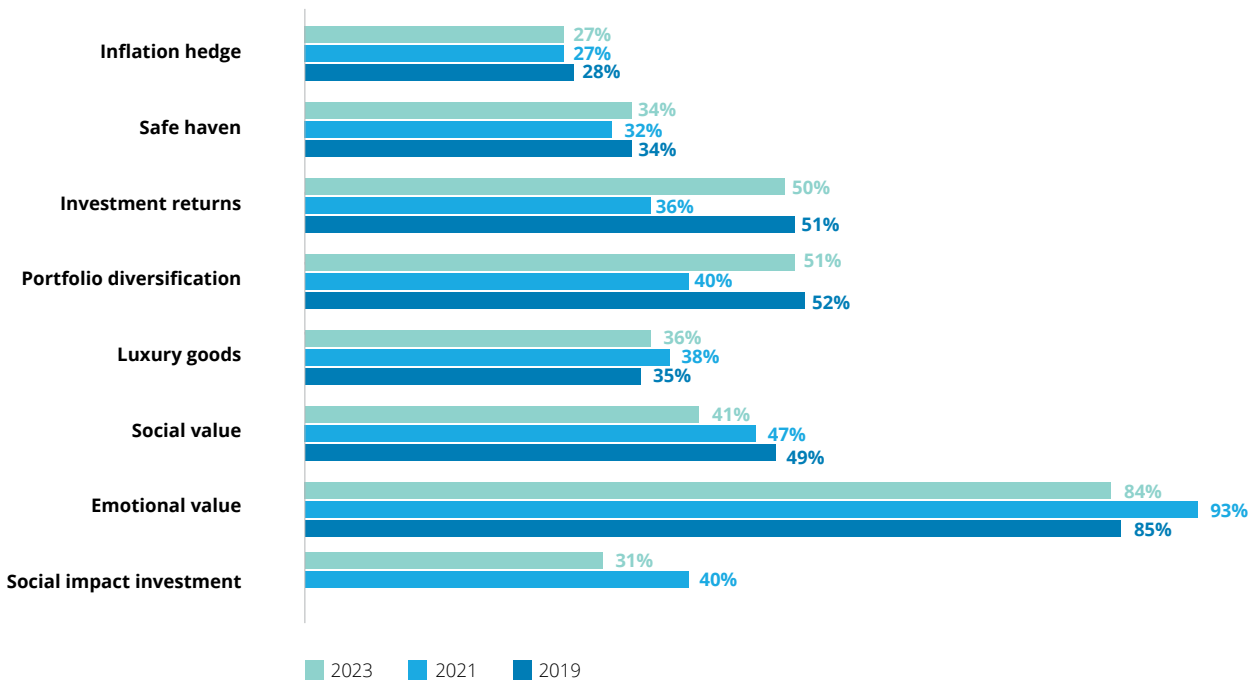
**Figure 66: Collectors: which of the following motivations are the most important when buying art?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 67: Collectors: which of the following motivations are the most important when buying art?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023





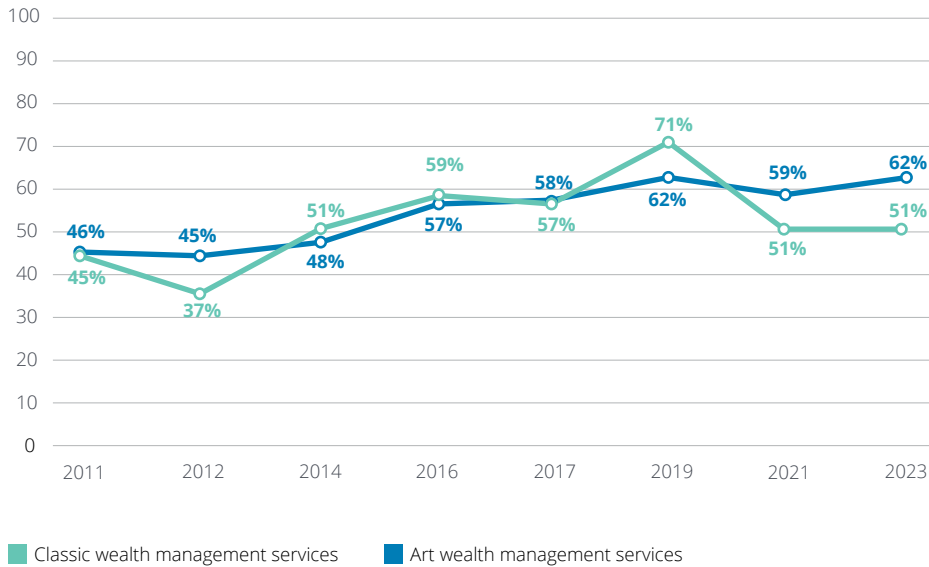
TUMBLER  
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**A shift toward the underlying economics of art ownership:** Emotional value remains the key driver for buying art, but **findings this year show for the first time in 12 years that financial value is replacing social value as the second most important motivation. There is a shift toward more financially driven considerations**, such as looking at art in the context of portfolio diversification, as a tool to protect against inflation, and from an investment return perspective. This is also the case for other luxury collectibles, blurring the lines between fine art, collectibles and luxury assets. This means that our Art & Finance approach, which has predominantly focused on fine art until now, also applies to collectibles and luxury assets.

This development may require a new model of professional and economic stewardship which could have profound implications for the art market and its stakeholders going forward—particularly in terms of modernization of its business practices to meet the expectations of a 21st-century industry. Also, increasing financialization and competition from other luxury collectible sectors means that the art market needs to stay relevant, particularly for the younger generations; otherwise, they risk missing out on the great wealth transfer and demographic shift, both of which are likely to impact taste, preferences and demand for all types of collectible assets. The industries that manage to connect to the next generation in the most effective way today are likely to be the leaders of the future.

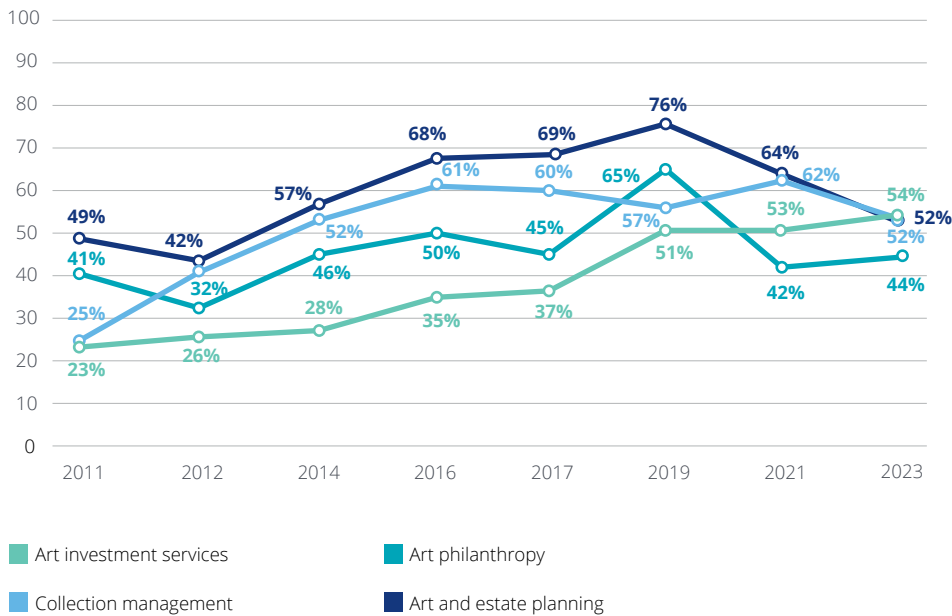
**Figure 68: Collectors: which of these art wealth management services are the most relevant to you?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 69: NextGen collectors: what are the most important motivations when buying art?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Confirmation of the long-term trend that collectors expect more from their trusted advisors than from traditional art wealth management services:**

More than 50% of survey participants found most of the services to be highly relevant, with half (one out of two) of the participants finding all the services relevant. At least 70% find valuation and market research services relevant, indicating an increasing interest in the financial attributes of art assets and the need to manage them professionally.

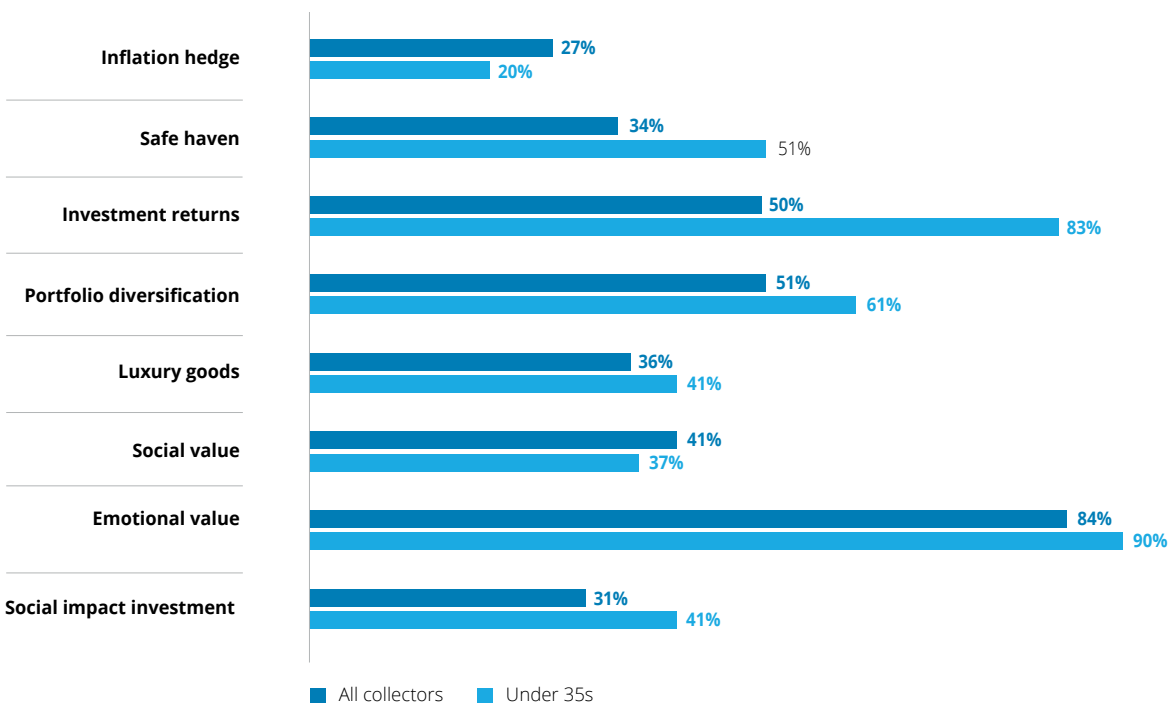
**NextGen collectors—a different perspective**

NextGen collectors do not have the same expectations. Social impact investment is clearly more of a priority for them. Depending on the age group, it is important to adapt the wealth management offering.

At least 70% find valuation and market research services relevant, indicating an increasing interest in the financial attributes of art assets and the need to manage them professionally.

**Figure 70: NextGen collectors: what are the most important motivations when buying art?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Financial motivations are significantly stronger for younger generation of collectors.** This year, 83% of younger collectors said that investment returns were a key motivation (up from 50% in 2021). And 61% said that portfolio diversification was important (up from 51% in 2021), with just over half (51%) considering art as a safe haven in times of uncertainty (up from 34% in 2021). This is an important finding as it reveals something about the new generation of

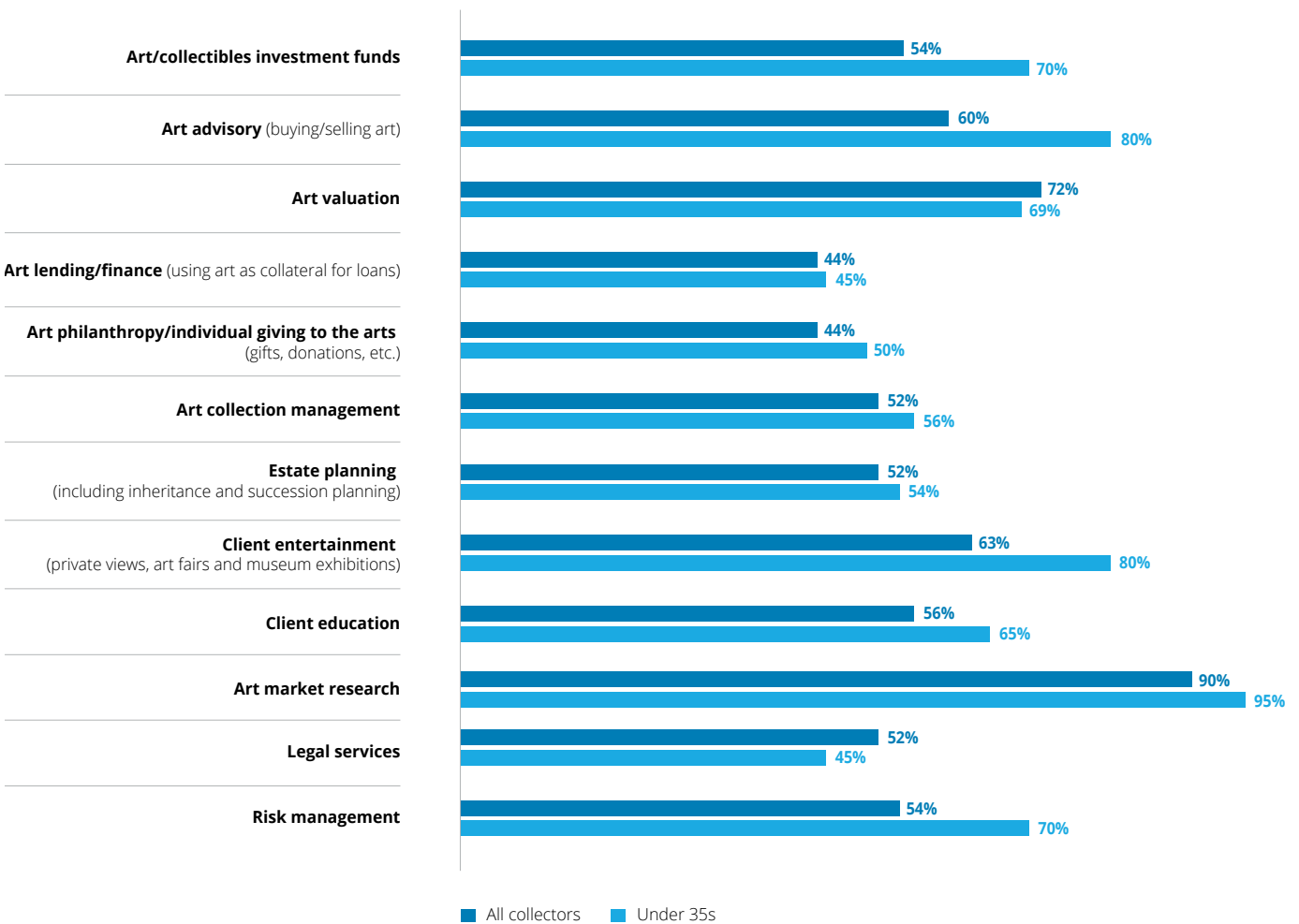
collectors and how they are likely to relate to art as an alternative capital asset class—now and in the future. This is also reflected in their demand for services (see Figure 71).

**Social impact investment:** We also see a stronger motivation (41%) for social impact investment in a younger generation seeking purpose-driven investment strategies (up from 31% in 2021).

**A stronger demand for services among younger art collectors** reflects their increasing desire to view art as a viable asset class (and a need for professional services related to art ownership).

**Figure 71: NextGen collectors: Which of these art wealth management services are the most relevant to you?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

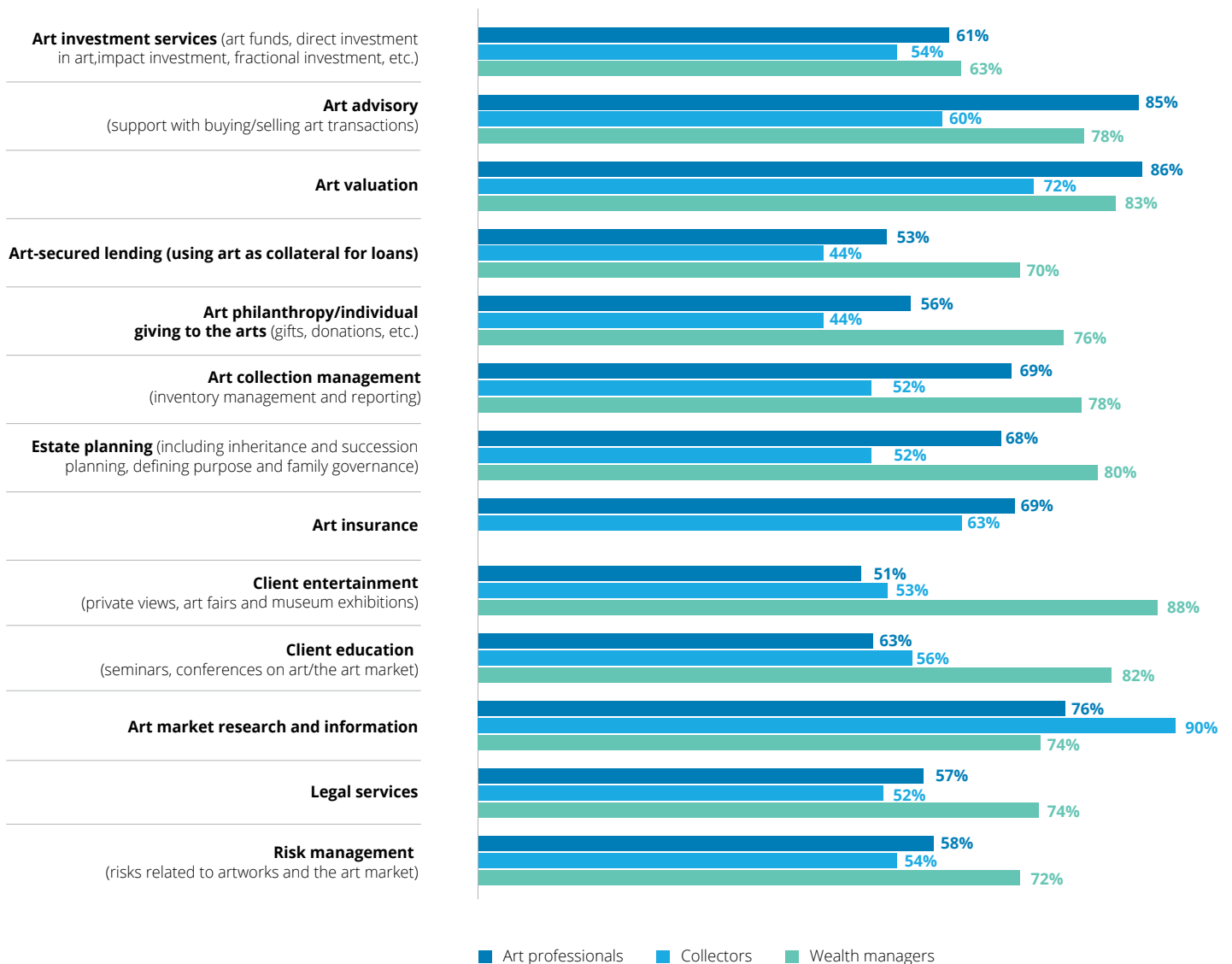


# Gap analysis

Wealth management offering vs. clients demands (collectors and art professionals)

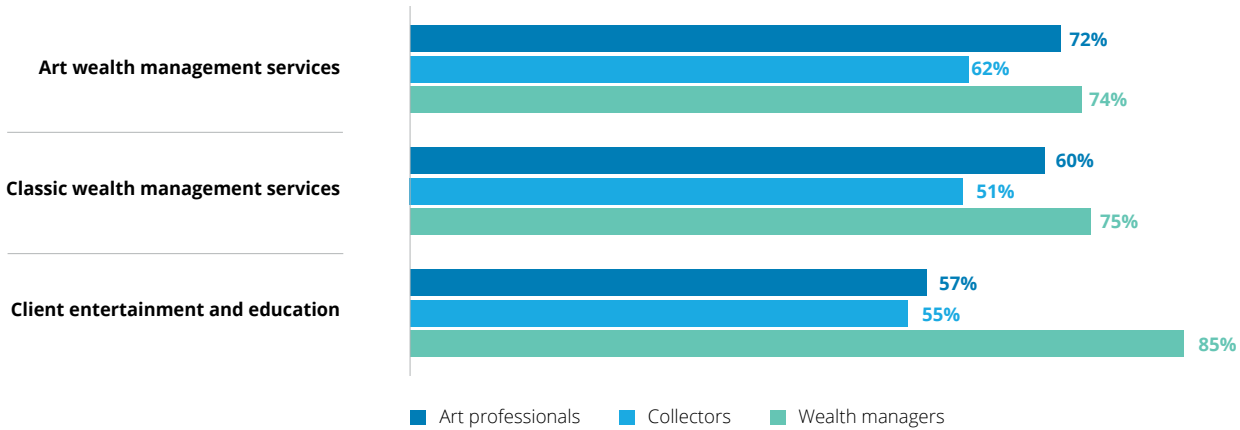
**Figure 72: Gap analysis: Which services are the most relevant to collectors and art professionals vs. what wealth managers are currently offering**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 73: Gap analysis: Which services are the most relevant to collectors and art professionals vs. what wealth managers are currently offering**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Wealth managers are increasingly addressing clients' demands:**

It seems the pandemic was a catalyst for wealth managers to strengthen their service offerings. There is an increasing balance between wealth management offerings and demand for art-related services valued as meaningful services by collectors.

Art professionals see **art valuation** and **art advisory** as the two most relevant services, and wealth managers have been addressing these needs since 2019. Wealth managers offering **valuation services** (mostly as a third-party service) have increased from 67% in 2019 to 82% in 2021, and to 83% in 2023. Wealth managers offering **art advisory services** (third party) have increased from 69% in 2019 to 78% in 2021 and 2023.

There is still a gap to be filled when it comes to the need for art market research and information; this is what 90% of collectors considered to be the most meaningful service. In 2023, 74% of wealth managers said they offer their clients this service, down from 76% in 2021.

Entertainment is the area with the biggest mismatch between demand and services offered. This is less problematic, however, as collectors seem to value it as a "nice-to-have" service, but not necessarily meaningful.

There is an increasing balance between wealth management offerings and demand for art-related services valued as meaningful services by collectors.



# Endnotes

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# 03\_

## Art wealth protection, estate planning and philanthropy

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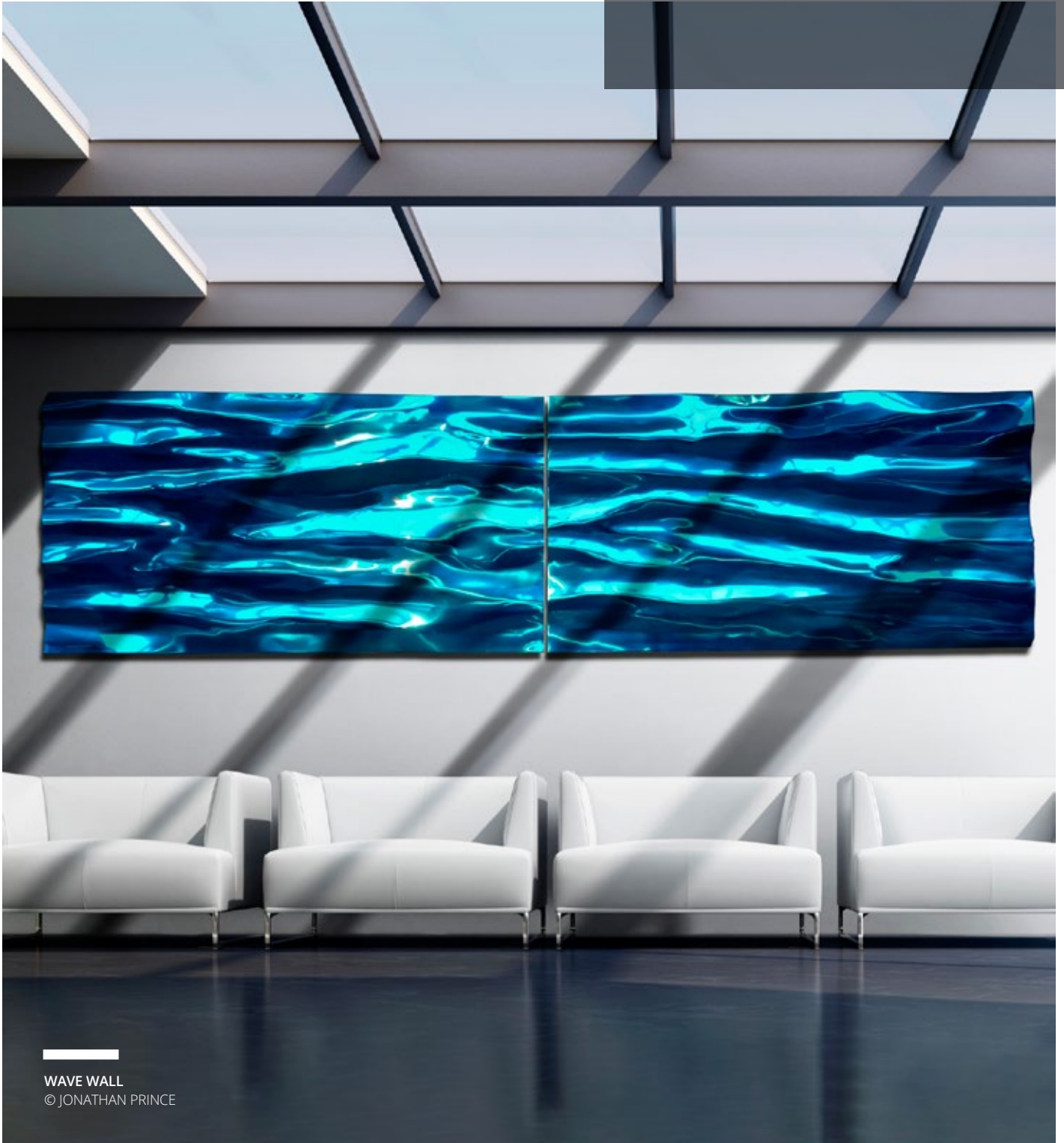
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**ART & FINANCE REPORT 2023**

**Section 03\_** Art wealth protection, estate planning and philanthropy




**WAVE WALL**  
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# Highlights\_


A gradual improvement but still important issues to address in the biggest generational wealth transfer in history.


 **Generational wealth transfer already feeding into the art market:** With a conservative average of 10.9% of wealth allocated to art and collectible assets, wealth transfer increasingly involves art and collectible wealth. Much of today's wealth is controlled by men from the baby-boomer generation, but this is likely to change going forward as they pass on their wealth to spouses and children.<sup>152</sup> Evidence of this art wealth transfer has become apparent in recent years, with 2022 emerging as the record year for single-owner collections entering the auction market, with auction sales up 64% from 2021.

 **Connecting with the next generation:** Professional advice is needed on all fronts as the inter-generational transfer of wealth takes place. Both those passing on their wealth and the individuals who inherit it need to seek tailored advice. The importance of building relationships with different generations within a family will become a critical part of understanding how generational needs might differ, and is an opportunity for wealth managers to engage with the next generation on their plans and preferences regarding art and collectible wealth.

 **Collection management is the basis for protecting art-related wealth:** A fundamental part of art and wealth protection rests with how clients manage their collections. Collection management refers to any services that cover the purchase, ownership, conservation and estate planning aspects of art-related assets.<sup>153</sup> Services can include anything

from researching provenance and previous ownership to ongoing inventory management, conservation, security and insurance, sales, and transferring the asset to the next generation. Survey findings show a strong interest among collectors for these services to be included in a wealth management offering. Keeping an inventory of their clients' collections would also allow wealth managers to have a better understanding of their clients' art-related wealth, not to mention enabling them to take a more proactive approach when it comes to protecting its historical, cultural and financial value.


 **The potential of technological advances:** In recent years, we have seen how technology can facilitate and improve aspects of collection management, such as inventory management software, which consolidates and catalogs important aspects of the collection. The real benefits of these systems would include seamless integration between existing collection management systems and other services such as shipping and logistics services, condition reporting, authentication, valuation and insurance, and wealth management services, such as art-secured lending and estate planning.


 **Financial motivations drive demand for more data and research services:** As the financial aspects of art ownership have increasingly come into focus in recent years, 90% of collectors said that art market research and information was the most relevant art wealth management service, up from 84% in 2021. This suggests a strong desire from collectors to receive more data-driven services from their wealth managers. 76% of art professionals (compared to 72% in 2021) also said that this was the most relevant service for their clients. This could mean that collectors are taking a more

financial approach to art collecting. Interestingly, 74% of wealth managers said they offered art market data, information and research to clients (59% of these said this was through third-party providers). The adoption of these services within the wealth management industry could help address the prevailing low levels of trust in art market data.

 **Collectors would like art and collectibles included in overall wealth reporting:** The large majority (73%) of art collectors said art and collectible wealth should be consolidated into their overall wealth reporting (down from 79% in 2021). Although lower than in 2021, it still shows that most collectors now view their art and collectible wealth as part of their overall asset portfolio, and would like to have a holistic view of their overall wealth by including art and collectibles as well.

 **Record-keeping is still a manual process and is ripe for automatization:** The large majority (76%) of collectors are yet to adopt art collection software as part of collection management, with 49% keeping records and information in spreadsheets, and 27% in paper documents. Only 24% of collectors are using dedicated collection management software, and a slightly higher number (29%) of younger collectors report using such software.


 **There is an urgent need to focus on art and estate planning:** Only 24% of the collectors surveyed have a long-term plan for their collections, indicating an urgent need for wealth managers to start having conversations with their clients about art and estate planning.


 **Wealth managers are increasingly addressing art and estate-related issues:** 58% of wealth managers this year said that most of their clients have considered their art collections

## Donors at all levels (and not just HNWIs) are increasingly looking at how to support philanthropic causes and make donations easier to execute as well as more strategic in terms of impact.

in their estate planning strategy (up from 43% in 2021) and made sufficient plans in this regard. This could indicate increasing professionalism around estate planning and the best ways to incorporate art and collectible wealth as part of this process.

 **Lack of dialogue around art-related wealth still an issue:** A significant proportion (40%) of wealth managers have not discussed the details and content of their clients' collections (down from 48% in 2021), which could indicate that these discussions are now increasingly becoming part of a wealth manager's dialogue and relationship with their clients.

 **Philanthropy has become more strategic:** Donors at all levels (and not just HNWIs) are increasingly looking at how to support philanthropic causes and make donations easier to execute as well as more strategic in terms of impact. This typically includes enhancing the positive impact of a donation as much as possible, while also considering how to maximize the fiscal efficiency of their financial support.<sup>154</sup> This is also the case when it comes to art and philanthropy. As donor sophistication increases, it is paramount that wealth managers understand the tools, language and vehicles that might be most effective in meeting the donors' goals.

 **Art philanthropy will need to align with broader societal issues to stay relevant:** While many of the traditional models of setting up art foundations, building private museums and donating art to public museums are still widely used, we see an increasing shift toward a more selfless and holistic form of philanthropy generated by art-related wealth. The proceeds from the sales of many of the single-owner collections sold over the last few years have been used to support wider philanthropic causes, enabling donors to use the value of a collection to generate broader societal impact.

# Introduction\_

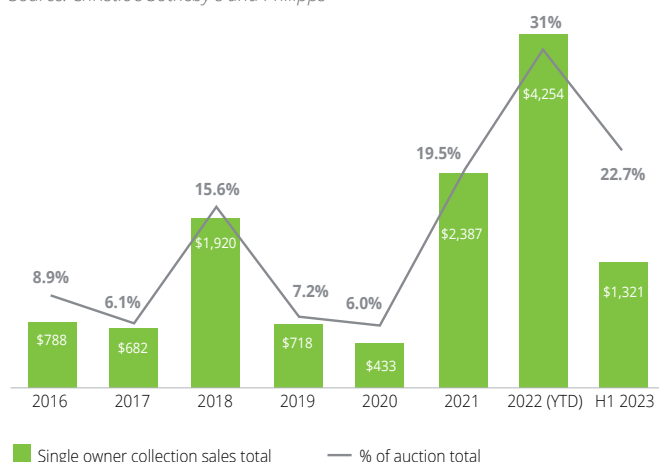
## **Generational wealth transfer creates opportunities to connect with women and the next generation:**

The transfer of family wealth to women (who tend to outlive their husbands) and to younger generations will be a defining and enduring trend for wealth managers in the decades to come—and will increasingly involve art and collectible wealth. Evidence of this art wealth transfer has become apparent in recent years, with 2022 emerging as the record year for single-owner collections coming to the auction market, up 64% from 2021.

Both those inheriting wealth and the individuals planning to pass on their wealth need professional advice. A key priority for wealth managers, therefore, is likely to be building individual relationships with each generation within a family. One of the unique aspects of art-related wealth is that the tastes and interests of those passing on these assets might not necessarily resonate and align with those who will inherit them. Services and advice relating to how to best manage the transition of art-related wealth between generations is therefore likely to become one of the main drivers of art wealth management services over the next decade.

**Figure 74: Single owner collections auction sales (US\$ millions) 2016-H1 2023**

Source: Christie's Sotheby's and Philipps



**This section is divided into three parts:**

**Part 1\_**  
**Art and wealth protection— a view from collectors and art professionals**

**Part 2\_**  
**Art and estate planning and philanthropy**

## **INDUSTRY INSIGHTS\_**

**The "Great Art Mismatch"**

**by Morgan Stanley**

**Part 3\_**  
**2023 Survey findings**

## **INDUSTRY INSIGHTS\_**

**Addressing pitfalls in art collectors' estate planning: A family office approach**

**by Dr. Sara Adami-Johnson**

*VP, HNW Planning Services specializing in international estate, art and digital legacy planning for RBC Family Office Services*

**A glimpse into the world of art foundations today**

**by Helena Stork**

*Co-Founder - World Art Foundations*

The article gives a view on individual corporate companies and artist-led art foundations.

## Part 1\_

# Art and wealth protection— a view from collectors and art professionals\_

A fundamental part of art and wealth protection rests with how clients manage their collections. Collection management refers to a broad range of services related to the purchase, preservation, sale or estate planning associated with art-based assets. These services can range from research into the provenance of these assets pre-purchase, to ongoing inventory management, conservation planning, planning for the transfer of ownership to inheritors, and so on<sup>155</sup>. A good collection management strategy is critical to the preservation of the collection's cultural, historical and financial value. It involves practical aspects such as inventory management, database implementation, cataloging, provenance research, conservation and disaster planning, museum loan advice, security arrangements, insurance advice, transportation, installation and storage, and philanthropic project arrangements. Collection management is also the foundation for effective estate planning.

In recent years, we have seen how technology can facilitate and improve aspects of collection management (e.g., inventory management software), which consolidates and catalogs important aspects of the collection securely and confidentially. Many of these tools also provide advanced cataloging and reporting functionalities, such as financial dashboards on all digital devices (laptops, tablets, mobile phones, etc.). The real benefits of these systems will emerge when we start to see seamless integration between existing collection management systems and other services such as shipping and logistics services, condition reporting, authentication, valuation and insurance, and wealth management services, such as art-secured lending and estate planning.

One of the major hurdles today seems to be the lack of clear market leaders in the collection management software sector, which is currently fragmented and populated by many smaller players. Many



## With the implementation of KYC-AML rules in the art market, it is becoming mandatory to professionally manage client collection data.

of the collection management systems also seem to be specifically designed for the gallery sector, rather than tailored to collector needs.

Wealth managers could provide a good inventory management service to ensure wealth protection of their clients' art and collectible assets. With the implementation of KYC-AML rules in the art market, it is becoming mandatory to professionally manage client collection data. Without proper documentation, it is harder to resell an artwork as it reduces its liquidity and value. **Most importantly, keeping an inventory of their clients' collections enables wealth managers to take a proactive approach and create regular engagement with clients.**

**Collection management best practices emerging for digital art:** The NFT boom in 2021 has given rise to products and services set up to manage digital artwork collections. As the NFT market is still experimental, and regulations unclear or lax, it has attracted criminals and scammers. Over US\$100 million worth of NFTs were publicly reported as stolen as a result of scams between July 2021 and July 2022.<sup>156</sup> To mitigate this risk, we have seen the emergence of new solutions: cold storage hardware wallets (physical devices that store your NFTs offline); software wallets such as MetaMask (that protect your transactions with a password and a seed phrase), The InterPlanetary File System (a decentralized protocol that stores NFTs off-chain); and custodial services (custodial NFT wallets refer to scenarios in which a third party has access to the private key associated with a wallet. The system is designed to protect

the key and, by extension, ensure the associated assets are safe).<sup>157</sup> We are likely to see digital tools related to collection management evolve in the coming years, making both the industry and collecting more user-friendly and secure.

A recent report revealed that the Collections Management Software Market was valued at US\$1.2 billion in 2022 and the CAGR is expected to grow at a rate of 12.78%<sup>158</sup> over the reported period, with the market ultimately expected to reach a value of US\$2.5 billion by 2028.<sup>159</sup> This is likely to be a positive development for the sector and underlines the demand for professionalized and modern collection management solutions for users.

We have already begun to see consolidations and partnerships between art professionals and technology platforms, combining different services or expanding their offerings to become an integrated service provider. Existing partnerships include Artory, Tokeny and the Winston Art Group (see Section 6); Artory and Tagsmart; artnet AG and Artfacts.net; Arte Generali and Wondeur.ai; Crozier Fine Arts and Arius Technology; Art Rights and FERCAM Fine Art.

These developments could help forge a closer relationship between art professionals and the wealth management community. Blockchain technology and DNA technology will also help to record and track provenance, transactions, movements of objects on loan, etc.

Coupled with AI and machine learning, very innovative collection management systems can be created.

Survey findings 2023: collectors and art professionals

Figure 75: Collectors: Which of these art wealth management services are the most relevant to you?

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>161</sup>

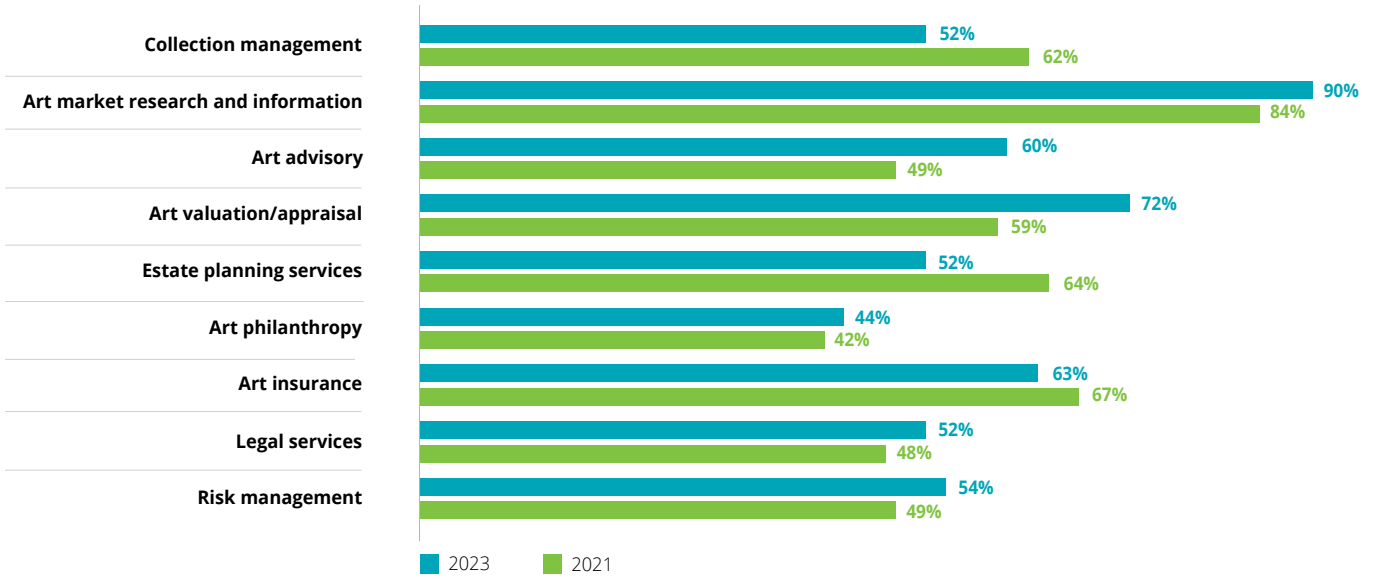
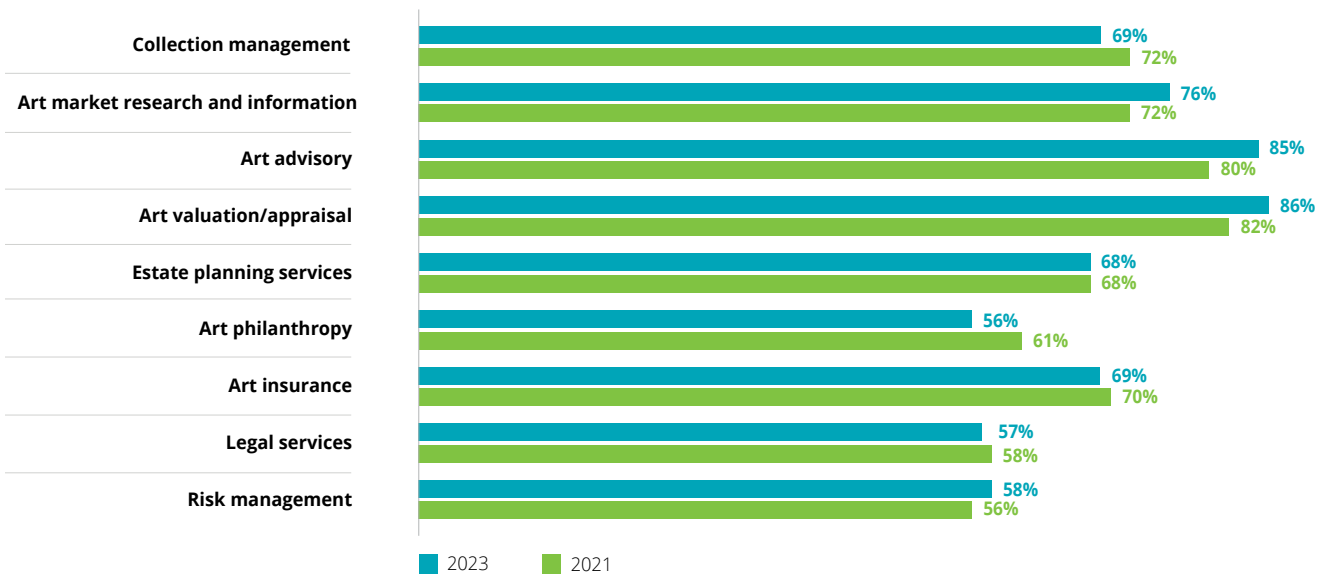


Figure 76: Art professionals: Which of these art wealth management services are the most relevant to your clients?

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>160</sup>



**Research and information:** As the financial aspects of art ownership have become more prevalent in recent years, 90% of collectors say that art market research and information is the most relevant art wealth management service, up from 84% in 2021. 76% of art professionals (compared to 72% in 2021) also say that this is the service most relevant to their clients. This continues to indicate a strong demand for research validated and supported by private banks or family offices, and is likely to be linked to the low level of trust that collectors have in art market data (62% expressed moderate to low levels of trust). There are opportunities for data providers and art market research companies to collaborate and develop an appropriate offering for the wealth management sector. 74% of wealth managers with an existing art wealth management offering say they offer art research-related services to their clients.

**The need for independent valuation services:** The second most-wanted service on collectors' wishlists is valuation services, which suggests a desire among collectors for wealth managers to manage, oversee and ensure unbiased and independent valuations for their clients. 72% of collectors feel that valuation services would be a relevant service for wealth managers to offer (compared to 59% in 2021). However, this was higher among art professionals where 86% said they believed this was the most important service for their clients (compared to 82% in 2021). 83% of wealth managers with an existing art wealth management offering said they offered services around art valuation (up from 82% in 2021). The large majority (76%) of wealth managers said this was provided by external, third-party providers, further demonstrating the increasing engagement between the wealth management industry and professionals in the art market.

**Collection management and wealth reporting:** 52% of collectors said that collection management services were the most relevant service that wealth managers could offer (compared to 62% in 2021). 69% of art professionals agreed (compared to 72% in 2019). The importance of art in a wealth management context is also apparent from the high percentage of both collectors and art professionals expressing the view that art and other collectibles should be part of wealth reporting—and that they should be able to provide a consolidated view of clients' wealth as well as a better view of the overall exposure. This year, 73% of collectors (79% in 2021) and 72% of art professionals said they would like to have this service. The findings seem to indicate a strong desire among collectors and art professionals for wealth managers to consider art and collectibles as an alternative asset class in their own right.

**Art advisory:** 60% of collectors feel that art advisory would be a relevant service for wealth managers to offer (compared to 49% in 2021). However, this was significantly higher among art professionals where 85% said they believed this was the most important service for their clients (compared to 80% in 2021). 78% of wealth

managers with an existing art wealth management offering said they offered services related to art advisory (up from 78% in 2021), and 31% said this would be an area they would further develop over the coming 12 months (up from 27% in 2021).

**Art insurance:** 63% of collectors (67% in 2021) and 69% of art professionals (70% in 2021) said that art insurance-related services would be the most relevant service that wealth managers could offer.

**Legal services:** 52% of collectors (up from 48% in 2021) and 57% of art professionals (58% in 2021) said that art-related legal services would be the most relevant service that wealth managers could offer. 74% of wealth managers with an existing art wealth management offering said they currently provide their clients with legal advice and assistance (up from 71% in 2021).

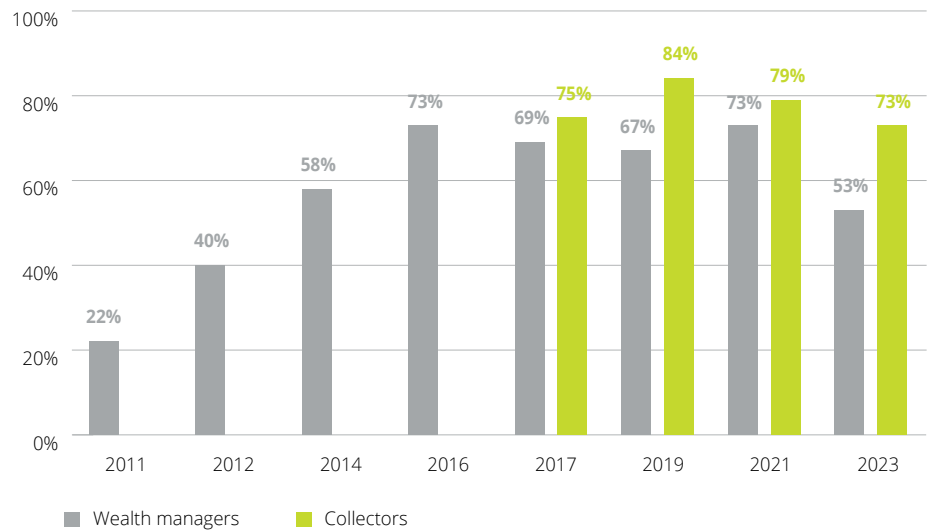
**Risk management:** 54% of collectors said that art-related risk management services would be the most relevant service that wealth managers could offer (up from 49% in 2021), with 58% of art professionals agreeing (up from 56% in 2021).

74% of wealth managers with an existing art wealth management offering say they offer art research-related services to their clients.

**Figure 77: Wealth managers and collectors: should art and other collectible assets be consolidated into overall client wealth reporting?**

(% of collectors saying yes, and % of wealth managers saying their clients expect them to)

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>162</sup>



**Collectors want art and collectibles included in overall wealth reporting:**

The large majority (73%) of art collectors said art and collectible wealth should be consolidated into their overall wealth reporting (down from 79% in 2021). Although lower than the 2021 survey result, it still shows that most collectors now consider their art and collectible wealth as part of their overall asset portfolio, and would welcome a holistic view of their overall wealth by including art and collectibles.

**Wealth managers show greater awareness about their clients’ art-related wealth:**

Fewer wealth managers say their clients expect them to consolidate art and collectible assets into their overall wealth reporting. This could mean that more wealth managers are already addressing their clients’ needs by offering this service. This year’s findings show that more wealth managers are providing art collection management services (78%, compared to 76% in 2021 and 67% in 2019). Although collection management services

typically entail more than consolidating art into existing wealth reporting, it could be an indication of greater awareness and knowledge among wealth managers about their clients’ art and collectible wealth. Indeed, this year, 83% of wealth managers said their clients had significant art collections, up from 70% in 2021.

**Family offices facing stronger demand for holistic wealth reporting:**

Survey findings related to private banks and family offices elucidate different trends when it comes to art and wealth reporting. While only 53% of private banks said their clients expected them to consolidate art and collectible wealth into their overall reporting (down from 73% in 2021), 61% of family offices said the same (up from 44% in 2021).

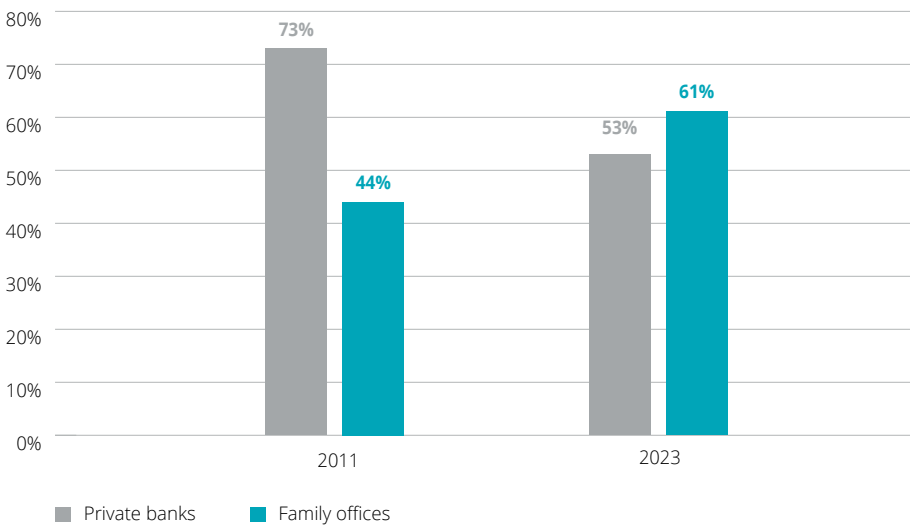
**Record-keeping is still a manual process and is ripe for automatization:**

The large majority (76%) of collectors are yet to adopt art collection software, with 49% keeping records and information in spreadsheets, and 27% in paper documents. Only 24% of collectors use

**Figure 78: Do your clients expect art and collectible assets to be included in their wealth reports in order to have a holistic view of their wealth and financial exposure?**

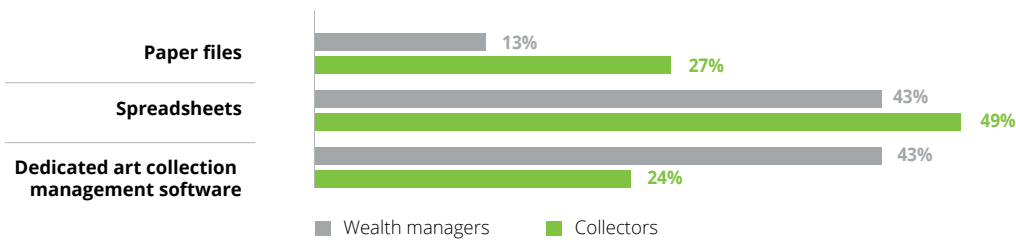
(% of collectors saying yes)

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>164</sup>



**Figure 79: What kind of tools do you currently use to keep records of your client's art collection?**

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>163</sup>



dedicated collection management software (29% of younger collectors). 43% of wealth managers said their clients are using dedicated software, while more than half say clients still store and manage collection information in a more manual way.

**The digital transformation and ease of access we have seen in banking and portfolio management are yet to have a widespread impact on how we manage art and collectible wealth.** Even though we have seen several new collection management software

providers emerging in recent years, the fragmentation and size of these businesses might pose a challenge for collectors. Without a clear leader in this space, collectors will have to weigh the risk of investing considerable time in aggregating, cataloging and uploading information about their collections—and potentially discover later on that their provider has gone out of business. The older generation of collectors is naturally more resistant to adopting new technology and cloud-based solutions for fear of sharing private information and locations of their

treasured artworks. The exponential rise of cybercrime and data breaches has heightened this fear in recent years.

**Digitizing art and collectible wealth is the biggest challenge:**

The importance of digitizing art-related wealth for archival purposes, as well as in preparation for integration with other digital systems and solutions in the future, will be key to consolidating art and collectible wealth into a holistic wealth reporting framework. Having a clear overview of the content of a collection would be beneficial in terms of integrating this into existing wealth reporting systems. It would allow wealth managers to take a more proactive role in managing art-related wealth—for example, taking a strategic view on portfolio diversification, which is now one of the key motivations driving collectors to buy art.

**Market research and information remain the most relevant service for millennial collectors:**

95% of young collectors (collectors below age 35) said art market information and research were the most relevant services that a wealth

manager could offer (compared to 92% in 2021). With the younger generation of collectors showing a strong interest in art investment and the financial aspects of art ownership, there also seems to be a higher demand for art market research and information services to support their decision-making.

**Stronger demand for advisory services among younger collectors:**

80% of younger collectors said that art advisory services would be of high relevance to them (compared to 69% in 2021). This increase in demand suggests that the large majority is looking to wealth managers for guidance and advice from a neutral third party.

**Risk management services of higher relevance:**

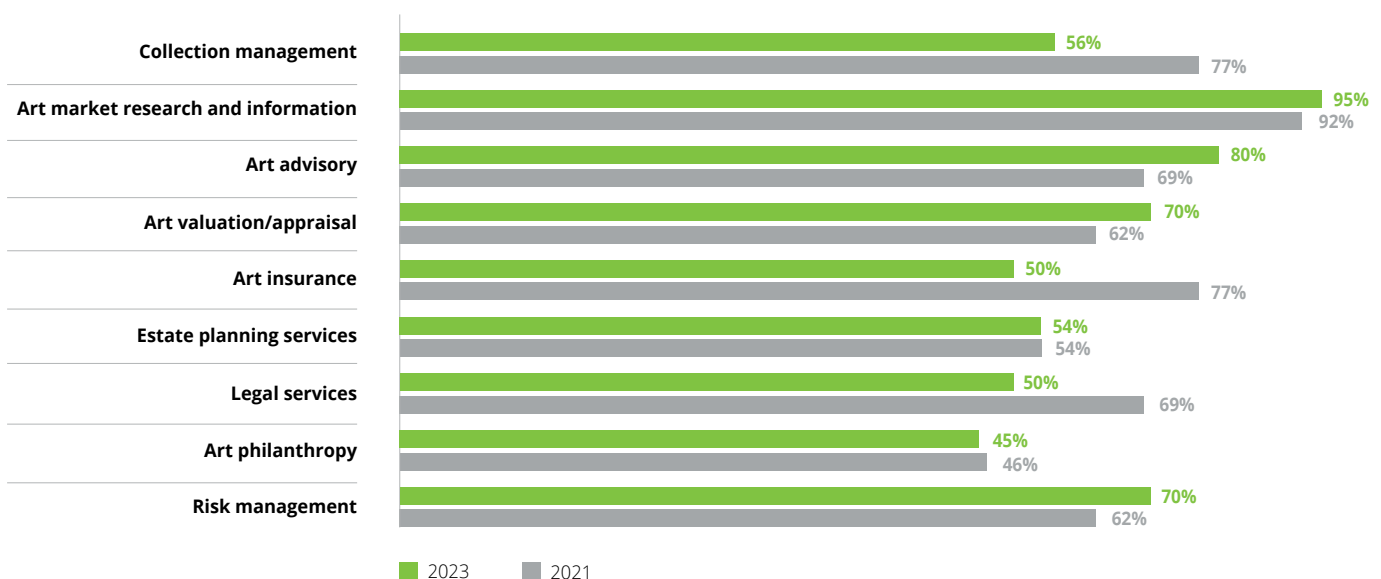
70% of young collectors said that art-related risk management services should be part of a wealth management service offering, up from 62% in 2021. This corresponds to earlier findings, showing a stronger financial motivation behind ownership of art among younger collectors.



**NextGen collectors—a different perspective**

**Figure 80: NextGen: which of these art wealth management services are the most relevant to you?**

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>165</sup>





JELLO SERIES  
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## Part 2\_

# Art and estate planning and philanthropy\_

“Most of our clients recognize that **the biggest risks to their wealth result from shortcomings in their approach to passing on the baton to successive generations.**”

Maria de Peverelli, Partner and Executive Chairman -  
Art Management, Stonehage Fleming

Estate planning is something that many families put off until it is too late. But the advent of recent events, including the COVID-19 pandemic and the cost of living crisis, has meant that many wealthy parents are looking to give away some of their assets earlier, not only to support their children financially, but also to plan for inheritance tax-related matters. There have also been similar discussions concerning

art-related wealth where parents are starting to plan the transition of one generation's collecting vision into the next. Issues such as legacy planning, possible de-accession, charitable donations and the establishment of a foundation are all part of this discussion.

The issues highlighted by Dr. Sara Adami-Johnson in her article on page 200 "Addressing pitfalls in art collectors' estate planning: a Family Office approach" resonate with the key findings in this section.

Collectors	Issues/Missing Opportunities
All	<ul style="list-style-type: none"> <li>• Ad-hoc governance focused on the art collection</li> <li>• Complete/up-to-date art collection management</li> <li>• Documented ownership</li> <li>• Geo-tag map of art items' whereabouts</li> <li>• A plan for how to make a collection "future ready"</li> <li>• Pre-negotiated testamentary gifts/donations to institutions/museums</li> </ul>
New Gens	<ul style="list-style-type: none"> <li>• Hype and early adoption of new art (AI, NFTs, Ordinals)</li> <li>• Education over the actual technology</li> <li>• No ad-hoc plan for succession and safe-keeping of digital art collections</li> </ul>

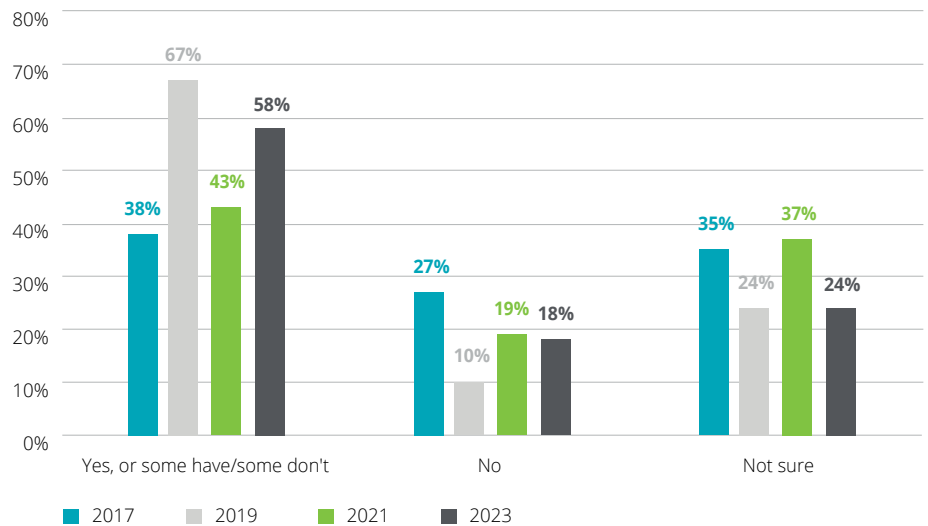
A. Art & Estate Planning

Survey findings 2023: wealth managers

**More collectors are considering their art collections as part of their estate planning:** 58% of wealth managers this year said that most of their clients consider their art collections as part of their overall estate planning strategy (up from 43% in 2021). This could indicate increasing professionalism around estate planning and increased efforts to find the best ways to incorporate art and collectible wealth as part of this process. However, 18% said their clients have not addressed this issue (down from 19% in 2021). On a positive note, there seems to be more awareness among wealth managers when it comes to their clients' art-related wealth as 24% said they were unsure whether their clients' estate planning strategy took their art collections into account, down from 37% in 2021.

**Figure 81: Wealth managers: do your clients' estate plans sufficiently address their art collection?**

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>166</sup>





**Lack of dialogue around art-related wealth still an issue:**

A significant number (40%) of wealth managers are yet to discuss the details and content of their clients' collections with their clients (down from 48% in 2021), which could indicate that these discussions are now increasingly becoming part of wealth managers' dialogues and relationships with their clients. A further 14% of wealth managers said they have not had these discussions with their clients yet, but that they intend to (up from 12% in 2021).

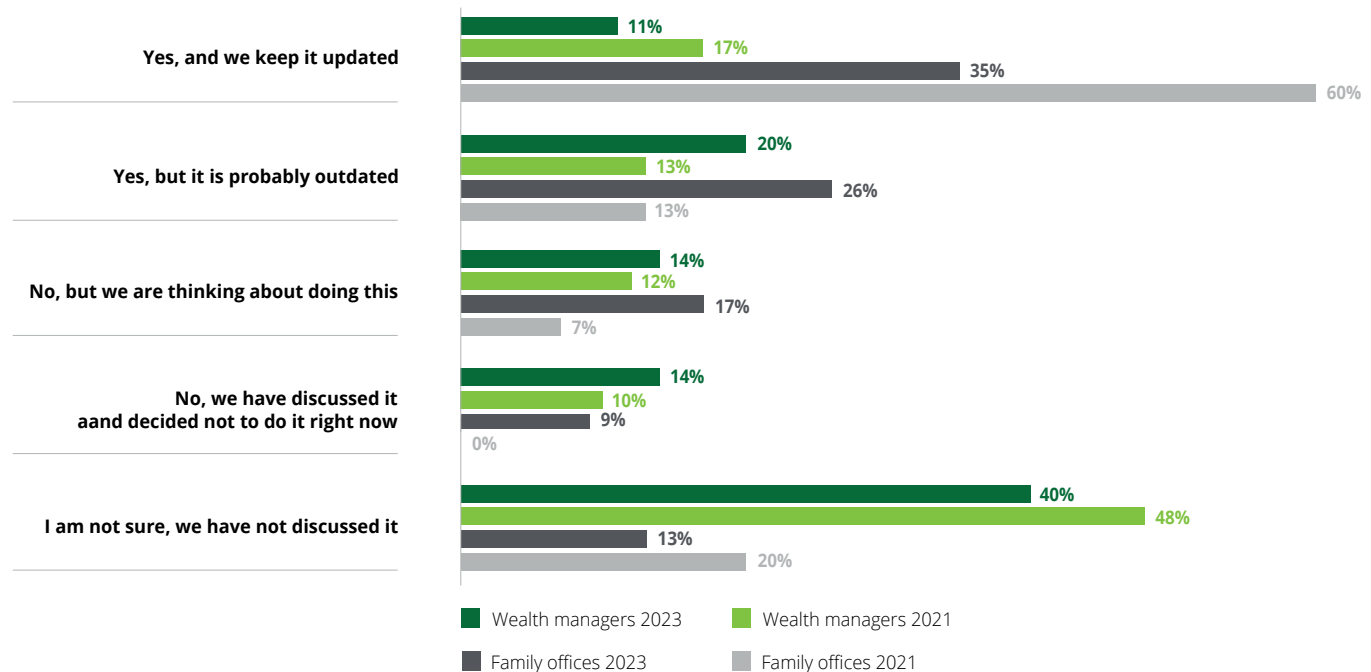
**Only 11% of clients have detailed and up-to-date inventories of their collections in place:**

31% of wealth

managers said their clients keep inventories of their collections (11% saying they are kept updated and 20% saying they are most likely out of date), which could help to administer an estate without the collector's input (compared to 30% in 2021). The fact that a more significant number of wealth managers said that their clients' collection inventories were likely to be out of date could indicate the challenges that both collectors and their wealth managers are facing in terms of monitoring and keeping updated records of their art and collectible wealth (see some of the challenges regarding collection management highlighted in the article by Dr. Sara Adami-Johnson on page 200).

**Figure 82: My clients maintain an inventory of their collection that, at a minimum, identifies each piece, its present location and its approximate value so that we can help administer the estate without the collector's input.**

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>167</sup>



INDUSTRY  
INSIGHTS\_

INTERVIEW

## The "Great Art Mismatch"

By Morgan Stanley

Increased Velocity of  
Changing Tastes and  
Longer Lifespans

The intergenerational wealth transfer of US\$73 trillion in the coming decades<sup>168</sup> is challenging enough with new generations inheriting art for which they may not share the same appreciation. But there could still be another rude awakening from the restless slumber as next generations find themselves with collections that may have been more valuable in their parents' day.

Typically, collectors enjoy art during their lifetimes and then gift upon death. But as lifespans increase, the holding period for art in collections also extends. Art collected decades ago may initially increase in value, only to decline years later when tastes or social relevance have changed. The market for 19th-century Orientalist paintings, for example, has seen choppy waters in recent years, while the more current works of LGBTQ+ artist Salman Toor have glided to auction success.<sup>169</sup>

The predicament is acute, with financial advisors at Morgan Stanley noting that 84% of their clients own art and collectibles, according to a recent survey.<sup>170</sup> At the same time, the conundrum is not new, with art museums bursting with aging collections that must position themselves for future generations. How does a family office preserve legacy integrity and still appeal to younger generations? And what, then,

Developing a governance system is critical to thoughtful planning, whereby a structure is created that establishes who makes decisions involving the legacy, succession and management of the art collection.

are some planning considerations for art collections on a multi-generational basis?

**Family Offices: A Balancing Act of Old and New, Yours and Mine****Buy, Build, Outsource**

Developing a governance system is critical to thoughtful planning, whereby a structure is created that establishes who makes decisions involving the legacy, succession and management of the art collection. High-performing family offices choose models and legal structures that support their mission and key strategic decisions. Documentation is also required to memorialize how objective, scope, buying, selling, lending, borrowing and concentration decisions are made.

The family office should identify which services are most effectively provided

in-house and which should be outsourced. All service providers must be carefully vetted and seamlessly folded into the office's operations. Consideration of the art collection's size and value, cost-effective access to ongoing advisory, valuation and collection management services, and insurance and other costs should be factored into the blueprint. In particular, valuation and collection management bookend competent planning, with these services increasingly integrated through new technologies that provide art market analytics as well as the digitalization of provenance.

When hiring qualified art market professionals, the family office should recognize these roles are in high demand, and expectations should be clearly defined. Mounting pressures in the art world are requiring competitive pay structures in line with socio-economic developments,



including compensation benefit schemes. For example, per Sophie Macpherson Ltd's *2023 Art Market Salary Report*, art advisory directors can expect salaries of US\$85,000–200,000 in the US, depending on seniority.

### **Funding the Art Collection as a Going Concern**

The family office should determine the source of funds to manage the art collection. Art is, after all, a negative cash flow asset with the potential for capital appreciation (and depreciation). Therefore, evaluating the relative cash outflows to maintain the collection vis-à-vis liquidity across the rest of the balance sheet is prudent.

The art-secured lending market grew to an estimated US\$31 billion in 2022<sup>171</sup>, while recently surveyed financial advisors at Morgan Stanley noted 44% of their clients are interested in art lending solutions.<sup>172</sup> In consultation with a financial professional, the family office should weigh the potential benefits of art-secured lending against the risks.

On the one hand, proceeds from these loans may be deployed to diversify the art and/or investment portfolio, alleviate liquidity challenges inherent in the timing of purchases versus sales, or offset the expenses of owning art. However, on the other, there is risk the loan may be reduced or additional collateral required if the art

securing the loan decreases in value, and there is the potential to lose more money than invested in the work of art.

Families are proactively managing the sale of their art collections during their lifetimes to generate philanthropic currency aligned with their mission, or trading collections on an ongoing basis to potentially avoid a startling shift when addressing both current and future goals. For example, in 2022, Victor and Olena Pinchuk sold Jeff Koons' *Balloon Monkey (Magenta)* to raise funds for the RECOVERY project, which focuses on medical treatment and rehabilitation for the citizens of Ukraine.<sup>173</sup>

### **So Much Art, So Little Time (and Space)**

One may assume museum donations are a possible solution for and mitigant to the "Great Art Mismatch." However, the days when museums courted collectors are over, with collectors more often courting the museums to secure even partial destinations for their artwork. Further, for museums whose collections are predominantly in storage, the donor may also be required to endow the donation so the museum has funds to insure and store the gift. In 2023, the Seattle Art Museum announced a US\$200 million gift of 48 Calder works from Jon and Kim Shirley, accompanied by a US\$10 million endowment and annual commitment of US\$250,000–500,000 for programming and research.<sup>174</sup>

Notably, while the number of new private art museums had been increasing for a time, this tendency seems to be waning.

Other collectors may create private art museums if their collections are sizable (i.e., hundreds or thousands of pieces) and would take decades to sell or place elsewhere. Notably, while the number of new private art museums had been increasing for a time, this tendency seems to be waning. Foundings declined from 24 in 2017 to 11 in 2021, while 74 private art museums closed between 2004 and 2021.<sup>175</sup> It is reasonable to conclude that the cost of creating and running a private art museum with the subsequent generations may not be as effective or viable as with the founding family members.

#### **Family Offices: Creating Impact in an Evolving Environment**

##### **A Sustainable Multi-Generational Road Map**

Museums are meeting the sustainability challenge in a myriad of ways. They are demanding more diverse boards, curators, management and community engagement and seeking out more and diverse artwork and programming—i.e., shifting social values, recognition for the unrecognized, and new platforms giving rise to new voices.

The COVID-19 pandemic has also had the effect of rendering some museums introspective as they reexamine their past and recalibrate their present and future. Museums are re-curating their extant collections to include new scholarship or dust off works in storage, while the pursuit of carbon neutrality may shape the art they accept, from transportation challenges to the types of materials used.

Therefore, family offices would do well to understand museums' evolving objectives

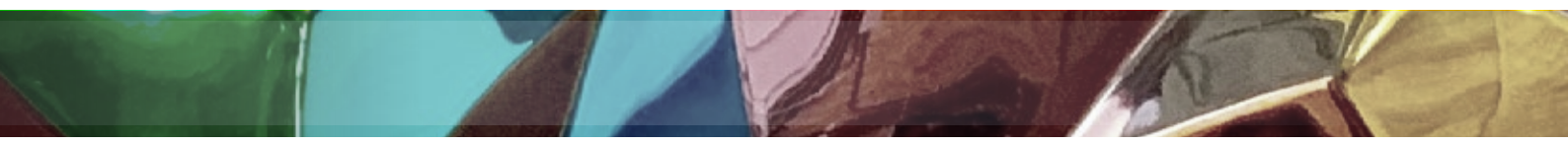
as they balance engagement with future generations and historic preservation of the existing collection. For example, they should weigh the impact of the donation's composition for the museum that needs flexible liquidity against the donor's intent, and be aware of the US' revised Association of Art Museum Directors (AAMD) rules<sup>176</sup> on the deaccessioning of artwork. The latter could help clear a path for new donations, but also provide a wider berth for removing artwork previously assumed to have a forever-home among the museum's holdings.

#### **The Art of Donating Art**

There are alternative non-profit recipients for artwork donation, such as universities and healthcare institutions, which may not have the challenges of a legacy collection nor the same restrictions around the use of donated property. In addition, engaging with the art may enhance educational programs or facilitate improved health. For example, non-profit institutions are commissioning leading artists such as Anish Kapoor and Tschabalala Self to produce artwork in aid of patient recovery in British psychiatric hospitals.<sup>177</sup>

An evolving donation landscape has also minted new solutions. Museums are now crowdsourcing fractionalized charitable donations to acquire works of art. Meanwhile, an innovative digital platform, Museum Exchange, aims to broaden non-profit institutions' access to donors and deliver fresh donation possibilities to formerly less obvious recipients, all with an emphasis on diversity.

Lastly, consider the selection of philanthropic strategies relevant to the family office's objectives. At Morgan Stanley, 56% of surveyed financial advisors



indicated their clients are interested in selling their art or collectibles.<sup>178</sup> If it is a donation, is the donor amenable to selling the art, and does the donor want to control the sale? Which is more beneficial to the donor or recipient—to sell the art then donate the proceeds, or donate the art and allow it to be sold, considering the latter may stigmatize the museum? In 2022, single-owner collections accounted for 31% of total auction sales by top auction houses globally.<sup>179</sup> Often with charitable intent, these single-owner sales, including Paul G. Allen, the Ann & Gordon Getty Collection and the Thomas and Doris Ammann Foundation were either sold by the estate or directly by the non-profit.

### A Growing Age-Old Problem

Art's longevity is a blessing and a curse. While we frequently share a passion for art, it is with our own distinct preferences and as we enjoy new works and artists, we are increasingly tasked with preserving the burgeoning inventory of what has come before. A well-thought-out and documented plan can create an enduring family legacy and alleviate surprises as the next generation prepares to take its seat at the table.

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**CONTEMPLATION**  
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Part 3\_

# 2023 Survey findings\_

**Survey findings 2023: Family offices insights**

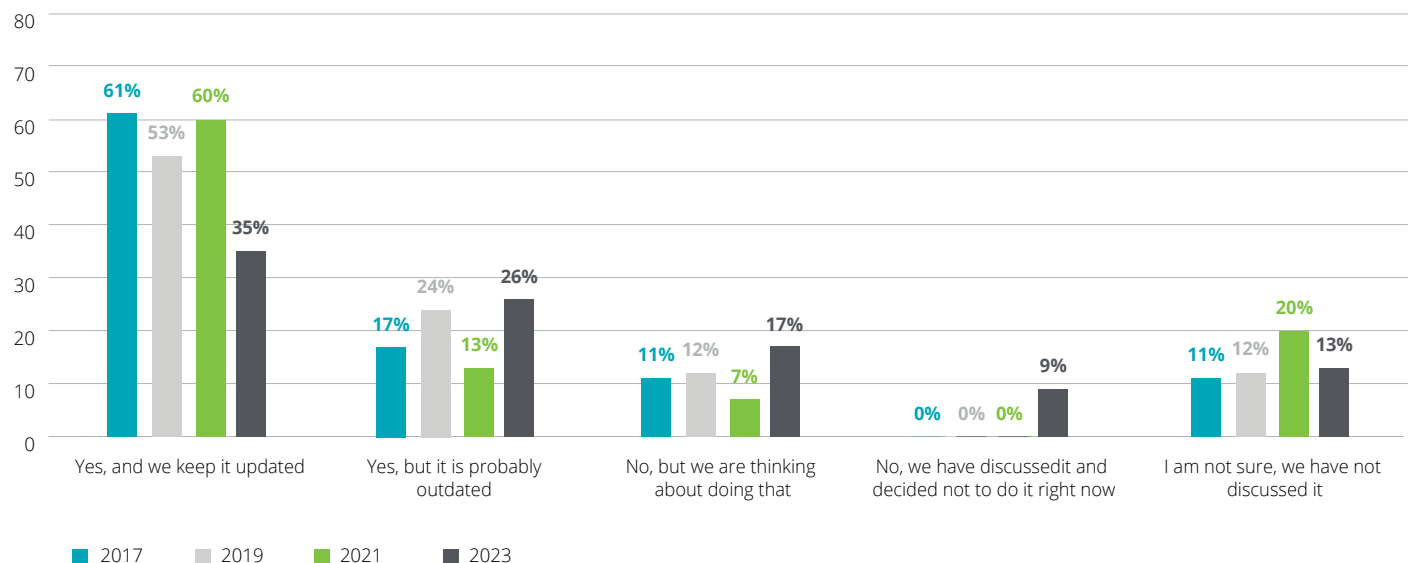
**Family office survey—estate planning**

**Family offices are working closer with their clients on art and estate planning, but there is room for improvement as only 35% (down from 60%) have up-to-date inventories:** Only 13% of family offices have not discussed the inventories of their clients' collections for estate planning purposes (compared to 40% of the private banks and wealth managers surveyed). 61% of family

offices say their clients maintain detailed inventories of their collections (35% kept updated, and 26% probably outdated). This is lower than the 73% who said the same in 2021 (60% kept updated, 13% probably outdated). The difference between 2023 and 2021 is likely due to the sample size, as there are 50% more family offices in this year's survey. Nonetheless, there is a significantly higher proportion (60%) of family offices that have detailed knowledge of their clients' art collections for estate planning purposes compared to private banks (31%) and other wealth managers (40%).

**Figure 83: Family offices: Do your clients maintain an inventory of their collection?**

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>180</sup>



INDUSTRY  
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INTERVIEW

## Addressing pitfalls in art collectors' estate planning: A family office approach



**Dr. Sara Adami-Johnson**  
VP, HNW Planning Services  
specializing in international  
estate, art and digital  
legacy planning for RBC  
Family Office Services.

**R**ecurring planning gaps in art collections, the impact of a family office approach for estate planning discovery, and best practices<sup>181</sup>

*"In the [Sherlock Holmes] story, Holmes deduced a murderer's identity because a guard dog failed to bark at the time of the crime, implying that the murderer and the dog's master were one and the same."<sup>182</sup>*

There are significant nuances and narrowly tailored insights to consider when planning for the succession of a collector's art estate. This is especially evident when reviewing collectors' ubiquitous international personalities, the differences in generational approaches to collecting, and aesthetic postures for passion investments.

While art collectors vary in traits, the vast majority tend to show shared attitudes. That said, it is exactly in the "une chose particulière" where the benchmark for excellence and risk management is embedded. The ideal attack stance embraces Abraham Lincoln's adage about spending the day sharpening the axe before cutting the tree down.

Planning for the succession of an art collection requires diligent and in-depth data gathering from clients who must indulge in rigorous disclosure. This process is necessary because planning for an art collection's future cannot be distinguished from knowing and understanding the client and collector's situation.

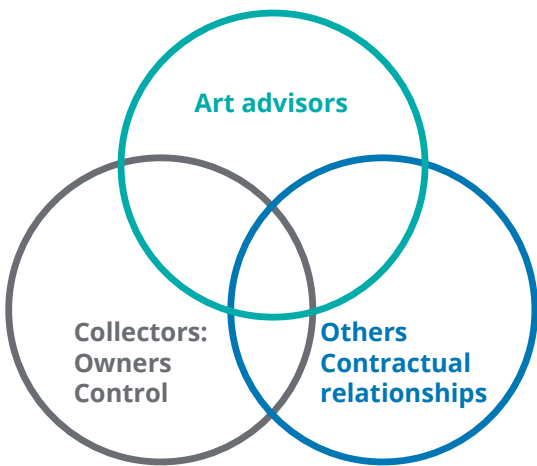
Through tenured practice in high-net-worth (HNW) planning, some distinct, highly probable and recurring incidents or pain points have clearly and consistently emerged.

Firstly, very few collectors' families have created a Venn diagram for art collection governance, as seen in Figure 84. Aside from some notable outliers, collectors don't generally bring art investments within the fold of the family business' charter, mission, or vision. Instead, it is kept as a segregated item for planning. This creates a disconnect and potential for "tug of war" outcomes, especially when one part of the collection is owned by the family business and another by its founders personally, creating a misalignment in succession wishes.

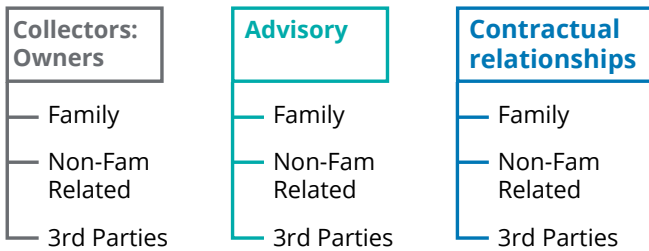




**Figure 84: Venn diagram—art collections governance theoretical model**



While art collectors vary in traits, the vast majority tend to show shared attitudes.





Additionally, estate planning documents (the will or trust indenture) often lack a distinctive proviso regarding the art collection. Art is often relegated into a blanket “personal capital assets” clause, in the company of household items, “ornaments,” and vehicles. Often, no introductory prologue explains the testator’s or grantor’s intentions about how the art collection came into being and what the vision is for its future.

## Wills, trusts, or corporate structures could serve as contingency and a clear road map to avoid undesirable or unintended outcomes.

This oversight creates uncertainty, especially considering advances in technology. For example, could the trustee or heir digitize or mint non-fungible tokens (NFTs), open a family art gallery in the metaverse, lend the artworks for rent-seeking staking purposes, or sell the art items to a decentralized autonomous organization (DAO)? These questions are particularly thorny in cases of artists’ estates with copyrights, trademarks and other related intellectual property issues.

Another pain point is the absence of a systematic approach to cataloging the art collection. Or, even when a catalog is present, there are predominant issues

around its completeness, including the integrity of its inventory, state of the art (paper versus software formatting), and identification of who’s responsible for keeping it current. More specifically, the catalogs can have several deficiencies, including provenance and well-documented, colorable and defensible claim of title ownership; authenticity documentation; appraisals, receipts/COAs and other evidentiary data to determine cost bases; and condition reports.

Also of particular interest is the topic of missing details in the geo-tagging of art. This is necessary to identify the artworks’ competent jurisdiction and applicable law. Clients may own vacation homes, yachts, storage places in freeports, and safety deposit boxes around the world where they keep physical or digital art and collectibles—from paintings to high-end luxury items to cold wallets for crypto art and NFTs.

The multi-jurisdictional situs of alternative assets adds complexity to the planning, such as the applicable succession law and entitlements, ancillary probate fees and process, and potential foreign inheritance and estate taxes. As such, purposeful coordination is necessary between different legal systems and a myriad of professionals, distinct from the traditional art world players.

Another issue is the overconfidence collectors put in the ability, appetite, and willingness of the heirs or institutional donees to take on the stewardship and “care” for the collection, as well as the underestimation of putting together a step-by-step pre-plan. Wills, trusts, or corporate structures could serve as contingency





and a clear road map to avoid undesirable or unintended outcomes. These consequences could include gift lapses (e.g., donating an item in-kind with no supplementary cash gift is sometimes too costly for a museum to accept) and early or immediate post-bequest deaccessioning of artwork by uninterested heirs or struggling museums.

Also worth noting is that new technologies such as blockchain and artificial intelligence are having a high impact on collectors' zeitgeist and posture, especially for younger generations. Generation X, millennial and Generation Z clients often request research and education in art with a social impact, or that has an easier point of entry and fewer (price-based) barriers, such as fractionalized digital blockchain (via DAOs, NFTs, or bitcoin ordinals).

Sometimes, the inquiry is based solely on curiosity, but other times, it's planning after the fact, based on a "now (that they own a few NFT collections in their wallets) what?" type of apprehension.

As behavioral economics have admonished,<sup>183</sup> in an increasingly entangled world of multiple intersecting variables, considering all factors when planning is key for delivering excellent outputs. What's evident from the highlighted gaps is the critical need for thorough knowledge of the clients (KYC) and their art collections. Family office advisors are well-positioned to deliver a systematic, investigative, and multidisciplinary approach.

Collectors	Issues/missing opportunities
<b>All</b>	<ul style="list-style-type: none"> <li>• Ad-hoc governance focused on the art collection</li> <li>• Complete/up-to-date art collection management</li> <li>• Documented ownership</li> <li>• Geo-tag map of art items' whereabouts</li> <li>• A plan for how to make a collection "future-ready"</li> <li>• Pre-negotiated testamentary gifts/donations to institutions/museums</li> </ul>
<b>New generations</b>	<ul style="list-style-type: none"> <li>• Hype and early adoption of new art (AI, NFTs, ordinals)</li> <li>• Education over the actual technology</li> <li>• No ad-hoc plan for succession and safe-keeping of digital art collections</li> </ul>

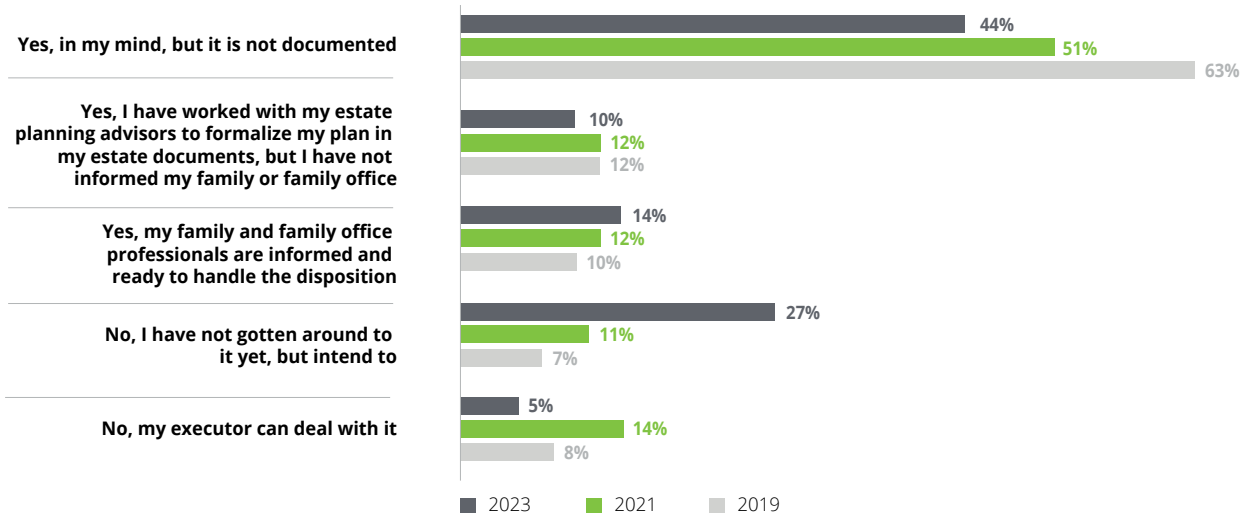


Survey findings 2023: collectors

Collectors survey—estate planning

Figure 85: Collectors: do you have a long-term plan for your collection?

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>184</sup>



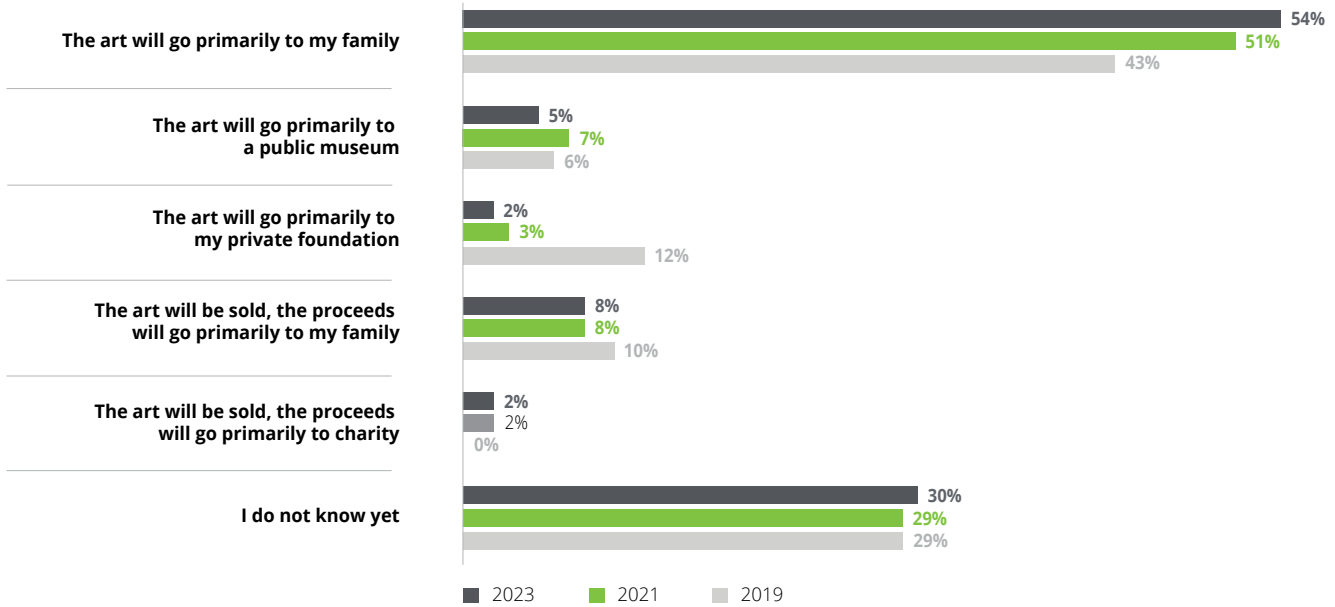
**There is an urgent need to focus on art and estate planning:** Only 24% of collectors surveyed have a long-term plan for their collections, signaling an urgent need for wealth managers to start having conversations with their clients on art and estate planning. Although the majority (75%) of collectors are yet to make proper long-term plans for their art collections, this could be about to change. This year, 30% said they have not yet started the process but do intend to (up from 11% in 2021). A further 41% said it was a consideration, but not yet documented (down from 51%). 14% of collectors said their families or family offices will handle disposition (up from 12% in 2021) and 10% said they had worked with estate planning advisors to formalize this in their estate documents, but have not informed their

families or family offices (compared to 12% in 2021). Only 4% of collectors this year said they had no plans in place, down from 14% in 2021. This could suggest that more collectors are thinking strategically about their art collections as part of their estate planning strategy this year.

Only 24% of collectors surveyed have a long-term plan for their collections, signaling an urgent need for wealth managers to start having conversations with their clients on art and estate planning.

**Figure 86: Collectors: what type of arrangements have you made in your estate plan for your art collection?**

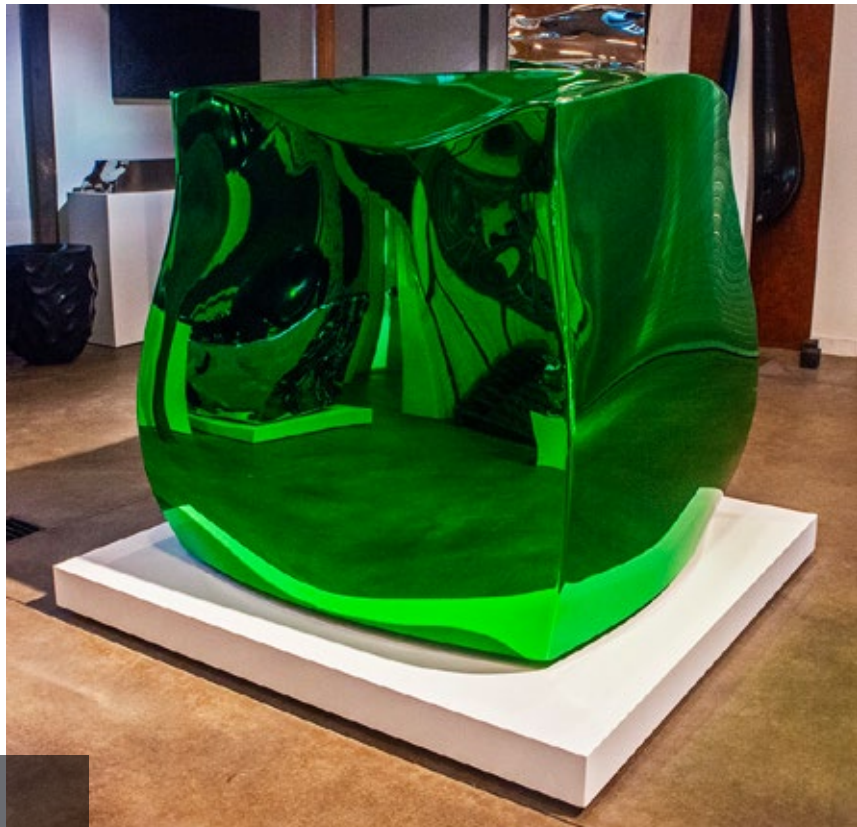
Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>185</sup>



**What will happen to art collections?**

Family members are most likely the recipients of art and collectible inheritance.

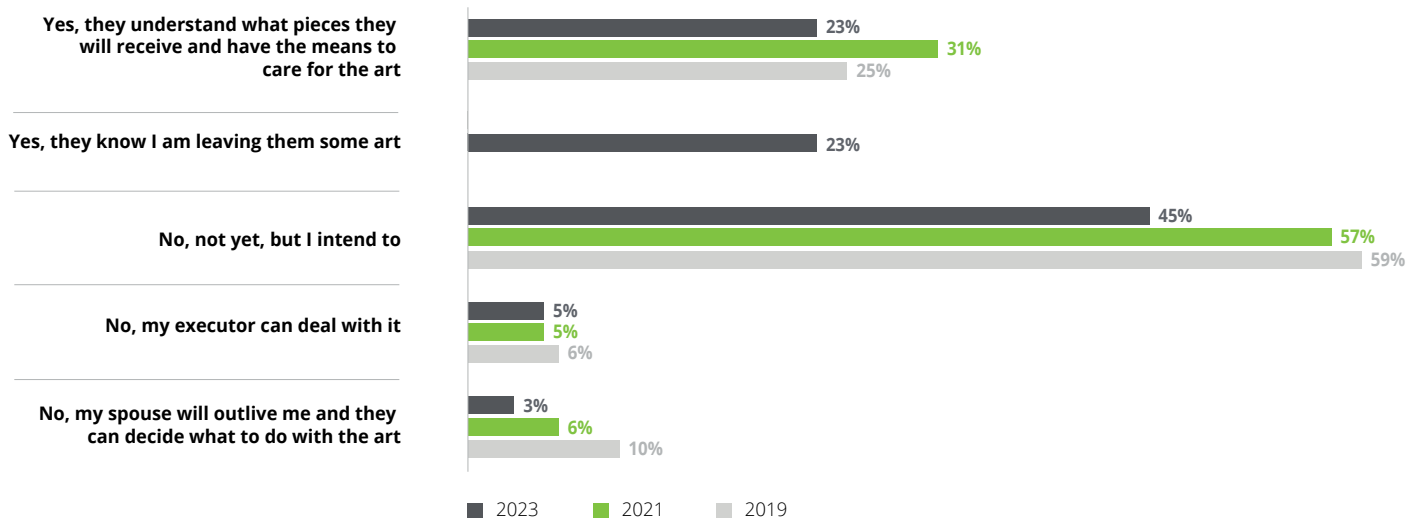
**Although 30% of collectors are yet to make up their minds**, 54% of collectors said their art collections will most likely go to their families, up from 51% in 2021. A further 8% plan to sell their collections and give the proceeds to their families. 2% said their collections would go to private foundations, and 2% said they would sell their collections and give the proceeds to charity. A further 5% plan to donate their collections to museums.



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Figure 87: Collectors: if you intend to leave some or all of your collection to your heirs, have you discussed it with them?

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>190</sup>



Private giving and philanthropy are facing their own challenges. Recent data from Giving USA showed charitable giving in 2022 dropped for only the fourth time in 40 years, with giving falling by 3.4% in 2022 to US\$499.3 billion, an inflation-adjusted decrease of 10.5%.<sup>35</sup>

**Improved dialogue with heirs:** Almost half of the collectors surveyed have notified their families about inheritance related to their art collections, with 46% (up from 31% in 2021) of collectors having informed their families that they will inherit the entirety or parts of their art collections. 23% understand which specific artworks they will receive and have the means to maintain the art properly, and a further 23% know they will be left some pieces from the art collection. A further 45% of collectors have still not made any arrangements but intend to in the near future (down from 57% in 2021). Only 8% have not made, and do not intend to make, any art-related estate planning arrangements.

**B. Art and philanthropy**

**A challenging landscape for art and cultural organizations and the need to develop new financing models:** The pandemic had a significant impact on the operating environment for arts and culture

organizations, and the cost of living crisis is now creating a challenging economic environment for arts organizations worldwide. These external factors, coupled with less government funding and increasing scrutiny around corporate sponsorships in the cultural sector, have meant that private philanthropy is becoming an even more crucial source of funding.

**Individual giving affected by economic pressures:** Private giving and philanthropy are facing their own challenges. Recent data from Giving USA showed charitable giving in 2022 dropped for only the fourth time in 40 years, with giving falling by 3.4% in 2022 to US\$499.3 billion, an inflation-adjusted decrease of 10.5%.<sup>186</sup> Although charitable and philanthropic giving was down, it must be viewed in light of a challenging economic environment of rising interest rates and higher inflation. Amid these fears, individual philanthropists continued to demonstrate their generosity

and importance through their charitable giving in 2022, accounting for 64% of all donations in the United States. Foundations provided a further 21% of all donations, and 9% of donations came in the form of bequests, usually provided for through a will or estate plan. Corporate benefactors accounted for the final 6% of all donations.<sup>187</sup> Giving by individuals totaled an estimated US\$319.04 billion, a drop of 6.4% percent in 2022 (amounting to an inflation-adjusted decline of 13.4%). Very large donations (US\$500,000 and above) by individuals amounted to US\$14 billion in 2022, representing a total of about 5% of all donations made by individuals for the

second year in a row.<sup>188</sup> **Donations to the arts, culture and humanities sectors amounted to 5% of the total donations given. This amount is estimated to be 2.9% higher in 2022 than in 2021, at US\$24.67 billion. However, this is still an inflation-adjusted decline of 8.9% compared to 2021 figures.**<sup>189</sup>

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### European philanthropy that supports the field of arts and culture

The sector is facing financial distress due to recent inflation and the rise in the cost of living; post-pandemic crisis recovery; and the structural weakness of the cultural sector.

*The Arts and Culture at the core of Philanthropy study*<sup>191</sup> released in May 2023, conducted by the Philanthropy Europe Association (Philea), surveyed 64 foundations from 17 different countries. These foundations had a cumulative annual total expenditure of €2 billion, of which €447 million went to arts and culture. On average, the budgets devoted to arts and culture by funders have remained at the same level as before the recent multiple crises.

Around 90% of participating organizations reported no planned decrease in their budgets for arts and culture projects in the following year. This points to a trend that the funders of European philanthropy remain committed to continuing to provide financial resources with the aim of maintaining and strengthening the arts and cultural sector.<sup>192</sup>

### Philanthropy has become more strategic:

This is a general trend across both HNWI donors and those that give smaller donations to maximize the impact of their giving. HNWIs in particular are looking at how they make donations, with the aim of making them as strategic and impactful as possible for the recipients of the donations, while also optimizing their personal fiscal situations.<sup>193</sup> This is also the case when it comes to art and philanthropy. As donor sophistication increases, it is paramount that wealth managers understand the tools, language and vehicles that might be most effective in meeting donors' goals. A focus on philanthropic projects is a growing trend in the wealth management sector. Advisors that are able to understand their clients and provide services that meet their clients'

requirements in this respect typically benefit from deeper client relationships and better client retention. Simultaneously, they are also able to actively assist their clients in making a positive social impact in causes that are particularly important to them.<sup>194</sup>

### Art philanthropy will need to align with broader societal issues to stay relevant:

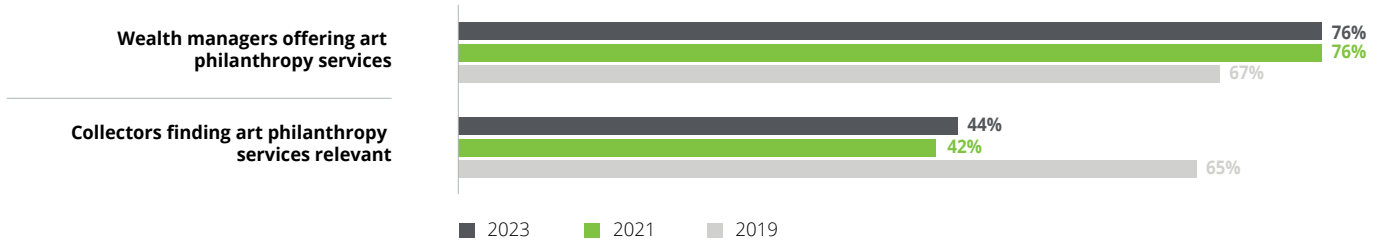
While many of the traditional models of setting up art foundations—building private museums and donating art to public museums are still relevant—we have seen an increasing shift toward a more selfless and holistic form of philanthropy generated by art-related wealth. Many of the sales proceeds of recent single-owner collections sold over the last few years have been used to support wider philanthropic causes, enabling a donor to use the substantial value of a collection to generate broader societal impact. A recent example is the sale of Paul Allen's collection at Christie's in November 2022, which raised US\$1.6 billion and was earmarked for philanthropic causes. The Paul Allen Family Foundation supports a wide range of causes from donating to the promotion of healthy, vibrant, inclusive communities to arts and culture, and from the environment to bioscience.

**Measuring impact:** Foundations are also increasingly employing a range of social investment strategies to maximize their impact; as a result, there is a growing interest in evaluating and measuring program outcomes. The subject of measuring the impact of social investment in art and culture is further developed in Section 4. Reporting and measuring the impact of cultural projects will most likely be on the rise as the Corporate Sustainability Reporting Directive (CSRD) entered into force on 5 January 2023. This new directive modernizes and strengthens the rules concerning the social and environmental information that companies have to report (see Section 4).



**Figure 88: How relevant are art philanthropy services for collectors vs. what wealth managers currently offer?**

Source: Deloitte Private and ArtTactic Art & Finance report 2023<sup>195</sup>



**Survey findings 2023: wealth managers<sup>196</sup>**

**Less interest in art and philanthropy services among younger collectors compared to 2021, but they still show greater interest than older collectors:**

44% of collectors said that art and philanthropy services were the most relevant service that wealth managers could offer (compared to 42% in 2021). Interestingly, younger collectors have a stronger sense of the importance of art and philanthropy services, with 50% saying this was the most relevant service that a wealth manager could offer (although this was down from 69% in 2021). 57% of art professionals surveyed said that art and philanthropy services were the most important services (compared to 61% in 2021). A significant majority of wealth managers (76% both this year and in 2021) said they offered services around art philanthropy and individual giving (setting up foundations, arranging gifts and donations, etc.).



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INDUSTRY  
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# A glimpse into the world of art foundations today



**Helena Stork**

Co-Founder, World Art Foundations

The phenomenon of art foundations,<sup>197</sup> as seen today, began to emerge in the 20th century, with the creation of the Barnes Foundation (US) in 1922 and Fondation Maeght (France) in 1964 as the most telling examples.

From the year 2000 onwards, we witnessed a worldwide boom in how many new art foundations sprung into existence. While the financial crisis had a temporary dampening effect on this development, we are now back to steady growth.

### The three types of foundations

This combination of foundations allows for unexpected and exciting configurations, broaching many different and overarching themes like organizational health, board and governance development, and succession and financial planning. There are also practical issues, such as how to care best for a collection (collecting, setting up exhibitions or stocking/transporting artworks) alongside audience development, education, and mediation programming. In this respect, all three types of foundations have similar challenges.

Regardless of their setup by individuals, corporates or artists with different characters and perspectives, they all share at least one common motivation that is also their biggest challenge: keeping their

collection and legacy alive and relevant, now and in the future.

There is no magic combination to ensure this happens; however, hard work, determination and dedication will prevail. In launching WAF, we witnessed a rapid and organic undertaking of our membership program, counting to date more than 50% of art foundations that currently exist in the world. This is a testament to art foundations' eagerness to connect in order to address challenges and discuss ideas and best practices, with the ultimate goal of safeguarding and developing their legacy.

### The corporate foundation

Corporate art foundations are rather conscious of their image: what to collect and which exhibitions to produce must be in agreement with how the company wishes to present itself and stress the enterprise's creative aspect. This often goes hand in hand with the appropriate nomination of the person responsible for the foundation, to ensure alignment across both the company and the art foundation.

Here, we would like to emphasize that a corporate collection is often initiated by someone with a strong conviction that art is inspiring for the company and its audiences, such as the founder or a director who is often a collector or art-



affectionate. If there is no affection for art at the top, it is very unlikely that art will be a focus of the company's strategy.

Subsequently, it may be a choice (implicating many considerations and consequences) whether to use the company's brand (Louis Vuitton) or keep it private (such as the Collection Pinault).

#### **The private foundation**

Private collectors are much more identified with their collection, often following a lifelong personal adventure with art that is sometimes accompanied by the directors of their art foundations, such as the Menil Collection (US) and Fondation Beyeler (Switzerland) or, more recently, Museum Voorlinden (The Netherlands) and Museum Barberini (Germany).

Here, we identify a unique situation that only applies to private collectors' foundations; at some point in time, it will be confronted with its succession. When planning a succession, there are many things to consider about how best to continue the art foundation legally and financially. The challenges may differ depending on the country of origin.

An important question is how to deal with the collection in the future and regarding the founder's vision. Indeed, collecting contemporary art may just continue, with

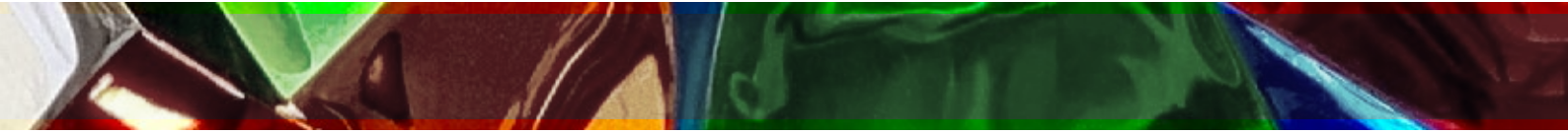
From the year 2000 onwards, we witnessed a worldwide boom in how many new art foundations sprung into existence. While the financial crisis had a temporary dampening effect on this development, we are now back to steady growth.

the collection evolving over time. However, if the collection is specific, like the Belgian Herbert Collection only collecting art made between 1972 and 2005, then the art foundation may continue collecting artworks that are new on the market from this period, filling any gaps they may have.

One might even consider putting an expiry date to an art foundation. For example, the Holt/Smithson Foundation (US) explicitly set a closing date of 2038 when founding their foundation to ensure the mission was concentrated within a timeframe.

#### **The artist foundation**

The situation is very different for artists who set up a foundation for their own works. Their deepest motivation, at least in the past, was mainly based on keeping their work (and the knowledge about it) safe and secure, and their own legacy alive for the future.



Nowadays, artists' goals in setting up an art foundation are often more generous toward supporting other artists alongside social and political issues close to their hearts. Some examples are the Yinka Shonibare Foundation (UK/Nigeria), Wolfgang Tillmans' Between Bridges Foundation (Germany), Theaster Gates' Rebuilt Foundation (US) and Irene Fortuyn' Ketter & CO (The Netherlands).

This is in addition to the artists who give substantial grants, such as the Henry Moore Foundation (UK), the Helen Frankenthaler Foundation (US) and the Andy Warhol Foundation (US), which support and influence the entire art ecosystem.

#### **New identities of art foundations**

Compared to how art foundations were set up in the 20th century (i.e., museums with collections and buildings), nowadays, we see foundations set up with specific purposes. These include:

- Connecting art and science, such as Schering Stiftung (Germany), the Saastamoinen Foundation (Finland) and the Wellcome Foundation (UK);
- Emphasising connections between art and design, such as Fogo Island (Canada);
- Architecture, such as the Steven Myron Holl Foundation (US);
- Ecology and climate change, such as TBA 21 (Spain) and Stiftung Federkiel (Germany); and
- Community development and social change, such as the Brihatta Art Foundation (Bangladesh).

In recent years, we have noticed the creation of a new type of small but powerful foundation like the Gaia Art Foundation (UK), the LAS Art Foundation (Germany) and the Lannan Foundation (US). While very flexible and sometimes ephemeral, these organizations showcase a thorough analysis and strategy on how to best support artists by giving out grants, residencies and other possibilities to stimulate an optimal artistic climate in close connection with current challenges. These include climate change, human migration and gender-related questions.

#### **A new focus**

In general, we notice that the artist increasingly becomes the focus of attention for art foundations that want to play more of an active and intellectual role in that cooperation. Even the largest and oldest foundations, such as the Guggenheim Museum Bilbao (Spain) and the Calouste

Nowadays, artists' goals in setting up an art foundation are often more generous toward supporting other artists alongside social and political issues close to their hearts.



Gulbenkian Foundation (Portugal), are very conscious of the role of art and the artist in today's society.

### **Art foundations as forerunners**

All forms of art foundations have relevance now and in the future, from foundations with classical collections with captivating exhibitions (we know of 431 art foundations owning a collection) to highly ephemeral foundations without a collection (we know 83 of these) and every variation in between. Their role in the art world is very likely to grow, not only because they can capture new trends first and be forerunners, but also because they are constantly connected with the artists and other art institutions, while open to new developments.

Art foundations are set up with specific intentions and visions, and even though changes are made while navigating through times, the foundation always stays true to the founder's fundamental convictions, which are mostly thoroughly respected. This is precisely what has given and continues to give an art foundation its specific character.

### **Setting up an art foundation**

When setting up an art foundation today, we advise a firm conviction, a thorough understanding of the art world, and to only aim for the highest quality, be it the collection or the persons that will surround you.

There are no limits to the necessary budget, starting with as little as lawyer fees and going as high as architect fees to house the extensive and growing art collection. However, being financially well-organized and supported is essential; as an art foundation is by nature a not-for-profit institution, budgeting will remain high on the agenda.

### **Funding an art foundation**

There is no one-size-fits-all regarding an art foundation's financing model. Depending on geographical location, the applicable laws and fiscal regulations will differ. However, we have spotted three main trends:

01. Endowments, which seem to be the most common financing model, with over 60% of our members supported that way.
02. Commercial entities linked and related to art foundations through their founders, which generate income that is injected into the foundation.
03. Philanthropy from major donors, individuals, trusts and foundations, as well as sponsorship.

### **Social impact trends**

Contemporary art foundations working with living artists have noticeably shifted their focus on supporting further marginalized groups to equalize the funding allocated to established, mid-career and emerging artists.

Over the last two decades, we are witnessing a huge increase in art foundations establishing and delivering strong educational programs with dedicated teams and budgets, becoming a high priority on boards' agendas worldwide.

Following the COVID-19 pandemic, we have seen a tremendous uplift in art foundations developing their programs to further engage with removed and isolated communities.



### Measuring success

The success factor will depend on the art foundation's capacity to capture attention, but mainly on the founder's expectations. Success is challenging to measure. One can certainly monitor the costs of setting up an exhibition, maintaining the building and related to staff, and measure that against the income from visitors paying tickets and sponsoring organizations or individuals. However, the exhibition could be mind-provoking and change something in the way we see and think... which is priceless.

Regarding transparency and planning, working with tools that can measure an organization's results and impacts is highly desirable for any cultural institution. We have recently seen the development of such tools by UNESCO and Deloitte, respectively. Many art foundations are certainly looking for better understanding, knowledge and efficiency of their own organization, especially corporate art foundations, mainly for internal benchmarking.

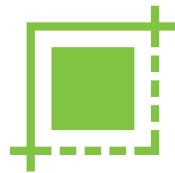
### METRICS

#### ART FOUNDATIONS IN TOTAL: 514



#### Founded by

Individuals	348
Corporations	54
Artists	112



#### Size

Large (more than 50 employees)	26
Medium (between 20 and 50 employees)	245
Small (fewer than 20 employees)	243



#### Collection type

Contemporary	272
Modern	137
Old Masters	22

Regarding transparency and planning, working with tools that can measure an organization's results and impacts is highly desirable for any cultural institution.



Number of art foundations per region:



### TOP THREE RECOMMENDATIONS WHEN OPENING AN ART FOUNDATION

- Be strongly attached to and determined in your mission;
- Aim at the highest quality in every aspect; and
- Be realistic in the financial calculations, considering the goal you want to reach.

# Endnotes

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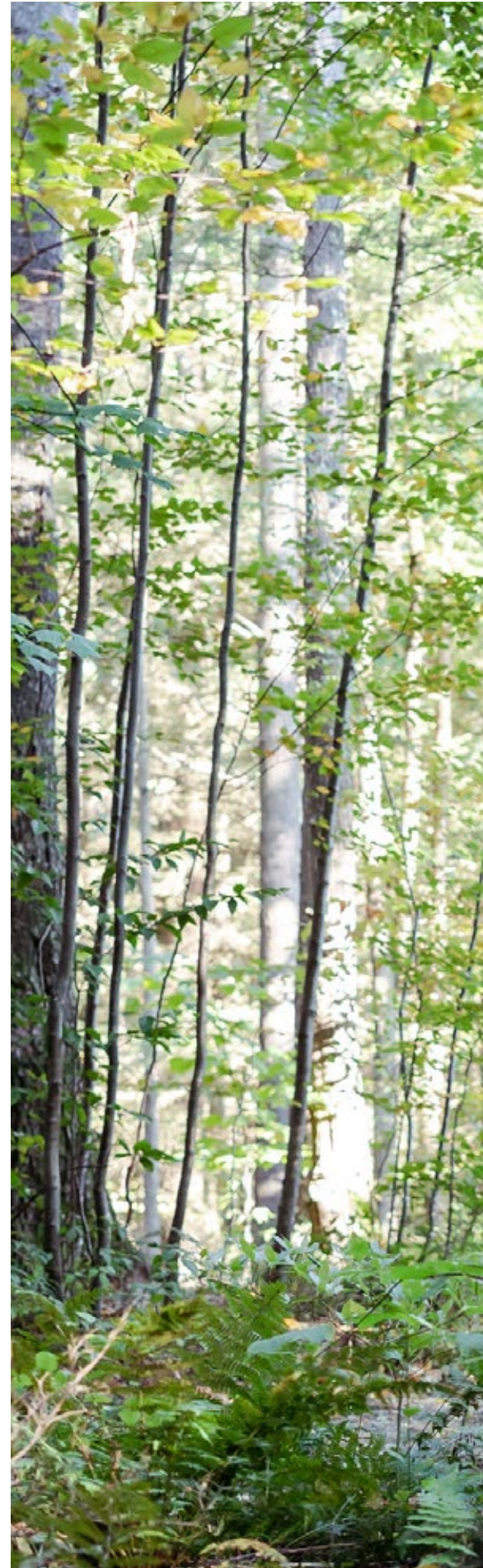
195 Deloitte, [Art & Finance report, 2021](#), p. 147.

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197 The generic definition of an art foundation can take on different legal and financial forms, depending on in which country it is set up. The WAF works with art foundations, that are privately funded and governed not-for-profit organizations, established by one or more donors with a clear vision to support the art. They can be set up with or without a building/or art collection.

# 04\_

## Culture & social impact investment and sustainability








**STRATA SEATING (BENCH)**  
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# Highlights




## **Wealth managers recognize the mounting importance of social impact investing to their clients.**

Social impact investment and sustainability in the arts and culture sector is a relatively new domain for the art wealth management industry. However, the intersection between philanthropy and investment can provide wealth managers with a new client service focusing on social impact and purpose-led investment.



## **Investors continue to see social impact investments as an opportunity, but art and culture still lag behind:**


It can be challenging to provide evidence and arguments for why the arts and cultural sector should be eligible for impact investing in the first place. According to the 2023 *Ginnsight: Impact Investing Allocations, Activity & Performance* report published in June 2023, impact investment in arts and culture saw a negative annual growth of 11% between 2017 and 2022, accounting for only 0.1% of total AUM, with 5% of investors saying they allocate some of their impact investment to art and culture.<sup>198</sup>



## **Sustainable impact investment in art and culture could become an attractive investment model, especially for the younger generation:**

In this year's survey, we have seen a slight increase in interest in arts and culture-related

sustainable impact investment among art professionals, wealth managers and NextGen collectors. 24% of collectors (28% in 2021), 30% of art professionals (23% in 2021) and 30% of wealth managers (21% in 2021) identified sustainable impact investment in the arts as the most attractive investment model. Interest was significantly higher among the younger demographic (below age 35), where 66% (50% in 2021) said socially responsible investment products in culture would appeal the most to them. This implies that wealth managers who expand their sustainable investment offerings can attract and engage the younger client segment, and that broader investment trends like ESG-compliant investments could be filtering down to the cultural space.



## **Close to a third of family offices maintain an interest in social impact investments in art and culture:**

31% of the family offices surveyed expressed a strong interest in investment products focusing on social impact investments in culture (down from 36% in 2021, but up from 16% in 2019). In addition to outright investment in artworks, social impact investment products were the most popular alternative art investment model this year, demonstrating that impact investments are becoming more appealing to family offices.



-  **G20 reaffirmed that the cultural and creative sectors (CCS) are a major engine for sustainable socio-economic recovery:** While often perceived to be of little relevance to the overall economy, economic data shows that the CCS are a key growth driver in many countries and represent some of the fastest-growing sectors in the world's economy. The G20 in India which took place September 9 and 10, 2023, reaffirmed culture as a major engine for sustainable socio-economic recovery.<sup>199</sup>
-  **There is a more prominent role for private investors:** In parallel with a downward trend in government arts and culture spending, there is a greater appreciation for the positive impact culture and creativity can have on economic development. As a result, new financial ecosystems are emerging around investment into culture, including public, private and philanthropy funding and investment.<sup>200</sup> It is essential, therefore, to have a better understanding of the relationship between responsible finance and culture.
-  **Creative and cultural organizations must improve how they analyze their performances and impact:** We have developed an innovative methodological approach for measuring and reporting the effects generated by cultural events and projects to investigate their contribution to achieving the Sustainable Development Goals (SDGs). Measuring impact can enhance their transparency towards stakeholders, strengthen their relationships with society, and potentially attract new supporters and donors.
-  **Monitoring and reporting are, in fact, fundamental tools for boosting the potential of arts and culture in promoting sustainable development:** An exploratory survey led by the Institute for Transformative Innovation Research (ITIR) at the University of Pavia, in collaboration with ARTE Generali, Banca Generali and Deloitte Private, showed that there are not enough cultural and art operators promoting sustainable measures. Moreover, only 40% of respondents were familiar with the UNESCO Culture|2030 Indicators, with only 8% using them. However, 78% of all respondents are interested in measuring the social impact and 57% the economic impact. Greater understanding and awareness of this topic is becoming increasingly urgent.
-  **New technologies can also support impact investment in creative and cultural organizations:** There is no doubt that technology can play an important role in supporting impact investment in the CCS. For instance, new payment and donation methods would make it easier for people to donate money to causes and organizations that they believe in. Furthermore, Web3 technologies are laying the foundations for the tokenization of artworks that could, in turn, lead to new developments around audience engagement and support. This would pave the way for the next generation of museum patronage and membership models. By combining digital ownership, access rights and utility, new financial models could emerge for the not-for-profit sector in the near future.
-  **Sustainability reporting as an opportunity for CCS to leverage:** The EU has recently adopted the new Corporate Sustainability Reporting Directive (CSRD). Companies will soon need to rise to the challenge of finding new ways to create a positive impact. They will be required to gather and disclose information about their approach to social topics, which could increase support for art and cultural activities. Therefore, the CCS will be able to leverage this increasing focus on ESG investment and reporting. Most importantly, they will need to be able to report and demonstrate that the resources received as a part of companies' CSR commitments have been invested in a proper and impactful way.
-  **Social impact bonds for a dynamic cultural economy:** If the CCS are to fulfill their role in sustainable development and in society, the time is now to find better ways and models for connecting impact investors with the sectors' financing needs. Could we eventually see a cultural impact bond market develop in the same way we have witnessed the green bond market develop?
-  **Smart cities and culture—from livable to lovable:** To ensure that cities are stimulating and exciting places to be, local governments need to make more effort to promote creativity. With the growing recognition that the CCS can contribute to quality of life and economic prosperity in smart cities, more sustainable investment products (e.g., culture impact bonds) could emerge to help policymakers, planners and developers to better implement CCS initiatives in the future.

# Introduction

Social impact investment and sustainability in the arts and culture sector exist at the intersection between philanthropy and investment. It is a relatively new area for the art wealth management industry. It provides wealth managers with a new client service that focuses on social impact and purpose-led investment in the arts and culture sector. This approach is one of the global trends shaping sustainable finance.<sup>201</sup>

Social impact investment and sustainability in the arts and culture sector exist at the intersection between philanthropy and investment.

## Sustainable Finance



### Objective

→ To take ESG factors into account in investment decisions, by assessing companies' sustainability performance and transparency.

**Aligning financial decisions with sustainability objectives.**



### Responsible Investment

→ Integrate **environmental, social and governance (ESG)** considerations into financing decisions

→ Promote financial practices that foster long-term sustainability, both ESG terms.



### Regulatory requirements

→ *The Sustainable Finance regulations' objectives are intended to:*

- SFDR and Revised NFRD/CSRD
- EU Taxonomy EBA Guidelines
- MiFID II
- CSDDD
- ECB Guidelines on climate related, environmental risks & CSSF Circular 21/773



## Environment Social Governance

Sustainability is defined **as meeting the needs today without compromising the ability of future generations to meet their own needs.**



**STRATA SEATING (LOVE SEAT)**  
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The intersection between culture and social impact and sustainability is a topic we first introduced in our Art & Finance report in 2019, and at the Deloitte Art & Finance conference in 2020. In the seventh edition of the report in 2021, we dedicated an entire section to the topic for the first time. At the 14th Deloitte Private Art & Finance conference at the Vatican in October 2022 (where the main theme was “Art & Humanity: New Art & Financing Trends”), we covered the subject during a panel discussion on “Sustainable impact investment & Culture and Creative sectors (CCS)”.<sup>202</sup>

Following the decline of traditional manufacturing industries, we have seen more and more museums and other cultural heritage sites becoming drivers of community regeneration, sources of revenue and new employment opportunities. Geographies with a rich cultural history that are recognized as having established creative economies may also benefit from being more attractive centers of investment overall, as well as locations that draw artistic talent.

Simultaneously, culture is also serving to drive innovation in areas such as well-being, health, and life-long learning; therefore, social capital is becoming more widely recognized and valued.<sup>203</sup>

In July 2021, the G20 announced for the first time in history a “declaration of culture” (the Rome Declaration of the G20 Ministers of Culture), firmly positioning culture as a major engine for sustainable socio-economic recovery.<sup>204</sup> This was reaffirmed during the G20 Bali Leaders’ Declaration on 16 November 2022.<sup>205</sup>

The Bali declaration states: “We are committed to develop policies that draw on cultural diversity as a resource for sustainable living and promote an inclusive and equitable ecosystem at all levels that values the contribution of those working in the culture, arts and heritage sectors. We will respect, protect and preserve the cultural heritage of our peoples, including local communities and indigenous peoples, as applicable.

We support public incentives and sustainable investments from the private sector to strengthen the cultural economy. We will safeguard cultural heritage as well as fighting illicit trafficking of cultural property and promoting restitution to its rightful owner/countries of origin, in accordance with the relevant UNESCO Conventions and national laws.”<sup>206</sup>

The G20 in India which took place September 9 and 10, 2023, reaffirmed culture as a major engine for sustainable socio-economic recovery.

This section aims to create more awareness around the links between art and finance and the CCS, as well as its critical role in promoting sustainable development, to ultimately increase collaboration between social impact investors and the CCS. We also explore the role of culture and creativity in a smart city strategy, and how it could boost the development of sustainable investment products dedicated to the CCS.

**Part 1\_**  
**Global shifts in sustainable investment trends**

**INDUSTRY INSIGHTS\_**

**Mapping cultural and creative impact funds around the globe**

**by Florencia Giulio**

*Co-founder of Pulso*

**by Luis Berruete**

*Partner & Co-founder of Creas*

**by Patricia Gabeiras**

*Partner & Co-founder of Gabeiras & Asociados*

**The art of investing: How social impact investment drives cultural change**

**by Chase Mayo**

*Senior Consultant, Finance & Enterprise Performance, Deloitte Consulting LLP*



**Part 2\_**  
**Culture & creative sectors and sustainable impact investment**

**INDUSTRY INSIGHTS\_**

**Measuring and reporting the impacts of culture**

Proposal for a new methodological approach

**by Roberta Ghilardi**

*Sustainability Manager, Deloitte Italy*

**Art assets and cultural initiatives as a driver for social sustainability**

Preliminary results

**by Roberta Ghilardi**

*Sustainability Manager, Deloitte Private Italy*

**by Italo Carli**

*Head of ARTE Generali Italy*

**Part 3\_**  
**Smart cities and culture: from livable to lovable**

Where do we stand in terms of sustainable investment offerings for the CCS today? Could it be an area of future expansion for the wealth management industry? These topics are addressed in more detail in this section, and with contributions from:

**What are the Cultural and Creative Sectors (CCS)?**

Sectors with clear foundations or links to artistic or creative expression or cultural values can be categorized as CCS. The CCS are broad-ranging and can include the preservation, dissemination or creation of cultural goods or services, or can simply be goods or services encapsulating artistic, creative or cultural expression in some way.<sup>207</sup>

The activities that fall within the CCS can be physical or non-physical in nature. Tangible CCS activities include architecture, audiovisual media (including multimedia, film, television and video games), libraries, archives, and artistic crafts. Intangible CCS activities include design, festivals, music, radio, performing and visual arts, and literature. Functions linked to the operations, creation and management of the CCS (e.g., education and management) are also considered part of the sector.

There is no distinction between the CCS that are market or non-market-oriented. The CCS, therefore, can include everything from government-funded museums or heritage sites, to multinational corporations with links to the creative sector—for example, Netflix or individual artists, designers and musicians operating on a freelance mandate.<sup>208</sup>

## Part 1\_

# Global shifts in sustainable investment trends\_

### The rise of impact investing

Impact investing achieves the specific goal of having a positive and measurable social and/or environmental impact, as well as that of achieving financial profitability. We are currently witnessing a paradigm shift in finance: the need to evaluate not only financial returns but also investment goals. The Global Impact Investing Network (GIIN) estimated that over 3,349 organizations currently manage US\$1.164 trillion in impact investing AUM worldwide as of December 2021,<sup>209</sup> up from US\$715 billion<sup>210</sup> in 2020.

Impact investments are considered to be either investment vehicles or investments structured through financing models to create a tangible, positive social or environmental impact, as well as positive financial returns.<sup>211</sup> Impact investments

vary in nature and asset class allocation and can include private equity, real estate, venture capital, debt and fixed income investments. Impact investments are considered to be investments rather than donations, on the basis they are expected to provide positive financial returns.<sup>212</sup>

According to a November 2021 survey by ThoughtLab, wealth managers stated that 61% of billionaires were expected to seek ESG investment advice over the next two years (compared to 34% of investors on average). **Wealth managers recognize the mounting importance of social impact investing for their clients.** More than four out of 10 wealth managers believe that clients expect them to be knowledgeable about social impact investing and to offer ESG products and services.<sup>213</sup>

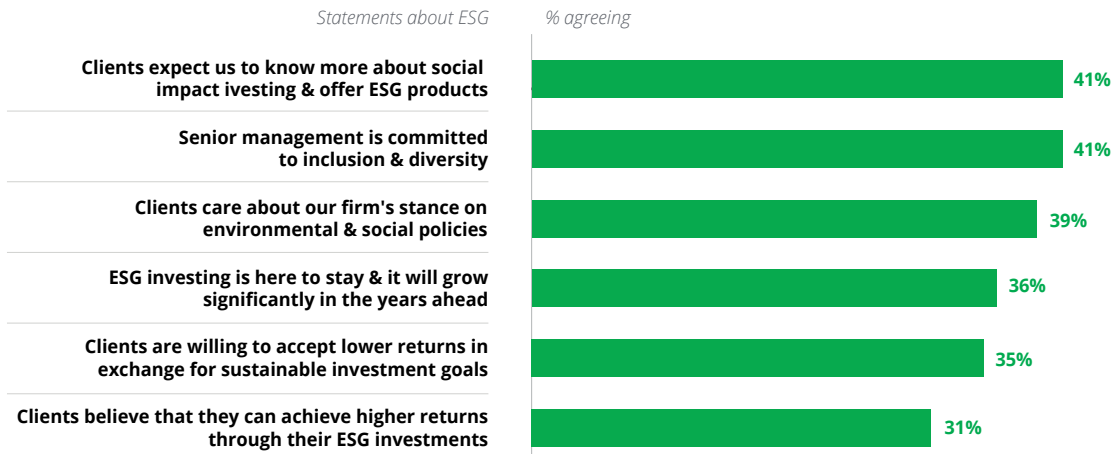


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ESG is both a challenge and a growth opportunity for wealth managers.

**Figure 88: The rise of social impact investing**

Source: ThoughtLab, [Wealth and Asset Management 4.0](#), 2021.

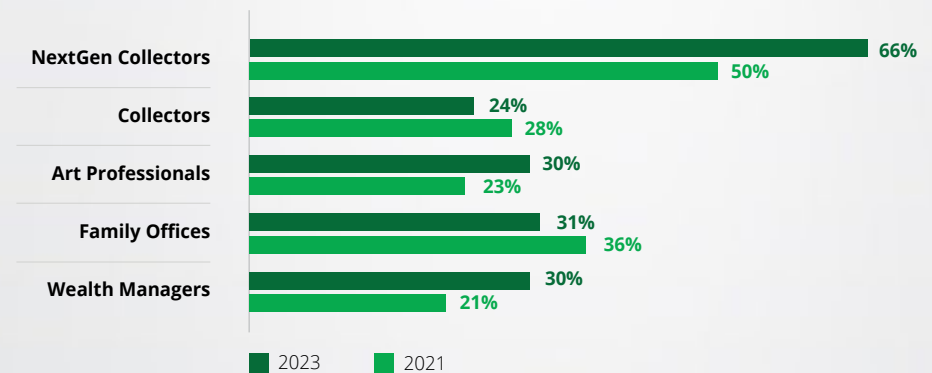




As with previous editions of our Art & Finance Reports, we have tried to better understand the current demand for social impact investment products in culture by surveying and interviewing wealth managers, art professionals and collectors.

**Figure 89: Demand for social impact investment products in culture (% interested/ very interested)**

Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2023



**Young people a key driver behind social impact investment in culture**

The interest in social impact investment in culture is likely to keep growing as investors (predominantly younger demographics) become increasingly engaged with systemic issues like climate change and wealth inequality. In this year’s survey, 24% of collectors (28% in 2021), 30% of art professionals (23% in 2021), 31% of family offices (36% in 2021) and 30% of wealth managers (21% in 2021) said sustainable impact investment in culture is the most attractive investment model. It was also rated the second most important investment product according to wealth managers this year, ahead of more financial products such as fractional investment and art investment funds.

Survey findings showed that 66% (50% in 2021) of younger collectors (below age 35) said socially responsible investment products in culture would appeal most to them (also the second-highest-rated form or model of investment, after direct investment in art). This implies that wealth managers who expand their investment offerings to include these products are well-positioned to attract and build closer relationships with this younger client segment.

It also suggests that broader investment trends—such as the increasing focus on ESG-compliant investments—could be filtering down to the cultural space.

# Mapping cultural and creative impact funds around the globe



**Florencia Giulio**  
Co-founder of Pulso



**Luis Berruete**  
Partner & Co-founder  
of Creas



**Patricia Gabeiras**  
Partner & Co-  
founder of Gabeiras  
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**T**his article presents the Culture & Creative Impact Funds Map first published in the *Towards the Creation of a Cultural Impact Fund* report,<sup>214</sup> edited by Creas and Gabeiras & Asociados and coordinated by Mag. Florencia Giulio. The map showcases a global overview of impact investment funds that support the cultural and creative industries (CCIs), emphasizing the growing opportunity to mobilize catalytic capital for the sector's development and economic growth.

While CCI impact investing is still nascent, over the last decade, fund managers have increasingly been engaging with and introducing investment vehicles that scale up creative ventures and unlock the power of cultural industries to innovate and generate social impact. The impact investing industry, estimated at US\$1.164 trillion in assets under management,<sup>215</sup>

represents a significant capital pool to leverage CCIs in the coming years. Additionally, it offers much-needed extra funding to the sector and reshapes the traditional philanthropic funding model—which will potentially shrink in years to come—into a more sustainable one.

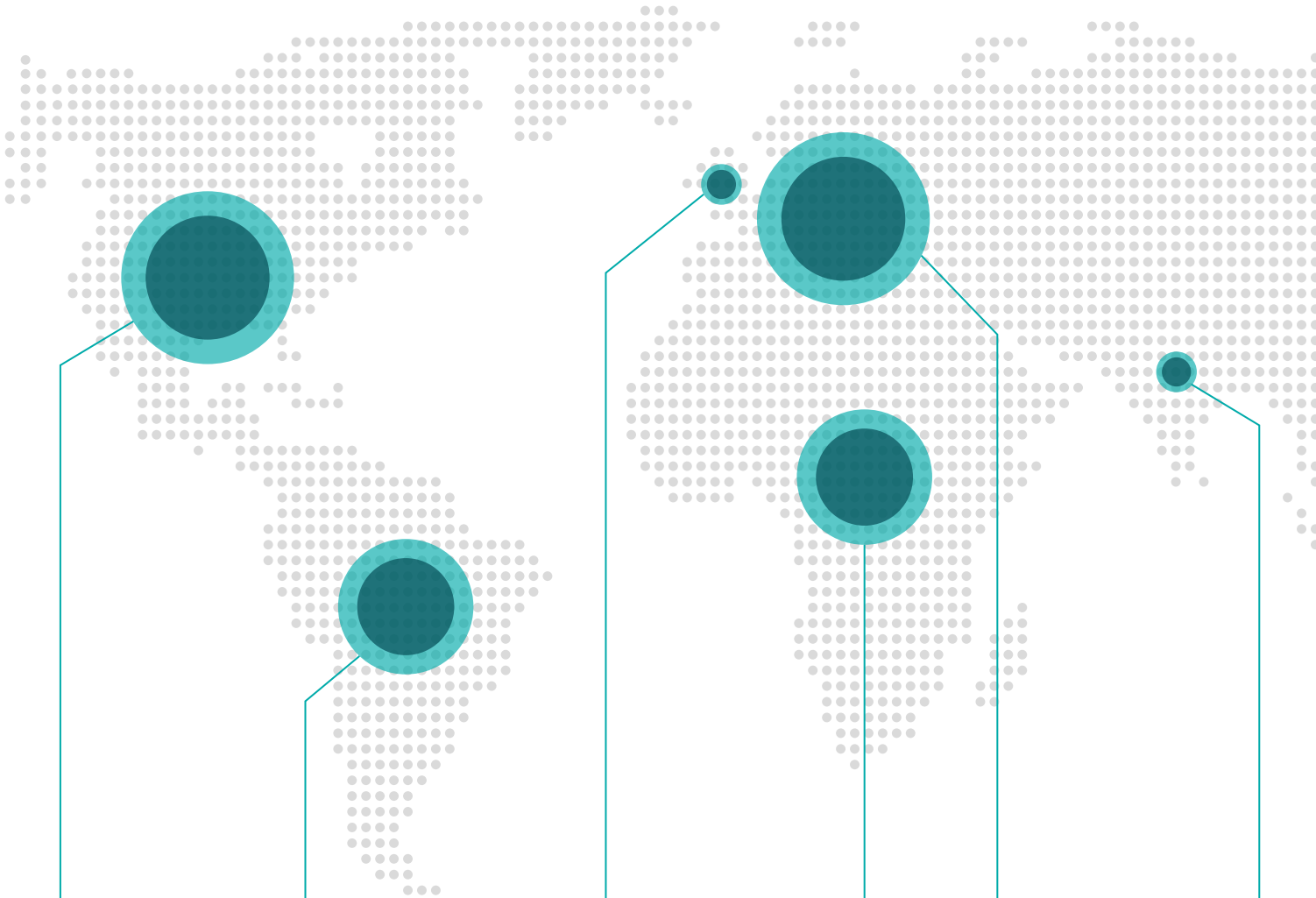
The Culture & Creative Impact Funds Map draws attention to the untapped potential for purpose-led investment in the creative economy. Through extensive research, we have identified over 36 impact funds worldwide: eight in the UK, eight in Latin America, seven in Africa, six in the US, five in Europe, one in India, and one international. These funds are dedicated exclusively to financing CCIs and/or include the sector as an investment vertical. This clearly indicates that the impact investment industry is opening up for the cultural sector.

Moreover, we delve into the profiles of seven leading impact investing funds operating within the creative economy, representing different regions:

- **UK:** Arts & Culture Finance by Nesta
- **US:** Community Investment Management
- **India:** Upaya Social Ventures
- **Africa:** Creative Economy Practice at CcHUB
- **Latin America:** Banca Ética Latinoamericana, Screen Capital, and Bancóldex

Through in-depth analysis, we provide key insights regarding their innovative investment structure, fund size and impact goal to inspire investors with proven new financing models developed specifically for CCIs.

1.1 Culture & Creative Impact Funds Map



**United States**

1. Community EM Credit Strategy
2. LISC NYC
3. Colorado Enterprise Fund
4. SoGal Ventures
5. Etsy Uplift Fund
6. Upstart Co-Lab

**United Kingdom**

1. Arts & Culture Impact Fund by Nesta
2. Big Society Capital
3. Big Issue Invest
4. Creative UK
5. Edge VC
6. Hiro Capital
7. Calculus Capital
8. Social Tech Trust

**Europe**

1. European Institute of Innovation and Technology (EIT)
2. MAZE Impact
3. Purpose Ventures
4. Media Deals
5. Tiina by Daniel and Nina Carasso Foundation, and Ship2B Foundation

**Latin America**

1. Coolture Investment
2. Fondo Nacional de las Artes
3. BETA by Sumatoria, Xeibo Capitals and PULSO
4. Banca Ética Lationamericana
5. Screen One
6. Trê Investindo com Causa
7. Touthka Capital
8. Orange Bond by Bancóldex

**Africa**

1. HEVA Fund
2. PAC Capital
3. Ingressive Capital
4. CcHUB Syndicate Fund
5. Annan Capital Partners
6. WIC Capital
7. Impact Fund for African Creators (IFFAC)

**India**

1. Pool of Resilience Grants (P)

## 1.1 Culture & Creative Impact Funds Map



### ORGANIZATION NAME: SCREEN CAPITAL

**Fund name:** Screen One  
**Creative economy sector:** audiovisual arts and video games  
**Total fund size:** US\$20 million  
**Investment ticket range:** US\$500,000–1.5 million  
**Investment type:** equity  
**Start date:** 2020  
**Geographic area covered:** Latin America



### ORGANIZATION NAME: UPAYA SOCIAL VENTURES

**Fund name:** Pool of Recoverable Grants (PRG) 1  
**Creative economy sector:** handcrafts  
**Total fund size:** US\$1 million  
**Investment ticket range:** US\$50,000  
**Investment type:** equity, loans and repayable grants  
**Start date:** 2019  
**Geographic area covered:** India



### ORGANIZATION NAME: COMMUNITY INVESTMENT MANAGEMENT

**Fund name:** Community EM Credit Strategy  
**Creative economy sector:** all CCI sectors (\*)  
**Target fund size:** US\$200 million  
**Investment ticket range:** US\$15,000–90,000  
**Investment type:** loans and outcome-based contracts  
**Start date:** 2021  
**Geographic area covered:** Latin America and Asia

### Arts & Culture Finance

by **nesta**

### ORGANIZATION NAME: ARTS & CULTURE FINANCE BY NESTA

**Fund name:** Arts & Culture Impact Fund  
**Creative economy sector:** all CCI sectors (\*)  
**Total fund size:** GBP23 million (US\$28.7 million)  
**Investment ticket range:** GBP150,000–1 million (US\$187,000–1.3 million)  
**Investment type:** loans  
**Start date:** 2020  
**Geographic area covered:** UK



### ORGANIZATION NAME: BANCÓLDEX

**Bond name:** Orange Bond (\*\*)  
**Creative economy sector:** all CCI sectors (\*)  
**Total bond size:** COP400 million (US\$93 million)  
**Investment ticket range:** COP100 million (US\$24,000)  
**Investment type:** fixed loans  
**Start date:** 2018  
**Geographic area covered:** Latin America (only Colombia)



### ORGANIZATION NAME: CREATIVE ECONOMY PRACTICE AT CCHUB

**Fund name:** CcHUB Syndicate Fund  
**Creative economy sector:** all CCI sectors (\*)  
**Total fund size:** N/A  
**Investment ticket range:** US\$50,000–250,000  
**Investment type:** equity, loans and repayable grants  
**Start date:** 2021  
**Geographic area covered:** Africa



### ORGANIZATION NAME: BANCA ÉTICA LATINOAMERICANA (\*\*\*)

**Fund name:** N/A  
**Creative economy sector:** all CCI sectors (\*)  
**Total investment:** US\$7 million  
**Investment ticket range:** US\$20,000–1.5 million  
**Investment type:** fixed loans  
**Start date:** 2016  
**Geographic area covered:** Latin America (Chile, Brazil, Argentina and Uruguay)

## Global

1. Netflix Creative Equity Fund

## 2. Focus on seven creative impact funds

We have analyzed the seven leading impact-investing funds in CCIIs according to the following criteria:

1. Creative economy sector covered
2. Investment structure
3. Type of investors and investment
4. Start and working years
5. Technical assistance
6. Sustainable Development Goals (SDGs) addressed

### 2.1 Key insights

#### Creative sector covered

Five funds invest across all CCIIs, while two funds are dedicated to specific sectors: one for handcrafts and one for audiovisual art and video games.

#### SDGs addressed

Five funds primarily address SDG 8 Decent Work and Economic Growth, while three funds focus on SDG 4 Quality Education, SDG 9 Industry, Innovation and Infrastructure, and SDG 11 Sustainable Cities and Communities.

#### Working years

Two funds have a duration of 10 years; two funds last for 3 years; two are evergreen funds; and one syndicate fund.

#### Investment structure

Five are private investment funds, while two are blended funds combining private and public investments.

#### Type of investors

Two funds are fully invested from foundations.

#### Technical assistance

While five funds do not provide technical assistance to investees, two funds offer this additional support.

#### Geographic area covered

Four funds focus on investments in Latin America, two in Asia, one in the UK, and one in Africa.

#### Start year

The first fund was launched in 2016, followed by one in 2018, one in 2019, two in 2020, and two in 2021.

#### Type of investment

Four funds provide loans as their primary form of investment, two funds offer a combination of loans and equity, and one fund exclusively focuses on equity investment.



## 2.2 The impact of creative funds

Table 4: This table sets out the main SDGs covered by each fund.

Fund name	SDG 1 No Poverty	SDG 3 Good Health and Wellbeing	SDG 4 Quality Education	SDG 8 Decent Work and Economic Growth	SDG 9 Industry, Innovation and Infrastructure	SDG 11 Sustainable Cities and Communities	SDG 12 Responsible Consumption and Production	SDG 17 Partnerships for the Goals
Screen Capital				✓				✓
Arts & Culture Finance by Nesta		✓	✓	✓		✓		✓
Creative Economy Practice at CcHUB			✓	✓	✓			
Upaya Social Ventures	✓			✓				
Bancóldex				✓	✓	✓		
Banca Ética Latinoamericana			✓			✓	✓	
Community Investment Management					✓			

INDUSTRY  
INSIGHTS\_

# The art of investing: How social impact investment drives cultural change



## Chase Mayo

Senior Consultant, Finance  
& Enterprise Performance,  
Deloitte Consulting LLP

### Introduction

The Community Reinvestment Act (CRA) is a 1977 legislation promoting fair access to credit and financial services in low- and moderate-income communities. Its origins can be traced to concerns about redlining and disinvestment in underserved neighborhoods.

The CRA requires banks to meet their entire community's credit needs and incentivizes financial institutions to invest in community development initiatives. This includes allocating funds for projects that support various community needs, including the arts. The shifting CRA landscape has opened opportunities for private equity firms and family offices to actively participate alongside financial institutions, enabling them to benefit from investment returns, tax incentives and social recognition while supporting art projects and other community development initiatives.

Understanding how banks currently allocate funds for CRA credits is essential to grasp these investments' impact on the arts community. Banks typically meet their CRA obligations by investing in community development projects, affordable housing, small business loans, and other initiatives that benefit underserved populations.

This data underscores the significant proportion of CRA investments in community development, including the arts sector. Private equity firms and family offices' involvement in CRA initiatives expands their potential for supporting art projects and other community

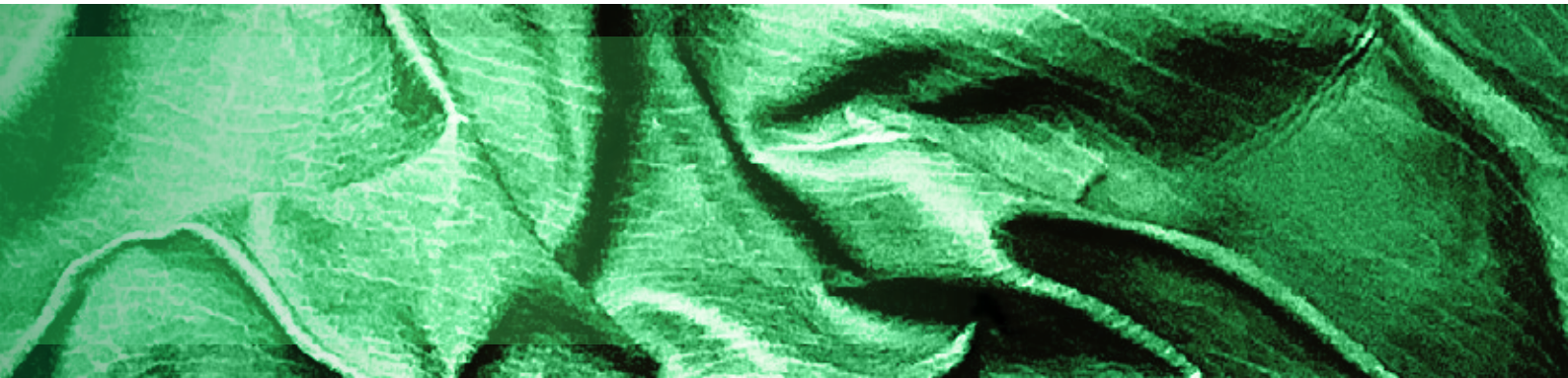
development endeavors while enjoying financial benefits and contributing to their social responsibility efforts.

### CRA investing in the arts: a closer look

The case studies of PNC Bank's Arts Alive program and JP Morgan's philanthropic arm, the JP Morgan Chase Foundation each program demonstrates the tangible benefits of CRA investments in the arts community. By allocating a portion of their CRA funding to support the arts, these institutions have contributed to community revitalization, economic growth, and increased access to cultural experiences for underserved populations.

PNC's Arts Alive program, launched in 2009, focuses on funding small and mid-sized arts organizations in Central Ohio, Southeast Florida, Greater Philadelphia, Southern New Jersey, Delaware and Greater St. Louis. Through this program, PNC Bank has awarded over US\$20 million in grants supporting over 150 arts organizations, resulting in positive community outcomes.<sup>216</sup>

For example, PNC Bank has partnered with Aesthetic Dynamics and the Delaware Art Museum, who are restaging a significant historical exhibition of the Black Arts Movement, initially showcased at the Wilmington Armory in 1971, in commemoration of its 50th anniversary. PNC Bank's partnership with the museum has played a crucial role in supporting numerous community projects throughout Delaware, fostering the participation of local artists and community members in creating vibrant public artworks.



In 2017, PNC Bank launched a US\$1 billion initiative to promote early childhood education, which strongly emphasized integrating arts education into the curriculum. This initiative played a significant role in PNC Bank earning an "outstanding" CRA rating from the Federal Reserve. The bank has also distributed US\$211 million in grants to organizations that support early childhood education in the arts.<sup>217</sup>

The philanthropic arm of JP Morgan Chase, the JP Morgan Chase Foundation, actively supports a range of community development initiatives, including the arts. The foundation has dedicated funding to art education programs, public art installations, and art-based economic development initiatives.

In 2019, JP Morgan Chase announced a US\$350 million initiative to support job training and career pathways for underserved communities and bolster the creative economy. In collaboration with the New York City Department of Cultural Affairs, the bank provides grants to the city's artists and cultural organizations.<sup>218</sup>

Additionally, the bank supports art programs and events in communities nationwide through the JPMorgan Chase Arts and Culture program. According to an Americans for the Arts report, the bank's arts and culture initiatives generated over US\$219 million in economic activity in 2018, supported over 5,000 jobs, and generated US\$27 million in government revenue.

### Engaging trust, private entities, and private equity

Private entities, trusts, and family offices have a unique opportunity to engage in CRA investing actively and substantially impact the arts community. By aligning their investments with CRA requirements and participating CRA institutions, these entities can simultaneously achieve financial objectives and contribute to underserved communities' development.

Family offices can partner with community development financial institutions (CDFIs) to fund projects that fulfill CRA obligations. By doing so, they support community development initiatives and earn CRA credits, potentially offsetting any CRA deficiencies of the partnering depository institution.

CDFIs fall into four categories:

- **Community development banks** function similarly to traditional banks but are federally insured and are required to allocate a minimum of 60% of their financing to low- and moderate-income communities.
- **Community development credit unions** are cooperative institutions that offer financial services to their members.
- **Community development loan funds** provide loans to support the growth of local businesses, affordable housing initiatives, and community facilities. They serve a diverse range of borrowers, including small businesses, nonprofit organizations, charter schools, individuals, and community development projects.

- **Community development venture capital funds** pool investor capital to make equity investments in private operating companies. These investments generate financial returns while simultaneously achieving community development objectives.<sup>219</sup>

While CDFIs primarily secure their funding from banks, the federal government, and institutional investors, there is often a greater need for capital than what is readily available. This creates an opening for family offices and individual investors to become involved. One method of investing in CDFIs is by participating in community development loan funds. Some of these funds have formalized investment options and are registered in various states, while others engage directly with investors as part of local fundraising initiatives.<sup>220</sup>

### Conclusion

When the CRA is effectively leveraged alongside intentional investing, it can provide a systemic lift to grassroots and institutional efforts to support the arts. Through programs like PNC Bank's Arts Alive and JP Morgan's ArtWorks, financial institutions have demonstrated the transformative power of investing in the arts community, fostering economic development, cultural vibrancy, and a higher quality of life. Private entities, trusts, and family offices can participate in CRA investments, ensuring a more equitable distribution of resources and contributing to the growth and enrichment of underserved communities.



IOTA (AUGMENTED  
REALITY SCULPTURE)  
© JONATHAN PRINCE



## Part 2\_

# Cultural & creative sectors and sustainable impact investment\_

Culture is an indisputable pillar of sustainable development. The CCS make an important contribution not only to the global economy, but also help to foster social cohesion. The cultural sector accounted for an estimated 3.1% of global GDP<sup>221</sup> in 2020. The CCS account for 6.2% of total employment<sup>222</sup>, and are responsible for generating nearly 50 million jobs worldwide.<sup>223</sup> These industries also employ more young people aged between 15 and 29 than other sectors.<sup>224</sup> However, the arts and culture sectors are among those most affected by recent multiple global crises, including the COVID-19 pandemic. As a result, natural fragilities within the sectors have become more apparent and challenging.<sup>225</sup>

As well as providing employment, the creative economy is also important as it enhances social inclusion, cultural diversity and human development.<sup>226</sup> These factors position creative industries as crucial sectors for achieving the UN

2030 Agenda,<sup>227 228</sup> and contribute to the Sustainable Development Goals (SDGs) in multiple ways.<sup>229</sup>

Several countries have identified specific sub-sectors within the CCS as areas of opportunity for building international trade. These sub-sectors are broad-ranging, but generally include music, audiovisual arts and associated industries, the fashion industry, video games, design, performing arts, animation and the film industry.<sup>230</sup>

The CCS make an important contribution not only to the global economy, but also help to foster social cohesion.

According to figures highlighted in the OECD's 2022 *The Culture Fix: Creative People, Places and Industries* report,<sup>231</sup> government investment in cultural services is decreasing and accounts for an average of just 1.2% of total government spending across OECD member countries. While there has been a general downward trend in government spending, there has also been more recognition of culture and creativity's role in a country's economic development. As a result, new financial ecosystems that facilitate capital flow into projects related to culture have emerged, with the CCS' financial support ecosystem now including public, private and philanthropic investments, rather than just public investment (as was often the case in the past).

In 2021, the Forum pour l'Investissement Responsable (Responsible Investment Forum, or RIF) launched a "Responsible

Investment and Culture" working group to bring the financial community and cultural stakeholders closer together. On 23 June 2023, the RIF and UNESCO co-hosted a conference aimed at better understanding the links between finance and culture, particularly responsible finance and culture—a topic that is still not well understood.<sup>232</sup>

Several recurring themes emerged from this conference. Firstly, culture is an essential public good that supports personal wellbeing, social inclusion and the economy, but it lacks access to traditional finance and is not on the radar of responsible investment players. Secondly, what are the ways that the cultural industry can be repositioned as essential to the sustainable and responsible investment landscape.

## The Central Role of Culture in Sustainable Development

### The CCS



Direct and indirect economic development

**3.1%**

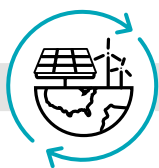
of the global GDP\*



Direct and indirect employment development

**6.2%**

of the global workforce\*



Urban regeneration and territorial valorization



Social cohesion and inclusion, psycho-physical well-being

**"Culture** is who we are and what shapes our identity. **Culture contributes to poverty reduction and paves the way for a human-centered, inclusive and equitable development. No development can be sustained without it."**



UNESCO, Sustainable Development Goals for Culture on the 2030 Agenda

**Key challenge: Lack of impact investment in art and culture as the sector is largely ignored by the investment community**

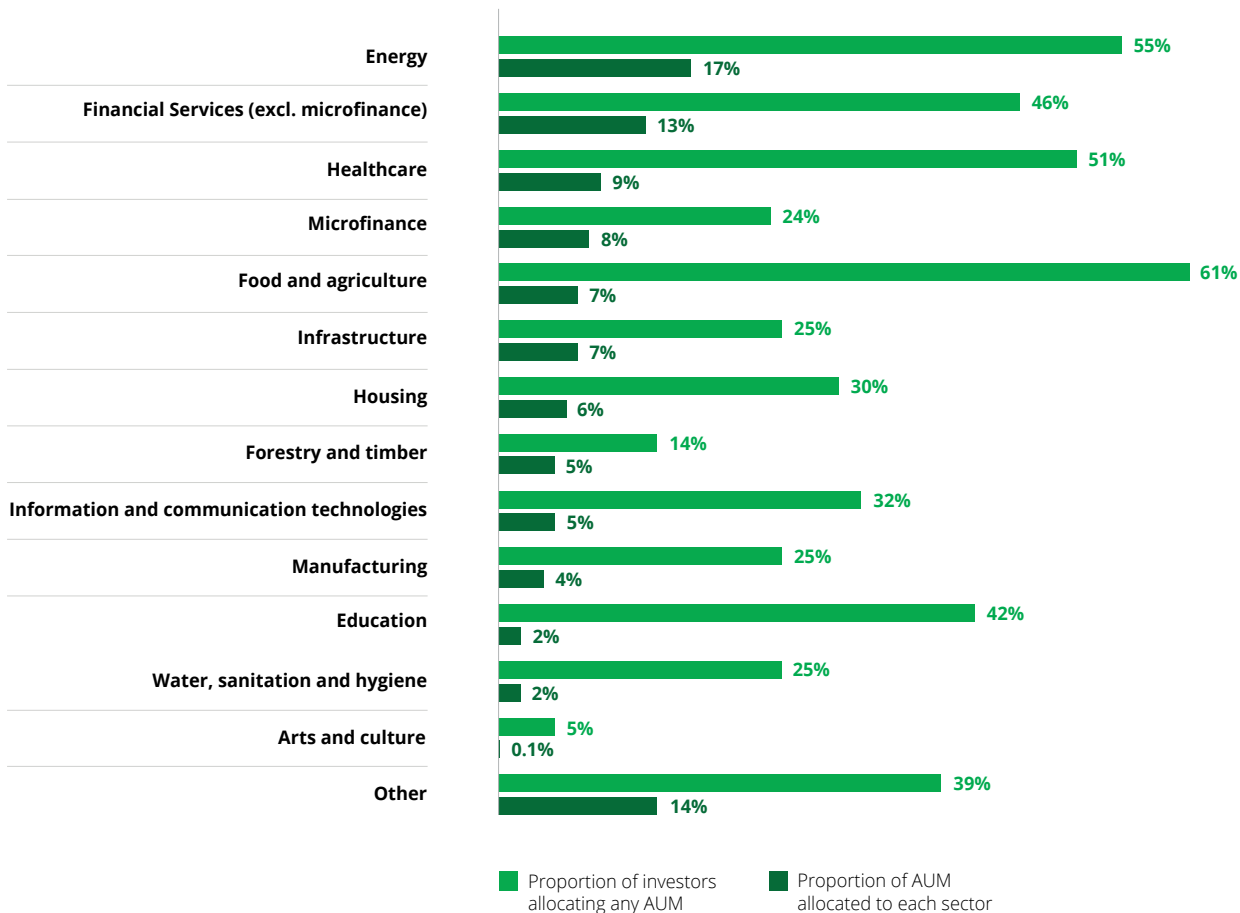
Investor allocations to impact strategies increased in 2022, with significant investment growth in sectors such as housing (44% CAGR), technology (30% CAGR), healthcare (26% CAGR) and energy (24% CAGR). **However, impact investment in art and culture saw**

**a negative annual growth of 11% between 2017 and 2022, accounting for only 0.1% of total AUM, with 5% of investors saying they allocate some of their impact investment to art and culture.**<sup>233</sup> The lack of investment in art and culture as a vehicle for impact investment is symptomatic of a sector that is struggling to articulate its value and impact—and that also lacks products and programs which enable investors to invest effectively in this sector.

**Figure 90: Investor assets allocations by sector**

Source: Global Impact Investing Network (GIIN), 2023 GIINsight: Impact Investing Allocations, Activity & Performance

n=303; AUM=USD 198 billion



Note: Excludes five outlier organizations based on AUM. Respondents may allocate to multiple sectors. 'Other' sectors included waste recycling, social tourism, aquaculture and cross-cutting lenses that apply across sectors, such as quality jobs, circular economy and climate solutions.

**Financing has the potential to positively transform economies, notably through the integration of environmental and social concerns.**

Today, many investors weigh the social and environmental impacts of their investment decisions and choose to finance companies with responsible practices. The CCS, which are among the world's fastest-growing sectors, remain largely absent from investment strategies developed by banks and asset and wealth managers. The **CCS are still not a priority area for social impact investment, as highlighted in the 2023 GIINsights report findings.**<sup>234</sup>

**How can we change the perception of the CCS' role in creating lasting social impact, and encourage more impact investment in these sectors?**

Florenzia Giulio, co-founder of Pulso, a women-led creative finance studio aimed at mobilizing social impact investment in the creative economy, has created a global map of impact funds in culture and creativity on page 229. We also look at how existing legislation can drive social impact investment. Chase Mayo from Deloitte US analyzes this opportunity in "The art of investing: how the banking industry has driven social impact investing – the Community Reinvestment Act (CRA)" on page 234.

**New methodology to measure impact of cultural projects**

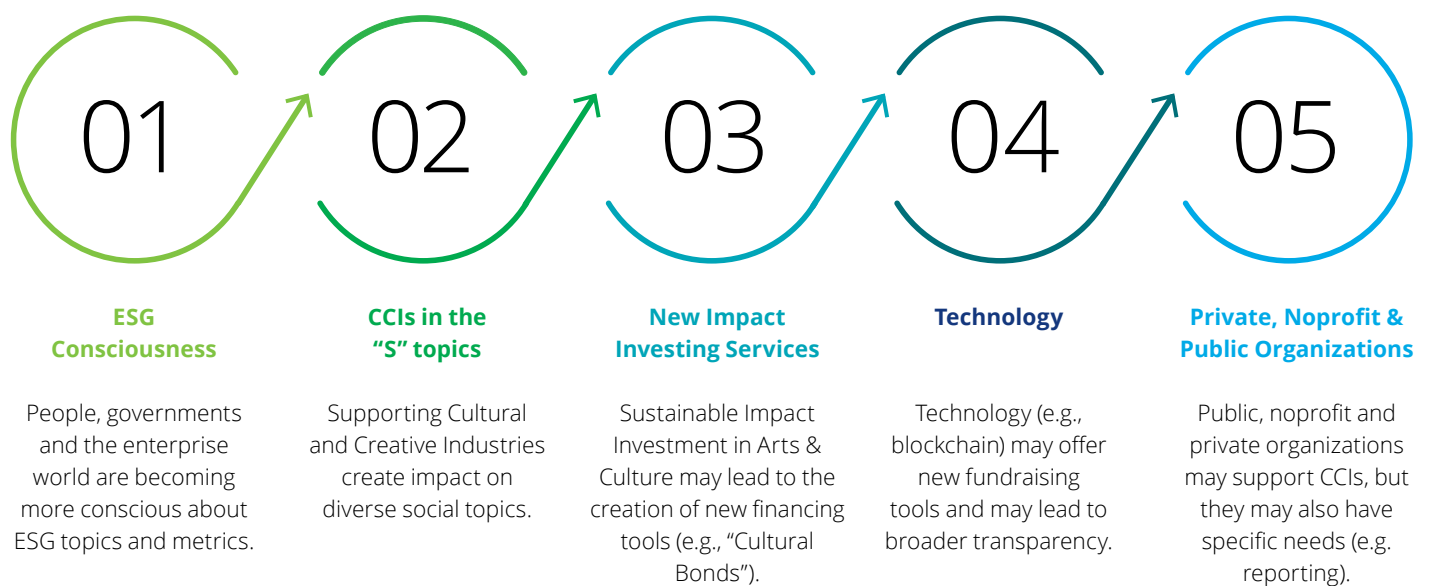
One way to attract more of the impact investment market is by demonstrating measurable impact—a task which continues to be challenging for the CCS. Creative and cultural organizations must improve how they measure performance and impact. Improved methodologies and impact reporting can enhance transparency towards stakeholders and strengthen their relationships with society. This could also potentially attract new supporters, investors and donors.

In its contribution on page 246, Deloitte Italy presents a new, updated methodology that can be used by creative and cultural organizations, family offices and philanthropists to analyze the SDG performance and impact of even the most complex cultural projects and report to relevant stakeholders. The approach takes inspiration from the GRI Standards, as well as the four thematic dimensions of the UNESCO Culture|2030 Indicators:<sup>235</sup>



## Relevant trends and outlook

Although still in its infancy, several trends point towards a future where the relationship between impact investing and culture will evolve over time.



### New technologies and impact

**investment:** Technological advancement has existing and future potential to support impact investment in creative and cultural organizations. Blockchain and tokenization are already being harnessed to generate new revenue streams and to provide fairer compensation models for creatives and creative companies (see Sections 6 and 7).

Technology has been a catalyst for supporting new payment methods and has made it easier for people to donate. The advent of social media and digital advertising has reduced the cost of

advertising and helped not-for-profit organizations access new audiences at significantly lower costs.

Furthermore, the emergence of Web3 technologies has made art tokenization possible; this could lead to new developments around audience engagement and support, paving the way for the next generation of museum patronage and membership models. By combining digital ownership, access rights and utility, new financial models could emerge for the not-for-profit sector in the near future.

In 2021, we demonstrated that technological advancement in AI and network theory allows us to analyze how cities and their networks of tens of thousands of museums, not-for-profit organizations and commercial galleries help spur and nurture creativity in the field of contemporary visual art. Using data and technology to improve our understanding of the impact of culture and creativity on our cities and their inhabitants is likely to become essential to attracting more impact investment into this sector.

## CSRD has been published on the 14 of December 2022.

Member States now have 18 months for transposition of CSRD.

### KEY DATES

#### November 2022

EFRAG delivers first set of draft ESRS to the European Commission

#### December 2022

CSRD is published in EU Journal

#### 5 January 2023

CSRD has entered into force

#### January 2024

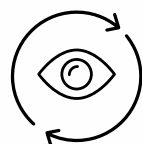
Application of CSRD for companies already subject to NFRD (publication due in 2025)

#### 2025

Application to all large undertakings based in EU or listed (publication due in 2026)

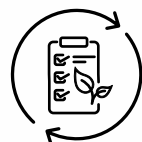
#### 2026

Application to all listed SMEs with option to opt-out for 2 years (publication due in 2027)



### Who is in scope?

- **Large EU undertakings** that exceed at least two of the following €20M balance sheet total, €40M net turnover and 250 average number of employees
- **Listed SMEs** that meet at least two of the following < €4M balance sheet total, < €8M net turnover and < 50 average number of employees or < €20M balance sheet, < €40M net turnover and < 250 employees during the FY
- Non-EU Companies listed on EU regulated markets
- EU subsidiaries of non-EU companies
- Exemption from publication for (EU/non-EU) subsidiaries only if parent publishes consolidated sustainability reporting in accordance with EU standards/ requirements or deemed equivalent
- Not in scope listed micro-enterprises



### Format and Channel

- Mandatory and externally published standalone Sustainability Report
- Mandatory **digital reporting of the sustainability reporting in ESEF format** ("Tagging")
- Prepare financial statements and management report in **machine-readable format** (XHTML)
- Reported in accordance with **EU sustainability reporting standards (ESRS)**
- Accompanied by a **statement by management** that the Sustainability Report has been prepared in accordance with ESRS



### Assurance, helping to ensure that reported info is accurate and reliable

- **Mandatory (limited) assurance** of reported information, including digital tagging and indicators to be reported in the Sustainability Report.
- The **Commission** shall, no later than **1 October 2026**, adopt **delegated acts** in accordance with Article 48a of CSRD in order to supplement this Directive in order to **provide for limited assurance standards**.
- Option of Member States to open the verification to an independent assurance services provider

## Sustainability reporting: new and emerging opportunities for CCS

Sustainability reporting is a topic of focus across the financial sector and is becoming more sophisticated as it gains increased public and private support. It is especially prevalent in the EU thanks to efforts to improve the transparency and availability of sustainability data, particularly surrounding how a company's operations impact people and the environment. According to this approach, the EU has recently adopted the new Corporate Sustainability Reporting Directive (CSRD)—replacing the EU's Non-Financial Reporting Directive (NFRD)—that will transform how companies report on sustainability matters.<sup>236</sup>

It is expected that approximately 50,000 companies will be impacted by the new regulations, with some in-scope companies needing to comply from as early as 2025.<sup>237</sup> The timeline of the CSRD's entry into force is as follows:

- Large EU public interest entities with transferable securities traded on an EU-regulated market (including non-EU companies based on EU-regulated markets) and with more than 500

employees must report from 2025 for financial years starting on or after 1 January 2024.

- Large EU undertakings and EU parent undertakings of large groups, and other non-EU large companies listed on a regulated market in the EU, must report from 2026 for financial years starting on or after 1 January 2025.
- EU and non-EU small and medium-sized undertakings (SMEs) listed on EU-regulated markets must report from 2027 for financial years starting on or after 1 January 2026.
- Non-EU companies with EU large or listed subsidiaries or an EU branch must report from 2029 for financial years starting on or after 1 January 2028 (noting that the reporting burden falls on the subsidiary/branch located in the EU).<sup>238</sup>

Companies that fall in scope of the CSRD will be obliged to adhere to the European Sustainability Reporting Standards (ESRS).<sup>239</sup> The ESRS will require that

companies provide both quantitative and qualitative data relating to the business' sustainability as well as various ESG topics. A company's management will also need to submit a written overview of its strategy and detail its overall approach to governance. They will also need to explain how the business carries out its materiality assessment, and how it measures its sustainability-related performance metrics.

Moreover, the EU is working on defining a European taxonomy that requires companies to disclose (within their sustainability reports) information related to a company's sustainable activities. So far, the EU has only published the delegated acts related to environmental topics; in fact, the EU's Taxonomy Regulation is designed to support the transformation of the EU economy to meet its European Green Deal objectives, including the 2050 climate target.<sup>240</sup>

The EU is also considering how it officially defines the social taxonomy, and which economic activities fall into categories that significantly contribute to the EU's social goals. This analysis aims to define a common code for investors, businesses and regulators that gives clarity on which activities are, or are not, sustainable from a social perspective.<sup>241</sup>

In this context, companies will be increasingly required to gather and disclose information about their approach to social topics, including their support to local communities and education. While these reporting requirements will include support for art and cultural activities, proper analysis of the impacts generated by these kinds of initiatives is still lacking. Therefore, it is important to continue working on frameworks with proper KPIs and information that may reflect the importance of culture for sustainable development.

Sustainability reporting is especially prevalent in the EU thanks to efforts to improve the transparency and availability of sustainability data, particularly surrounding how a company's operations impact people and the environment.

In this way, the UNESCO Culture|2030 Indicators can improve the disclosure and transparency of publicly available information relating to a company's social impact under ESRS reporting requirements. This standardized framework of thematic, measurable indicators can show how culture contributes to both the national and local implementation of the goals and targets for the 2030 Agenda for Sustainable Development.<sup>242</sup>

**It is worth underlining that this evolving context also represents an opportunity for CCS.** In recent years, efforts and resources have been dedicated to environmental topics and projects (e.g., the reduction of greenhouse gas emissions (GHG), the protection of biodiversity and the circular economy) to fight climate change and safeguard the planet. However, companies are increasingly embracing projects that positively impact society and people, including cultural initiatives and projects developed by CCS, to evolve their ESG reporting and corporate social responsibility (CSR) strategies. This development is also driven by investors and regulators' increasing focus on the impacts of the private world on society.

Over the next few years, companies will need to find new ways to have a positive impact. That is why **CCS may take advantage of this increasing focus on ESG.** It will be important for them to report and demonstrate that the resources received as a part of companies' CSR commitments have been invested in a proper and impactful way. This further highlights the significance of monitoring and reporting relevant information regarding generated results and benefits, which need to be disclosed with proper KPIs.

### Initiatives in the intersection between impact investment and the creative sector

A recent initiative,<sup>243</sup> Creativity, Culture & Capital, is a collaboration between Arts & Culture Finance, Upstart Co-Lab and Fundación Compromiso. The three women-led organizations operate from the UK, the United States and Argentina, respectively, and work at the intersection of impact investment and the creative economy.<sup>244</sup> Since its inception, Creativity, Culture & Capital's *Impact Investing in the Global Creative Economy* series has provided tangible examples of how the creative sector (including the visual arts, film, music and fashion industries) can positively benefit society and address various social challenges that range from indigenous rights to healthcare and prisoner rehabilitation.<sup>245</sup>

For example, pioneering research by University College London has highlighted a strong link between engagement in arts and culture, and health, which has created new avenues of exploration when it comes to treating mental and physical health conditions.<sup>246</sup>

### Social impact bonds to support CCS

As already highlighted in the 2021 Art & Finance report, if the CCS are to play their full role in society and sustainable development, the time is now to find better ways and models for connecting impact investors with the sectors' financing needs.

**One example is through a CCS impact bond market, which could develop in the same way that the green bond market developed.**

- Similar to green bonds, culture bonds could be fixed-income instruments that encourage sustainability, designed explicitly for CCS projects that accelerate and sustain a dynamic creative economy that contributes to social progress.



- Culture bonds could include tax incentives, such as tax exemptions and credits, to enhance their attractiveness to investors. These tax advantages would provide a monetary incentive to tackle prominent social issues and help develop the CCS.<sup>247</sup>
- To qualify for culture bond status, a third party (such as a culture impact bond standards board) should verify that the bond would fund projects that benefited the CCS.<sup>247</sup>

This CCS impact bond could take the form of a social impact bond (SIB). The OECD defines an SIB as an innovative financing mechanism through which governments or commissioners can enter into agreements with social service providers who deliver contractually agreed and measurable social outcomes.<sup>248</sup> These service providers can be social enterprises or non-profit organizations.

The financing mechanism works when an organization issues “bonds”<sup>249</sup> to raise

funds from private investors, charities or foundations.<sup>250</sup> The service providers use these funds to cover their operating costs, and when the pre-agreed social outcomes are achieved, the government or the commissioner pays the organization or investors that initially issued the bond.<sup>251</sup>

Claudia Restrepo Múnera’s article “Sharing the orange bond with the world”<sup>252</sup> suggests building on previous successful experiences with orange bonds in Colombia to mobilize capital for the CCS to overcome its exclusion due to its fluctuating income.

These orange bonds are thematic bonds very similar to standard ones; while they are traditional debt instruments with a similar credit profile, their proceeds are used to contribute directly and exclusively to the labeled bonds’ purposes. Thematic bonds include green, social, sustainability-linked, blue, transition, COVID-19 and orange bonds. These bonds sparked a revolution in understanding the longevity, purpose, and potential of

sustainable investments to achieve a positive impact.

Bancóldex was the first bank in the world to issue an orange bond at the end of 2018. The bond was 2.9 times oversubscribed, and attracted 322 investors, 62% (201) of which were allocated bonds.<sup>253</sup>

**Two years after its issuance, the results show that:**

- Disbursements have been made in 100% of Colombia’s 32 departments;
- 47% have financed large company projects, 26% medium-sized, 21% small and 6% microbusinesses;
- 52% funded arts and heritage projects, 42% went to cultural industries and 6% to functional creations; and
- 69% of resources were allocated to working capital and 31% to business modernization.<sup>254</sup>

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## Measuring and reporting the impacts of culture

### Proposal for a new methodological approach



**Roberta Ghilardi**  
Sustainability Manager,  
Deloitte Italy

**International awareness of the importance of culture for sustainable development has grown in recent years.** The direct, indirect and induced impacts of the cultural and creative industries are primarily economic—UNESCO estimates they generate 3.1% of global GDP and 6.2% of global jobs—with an undeniable impact on society.<sup>255</sup>

But the sector also generates other impacts that are, in some ways, more important than those already mentioned. Primarily, culture drives innovation, helping transform the processes and products that shape our lives and inspiring more sustainable ways of living. For example, cultural innovation can boost the urban regeneration of an area through upgrading existing buildings or opening cultural centers. This can help promote the area, strengthen its receptive hospitality sector, and boost local community participation.

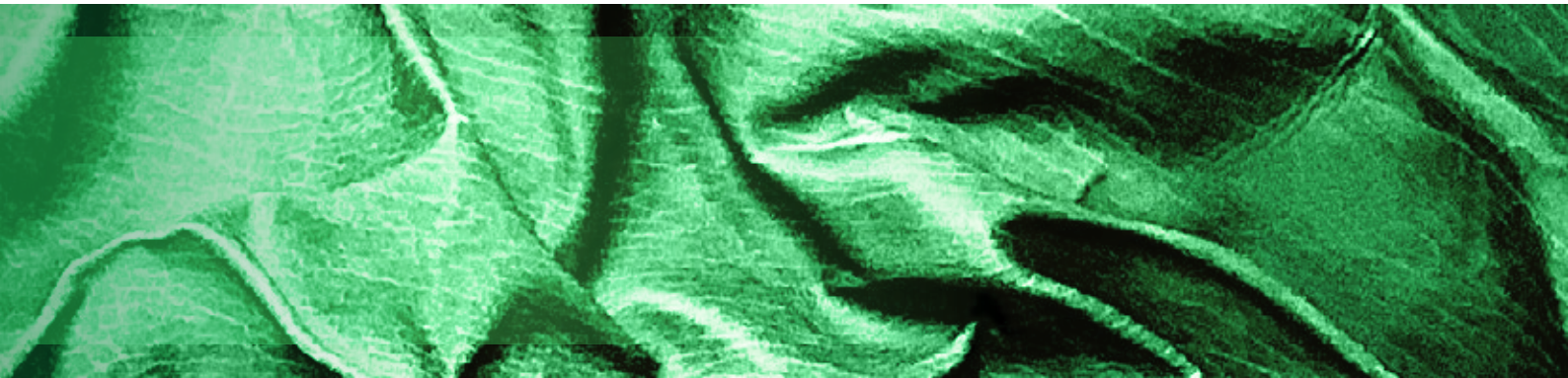
However, culture's most significant impact is the capacity to promote sociocultural diversity, contributing to cohesion, social inclusion and people's psycho-physical well-being. The social upheaval of the past three years has taught us that humanity cannot live without fundamentals like *peace and health*—to which culture primarily contributes—as well as the innovation and opportunity to rethink the processes and products that affect our daily lives.

With growing awareness of the importance of the sustainability pillars—the so-called environmental, social and governance (ESG) factors—culture is climbing up the public and private sector agenda to promote sustainable development. However, what is missing is the measurement of culture's unique impacts, which can reflect the externalities generated in detail.

This gap in the measuring and reporting landscape is not only due to culture's complexity, which cannot be measured with purely economic or employment parameters. There is also a lack of awareness of how measuring and sharing results with stakeholders can be a priceless instrument for transparency, strengthening public opinion and, consequently, fundraising for organizations relying on external support.

Finally, measuring and analyzing how resources are invested in culture with appropriate performance indicators can help improve the strategy and allocation of public and private resources, benefiting all stakeholders.

Current methodologies for measuring culture differ depending on the objective of the analysis and the type of expected result. Firstly, econometric assessments of cultural assets can be performed, both in terms of own value and social value, to try to determine a given good's value for the community. For example, Deloitte



estimated the Colosseum contributes €1.4 billion to the Italian economy (in terms of GDP) but also estimated its social value at €77 billion.<sup>256</sup>

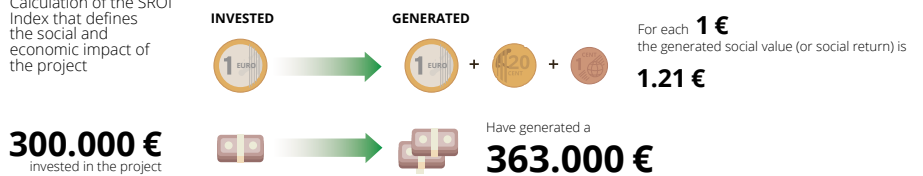
A second internationally recognized methodology is Social Return on Investment (SROI),<sup>257</sup> which quantifies the social impacts of activities and projects. SROI analysis first investigates the input elements of a specific activity or project, and then the generated effects on the stakeholders. On this basis, the methodology helps calculate the economic value of the generated impacts by using appropriate financial proxies.

Deloitte Italy performed an assessment using the SROI methodology for Consulta di Torino, an association of private companies dedicated to conserving and valorizing Turin's cultural heritage. In particular, Deloitte analyzed the social impact of the renovation of the Boschetto dei Giardini Reale, including the creation of the artist Giulio Paolini's sculpture, "Precious Stones," which the association commissioned to celebrate its 30-year history.

Following the seven SROI principles, project inputs, results obtained and impacts generated were examined and economically valued through appropriate financial proxies, resulting in an index that shows how each €1 of contribution in this project has generated €1.21 of social value, expressed in economic terms.

### The results

Calculation of the SROI Index that defines the social and economic impact of the project



Finally, UNESCO's Culture|2030 Indicators framework analyzes, measures and monitors how culture contributes to achieving the Sustainable Development Goals (SDGs) of Agenda2030. This framework considers culture both as a sector of activity and a cross-cutting element of the SDGs themselves. It focuses not only on economic well-being and job generation, but also how culture can contribute to creating knowledge and skills and foster people's inclusion and participation in collective life. For this reason, the framework is divided into four main pillars:

- Environment & Resilience
- Prosperity & Livelihood
- Knowledge & Skills
- Inclusion & Participation<sup>258</sup>

For Parma Italian Capital of Culture 2020+21, an ad hoc impact measurement method, inspired by the UNESCO Culture|2030 Indicators, was conceived and applied. KPIs were identified for each of the

four pillars and, where possible, structured according to the Global Reporting Initiative (GRI) Standards, the most-used standards in sustainability reports.<sup>259</sup>

### These include:

- Environment & Resilience: Investments (by public and private entities), number of partners and sponsors, and information on health and safety management and approach to environmental protection;
- Prosperity & Livelihood: Turnover generated (divided between ticket office and complementary services), number of suppliers, and number of workers;
- Knowledge & Skills: Languages in which the projects were made available, the number of cultural mediators, the hours of work employed, and the number of initiatives for schools and families; and
- Inclusion & Participation: Number of participants/visitors and breakdown by type (including indicators related to gender and age diversity) and number of volunteers.



## 1. Environment and resilience

“Role and contribution of culture to sustainable human settlements with a focus on cultural and natural heritage and urban environment”

### SDGs contribution:



### Possible KPIs

- ▶ Investments (public and private)
- ▶ Events' locations
- ▶ Number of partners, sponsors
- ▶ Health, Safety and Environment



## 2. Prosperity and livelihood

“Contribution of culture in driving and enabling more inclusive and sustainable economies, by generating income and employment, stimulating revenue through cultural goods, services, and enterprise”

### SDGs contribution:



### Possible KPIs

- ▶ Generated income (ticket office vs. ancillary services)
- ▶ Number of suppliers
- ▶ Number of employees and other workers



## 3. Knowledge and skills

“Contribution of culture in building knowledge and skills including local knowledge and cultural diversity”

### SDGs contribution:



### Possible KPIs

- ▶ Available languages
- ▶ Number of cultural mediators
- ▶ Hours worked
- ▶ Number of initiatives for schools, families



## 4. Inclusion and participation

“Contribution of culture in building social cohesion, as well as in fostering inclusion and participation”


### SDGs contribution:



### Possible KPIs

- ▶ Number of participants/visitors
- ▶ Type of participants/visitors
- ▶ Number of volunteers and origin





The impact analysis used for Parma 2020+21 can be adapted to other initiatives to encourage a more widespread and conscious use of measuring cultural impact, benefitting all stakeholders.

Reporting and measuring cultural impact can enhance transparency for stakeholders and strengthen relationships within society, potentially attracting new supporters and donors. Those activities may also represent a starting point for a self-analysis of the “as-is” situation, to understand how to improve, define goals and targets, grasp the necessary actions to benefit society at large, and assign private and public resources to projects and events with a significant sustainability impact.

Reporting and measuring cultural impact can enhance transparency for stakeholders and strengthen relationships within society, potentially attracting new supporters and donors.

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#### **Assessing the cultural impact of private museums, family offices and private investors**

Deloitte Italy's methodology to measure and report the impacts of culture is being applied to private museums as well as the cultural initiatives developed by family offices and private investors, to quantify their societal effects and contribute to their enhancement. The methodology begins with analyzing the organization's activities, mission and values to assess which UNESCO KPIs may apply. With the support of the organization's employees, data and information collection campaigns are launched to draft a specific report, which will help the organization constantly improve its performance in developing cultural events.

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# Art assets and cultural initiatives as a driver for social sustainability

## Preliminary results



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### Executive summary

Art and culture have played a vital role in both societal and sustainable development. Given the world's growing interest in environmental, social and governance (ESG) factors, Deloitte Private Art & Finance has been examining the influence of sustainability on the cultural sector over the past few years.

This paper presents the results of an exploratory survey led by the Institute for Transformative Innovation Research (ITIR) and the University of Pavia in collaboration with ARTE Generali, Banca Generali and Deloitte Private. It investigates how for-profit and nonprofit organizations promote and support cultural initiatives as drivers for sustainability, especially how and if they manage, measure and disclose their social impact. Monitoring and reporting are fundamental tools for boosting the potential of arts and culture in promoting sustainable development and attracting capitals from investors and donors. The survey, one of the few in-depth examinations of this topic, is the first step in a broader observation to constantly monitor the evolution of arts and culture impact analysis, and takes recent European legislative developments into account like the Corporate Sustainability Reporting Directive.<sup>260</sup>

Our study recognizes the UNESCO Culture | 2030 Indicators framework, which measures and monitors culture's contribution across multiple industries to achieving the United Nation's 2015

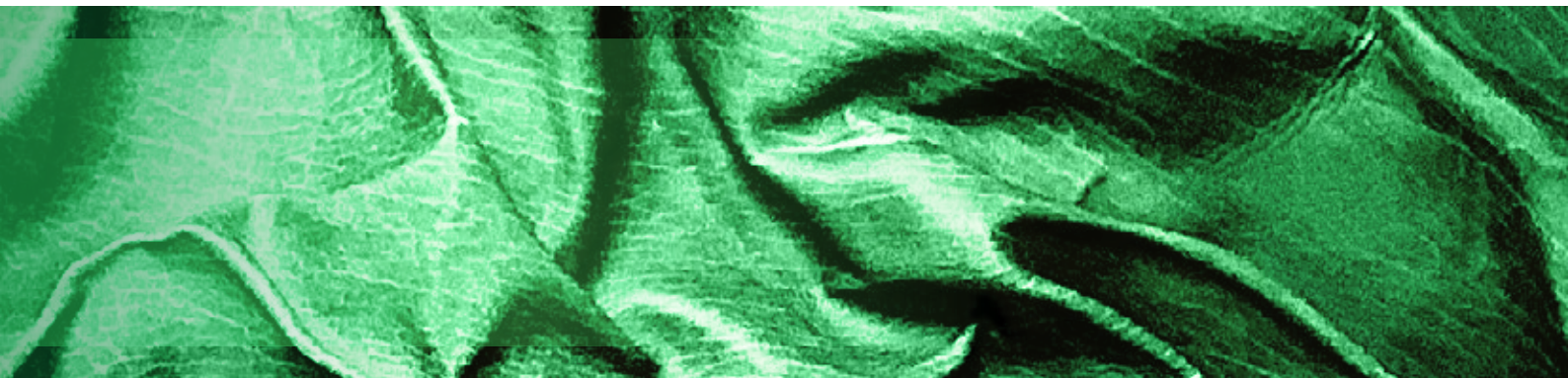
Sustainable Development Goals" (SDGs) adopted in the global Agenda 2030 resolution.<sup>261</sup>

By uncovering organizations' practices and strategies to leverage cultural assets for sustainable development, we aim to contribute to developing transparent and collaborative local policies.

The participants of this explorative survey were 25 European organizations that support culture and hold valuable assets, comprising distinct types of art, including photographs, music, artifacts, and other collectibles. These initiatives can impact organizations both internally and externally because they help expand the audience engaging with arts and culture, especially in developing countries, and support the local cultural landscape through grants, scholarships, education programs, and exhibitions.

According to the UNESCO Culture|2030 Indicators, cultural impacts can be categorized into four thematic areas: environment and resilience; prosperity and livelihood; knowledge and skills; and inclusion and participation. While the first two categories can be more straightforward to measure, since culture represents itself as an economic sector, the last two are more complex. Therefore, it is encouraging that all the surveyed organizations strongly consider all four topics.

Most of respondents' art collections are accessible to the public, supporting the



development of cultural education. This relates to the inclusion and participation category, as giving people access to arts and culture can benefit social cohesion and foster inclusion and participation. On the other hand, the margin of accessibility does not correlate with the limited number of visitors to the surveyed organizations' art collections.

It is also important to highlight how all organizations promote their art collections and cultural assets, with most using special events open to the public, contributing to social awareness of arts and culture. The survey finds that SDGs are not being used by all surveyed organizations and are still faced with some hesitation. In addition, not enough cultural and art operators promote sustainable measures, with only 40% of respondents familiar with the UNESCO Culture|2030 Indicators, and only 8% using them.

While it is promising that 78% of respondents are interested in measuring

**Sustainability is strategic, even in the cultural sector.**

78% of respondents are interested in measuring their social impact and 57% their economic impact; raising the understanding and awareness of SDGs is essential to help organizations appreciate their importance.

their social impact and 57% their economic impact; raising the understanding and awareness of SDGs is essential to help organizations appreciate their importance. Our results uncover that arts and cultural organizations have room for improvement. There is a significant opportunity to reassess governance models, organizational capabilities, and individual skills explicitly tailored to arts and culture within organizations, so they can enhance sustainability effectively.

From this perspective, our empirical findings suggest the key goal is to move from the "trade-off" paradigm—social versus economic, freedom versus governance—to a complementary view, where social and economic dynamics generate mutual synergies, and the governance and measurement of culture are conceived as powerful tools to preserve arts and culture for future generations.

### 1. Introduction

Art and culture have always played a central role in shaping how our society evolves. However, given that issues of environmental safeguarding and societal development are increasingly prioritized today, it is surprising that there is a lack of comprehensive studies, facts, and figures on the transformative potential of art and cultural initiatives in promoting values fundamental to sustainable development. These include diversity, inclusion, quality education, wellbeing, community engagement, work-life balance,

gender equality, poverty reduction, and responsible action.

Art and culture profoundly influence our collective consciousness, fostering empathy, mutual understanding, and social cohesion. They not only explore and celebrate our heritage, but also challenge existing norms and encourage us to envision a better future. In this capacity, art and culture can serve as catalysts for social sustainability, nurturing an equitable, vibrant, and resilient society. They provide an incredible platform for dialogue and the cultivation of shared identities.

Fundamentally, while artwork is perceived in this way, collection and visits—and the way organizations manage cultural assets overall—have different impacts on consumers' perception of value, being a key driver in developing corporate brand and identity.<sup>262</sup>

The survey primarily targets entities responsible for managing and promoting art asset collections. This includes organizations that oversee art collections, corporate museums, and other valuable art assets and cultural initiatives. Therefore, our scope consists of both dedicated art management foundations and companies operating in sectors unrelated to culture but possessing significant art assets. Personal private collections are not considered within the scope of this study. We view "art and culture" as strategic assets that create value and can be included in a balance sheet.<sup>263</sup>

By exploring best practices, management systems, and governance approaches within these organizations, our findings aim to provide insights into how art assets and cultural initiatives can actively foster different forms of sustainability and societal development.<sup>264</sup> We emphasize examining how this value can be effectively delivered and measured.

The survey is led by the brand new Observatory on Art Assets Management, established at ITIR and the University of Pavia, in collaboration with ARTE Generali, Banca Generali and Deloitte Private.

## 2. From ESG to art assets and cultural initiatives

Our analysis recognizes the immense potential of art and cultural assets as powerful drivers for sustainable development, capable of shaping societies and fostering positive change. Artistic and cultural expressions not only inspire and engage individuals but also catalyze innovation, dialogue, and inclusive development.

Specifically, arts and culture significantly contribute to social sustainable development in several ways, including:

- Supporting better education and fostering respect for heritage and local places;
- Promoting values such as inclusion and gender equality; and
- Nurturing respectful economic growth based on creativity and culture.<sup>265</sup>

While existing evidence and findings suggest fruitful areas for study and development, they also highlight the need to better understand the link between art assets and sustainability. Currently, there is a lack of reliable data and scientifically grounded facts in this area.<sup>266</sup> Additionally, competencies for governing and measuring these phenomena are still in their preliminary stages, particularly among industrial operators.

In this context, the UNESCO Culture|2030 Indicators are of particular interest.<sup>267</sup> This framework acknowledges the significant role of culture as both a sector of activity and a cross-cutting driver that impacts various SDGs. Its specific indicators complement the 2030 Agenda's global ones, fostering connections and synergies between different goals and targets through cultural initiatives. And it enhances the understanding and assessment of culture's enabling role in driving sustainable development, supporting policymakers and stakeholders to effectively leverage cultural resources to achieve the SDGs.

Our survey also investigates the extent to which organizations managing art and cultural assets acknowledge and use this

The survey covered the following key topics:

- Organization and respondent profile;
- Overview of the art and cultural assets (types, value, etc.);
- Governance of the art assets and cultural initiatives management; and
- Assessment methods, metrics and (eventual) usage of the UNESCO framework.

The questionnaire was translated into four languages to cater to the targeted countries.

This paper presents the main findings of our exploratory survey performed between May and June 2023, based on

# Artistic and cultural expressions not only inspire and engage individuals but also catalyze innovation, dialogue, and inclusive development.

framework.

## 3. Unveiling the path: methodological insights from our exploratory survey

To deepen the understanding of the link between art assets or initiatives and sustainability, including the methodologies for measuring their impacts, we conducted an exploratory study that combined a quantitative survey with qualitative interviews to gather in-depth information and provide a nuanced understanding of the findings.

25 respondents. Though this number is not enough to ensure the generalizability of our results, the interesting insights that have emerged will be validated over the second phase of our work (July to October 2023), where we will target a more comprehensive and reliable sample.

## 4. Preliminary findings

The typologies of corporate cultural assets encompass a wide and varied range, spanning from artworks in the traditional sense to pieces from the company's heritage (e.g., historical machinery or

pictures) that hold significant value from the stories they narrate and the values they embody.

Our preliminary data suggests a prevailing interest in investing in actual artworks, with two-thirds of respondents taking part in some form of art collection. There is an equal distribution between organizations focused on well-known artists (without any relationship with the company), and organizations that prefer art collections more oriented towards young and/or local artists.

To appreciate these assets' socioeconomic impact, a first but fundamental aspect is to determine whether these cultural assets are open or not to the public (Figure 91) and—if so—how many people can visit these art collections or cultural heritage sites (Figure 92).

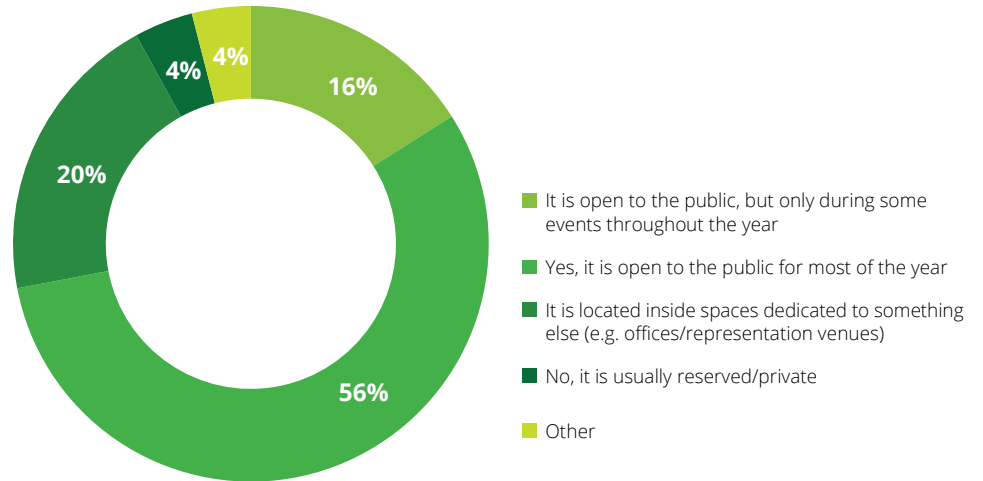
On the one hand, the surveyed organizations tend to share their collections' beauty and cultural value openly, with only 4% preferring to keep the works private. On the other hand, the number of visitors is encouraging but still limited, with fewer than 5,000 annual visitors for over half of the respondents.

Alongside the potential impact of cultural assets within an organization, our survey also investigated if and to what extent these organizations are committed to enhancing and communicating the sustainable impact of these corporate assets.

Figure 93 shows the diffusion of actively promoting art collections and cultural assets. Interestingly—according to our preliminary data—all organizations promote their art collection through a wide range of options, with most using special events open to the public (32%).

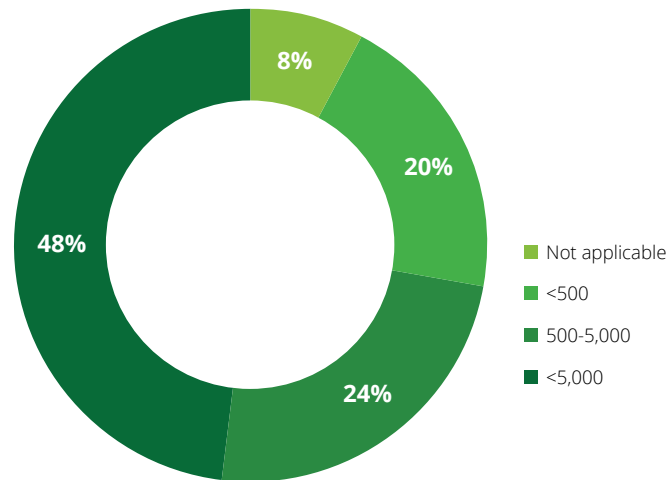
**Figure 91: Is the art collection open to the public?**

Source: own elaboration on the basis of the survey results



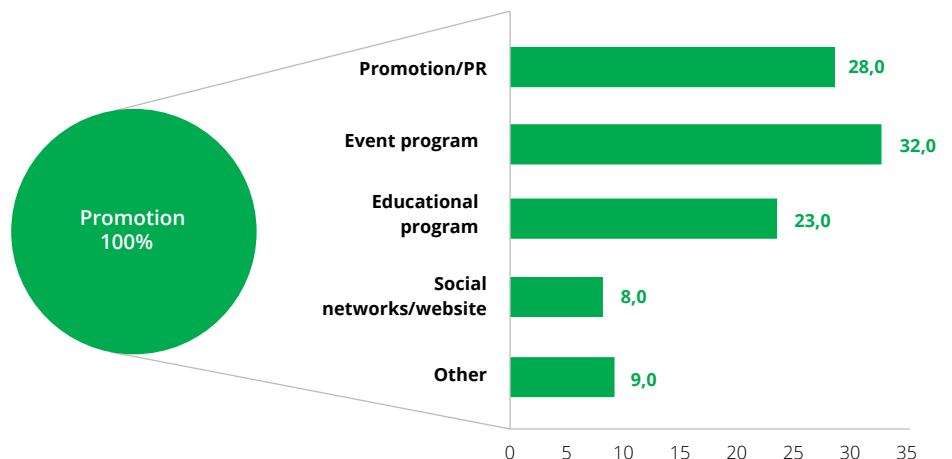
**Figure 92: How many people visit the collection annually?**

Source: own elaboration on the basis of the survey results.



**Figure 93: Do you actively promote your art collection?**

Source: own elaboration on the basis of the survey results



The survey also measured if organizations explicitly communicated their social and/or environmental sustainability performance via single integrated reports or sustainability reports. This communication is crucial to developing a culture of governance and measurement of corporate cultural assets over time. Figure 94 shows our findings regarding this aspect.

The results are positive and encouraging for about two-thirds of the respondents, as they follow some process of measuring sustainability performance or, at the very least, attempting to do so. The responses of how this information is communicated vary and warrant further investigation.

At the same time, there is significant room for improvement, with 32% of respondents not communicating any sustainability performance data, let alone regarding art and culture.

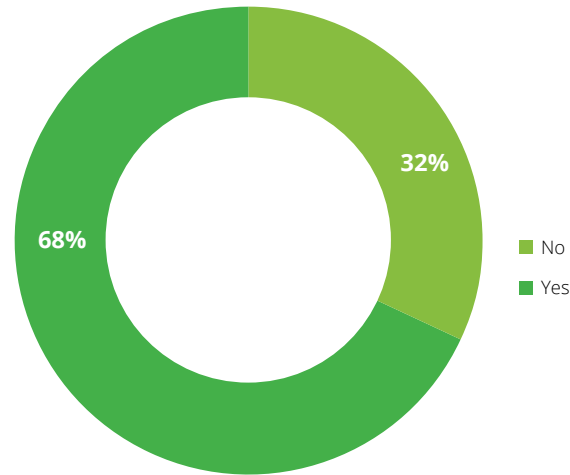
Figure 95 presents the respondents' awareness of the UNESCO Culture|2030 Indicators. We believe that a solid understanding of the UNESCO framework—and hopefully its practical application—serves as a reliable indicator of an organization's maturity in art asset governance and management, particularly from a social sustainability perspective.

**According to our preliminary results, only 40% of respondents are aware of the UNESCO Culture|2030 Indicators, and only 8% use them.**

This evidence suggests that there is much work to be done from this perspective, as broader awareness and adoption of the UNESCO framework are desirable.

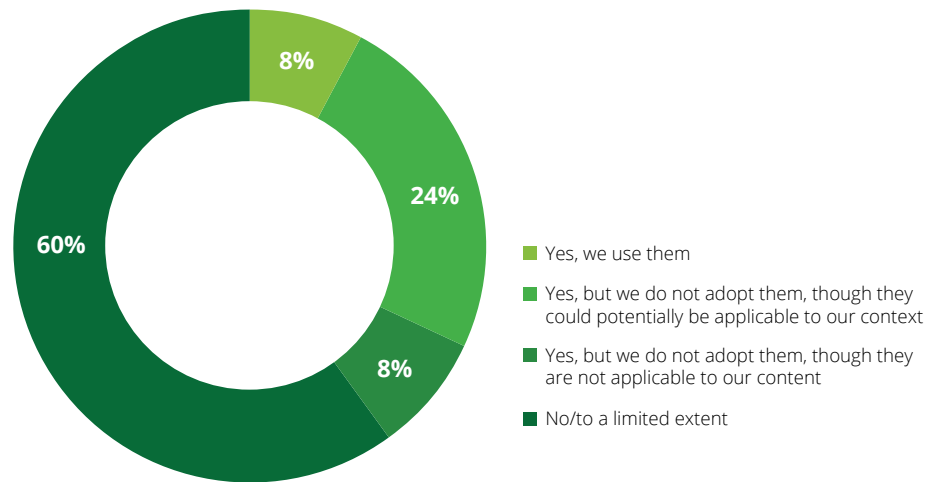
**Figure 94: Does your organization communicate social and/or environmental sustainability performance?**

Source: own elaboration on the basis of the survey results



**Figure 95: Are you familiar with the UNESCO|Culture 2030 Indicators?**

Source: own elaboration on the basis of the survey results



**The “Indicators Diet” paradox.**

Assessing the impact of art and culture experiences is more and more perceived as a strategic issue, though this sense of urgency does not lead to a widespread adoption of measurement practices. Like diets: everyone knows it's important, few do it.

**Finally, 78% of organizations not currently measuring their art collection and cultural assets' social impact indicated they would like to in the future.**

While this percentage is promising and reflects a commitment to art's social sustainability, the number of organizations that have already begun implementing some measures remains limited. Overall, our findings emphasize that organizations are more inclined to adopt metrics assessing the social dimensions of art assets governance (e.g., number of visitors, social cohesion,

social sustainability. While these are preliminary results from a small sample, which will be further developed and validated, a few remarkable insights have already emerged.

While our survey uncovered some awareness and enthusiasm for these topics, we have also encountered some hesitation that could represent barriers. The organizations that control art assets display some level of awareness. They recognize they must have full control over these resources, deeply comprehend

Furthermore, our findings reveal organizations are overall willing to enhance aspects related to governance, sustainability, and measurement of corporate art collection and art assets in the future. However, further action needs to be taken to reach this objective. Although there is broad consensus that cultural assets can be a powerful sustainability driver, all organizations should share the goal of measuring the sustainable impact in its various dimensions.

Our findings also highlight that art and cultural assets within organizations are perceived solely as "arts and culture". This could be good news, as preserving these resources' extraordinary value and societal influence is imperative. However, by governing them as "corporate assets" in the strictest sense—resources that generate strategic value for various stakeholders—we can harness their potential as a significant opportunity to enhance sustainability effectively.

More information and insights from the survey will be disclosed in January 2024, in a dedicated publication by Deloitte Private Italy, Arte Generali, Banca Generali, and Pavia University.

Our findings reveal organizations are overall willing to enhance aspects related to governance, sustainability, and measurement of corporate art collection and art assets in the future.

education programs), than coupled with the economic dimension. This indicates a prevailing view of art primarily as a kind of reputation driver rather than a strategic corporate asset.

**5. Conclusion (preliminary results)**

Our study aims to collect objective data on organizations' attention toward corporate cultural assets as a powerful driver of sustainability, with a primary focus on

their value, and find solutions to amplify the impact. This implies they have already started using tools to execute this vision. However, the feeling is that they are merely initial explorations in most cases, conducted without genuine proactive behavior and significant investments in "art sustainability", where the pivotal aspect of measuring impact is given due importance. In other words, while there has been a positive start, there is also some hesitation to accelerate the process.



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### Part 3\_

# Reinventing smart cities through culture\_

The International Institute for Management Development (IMD)'s *Smart City Index Report 2023* rankings show that city residents are placing importance on how living in their city impacts their overall quality of life.<sup>268</sup>

Moreover, culture and creativity can positively impact the health and wellbeing of city residents, as well as encourage social cohesion by supporting the integration and inclusion of marginalized groups into the wider population.

Culture and creativity are contributing factors to the attractiveness of a city as a place to live and visit; cities that are cultural and creative centers can encourage investment and urban regeneration. Moreover, culture and creativity can positively impact the health and well-being of city residents, as well as encourage social cohesion by supporting the integration and inclusion of marginalized groups into the wider population.<sup>269</sup>

With a greater understanding of the role the CCS could play in a smart city strategy, there may be an opportunity to attract more impact investment into the CCS and related activities.

**Making cities more human and lovable**

One of the main benefits of a “lovable” city starts with the concept that cities with happier and healthier residents can better accelerate economic growth. Governments and city planners can shape the attributes of an urban area to help citizens form a strong sense of connection with their cities. As urban populations grow, happier residents are key to optimizing a city’s economic growth and output.<sup>270</sup>

As urban populations grow, happier residents are key to optimizing a city’s economic growth and output.



**Sustainable finance**

Increasing interest for sustainable finance

**Smart cities quality of life**

Culture as part of the quality of life of a smart city strategy

**Culture and creative sectors**

Need to finance culture and creative sectors

Source: Deloitte Luxembourg

## Smartness and livability

The advantage of rehumanizing cities is not a new concept, particularly when it comes to revitalizing urban areas that tend to focus on convenience and technological advances.

Usually, urban planners and the general public have two main criteria for defining how lovable a city is: “smartness” and “livability.” Livability refers to how well a city’s infrastructure meets residents’ day-to-day physical, social and professional

improving security surveillance, to allowing citizens to report accumulated waste or snow using their smartphones.<sup>271</sup>

## A lovable city is more than just livable and smart

Separating what makes a city human, livable or smart is complex, given the three elements often overlap and will (ideally) reinforce one another. Research led by the DesignSingapore Council has identified six key characteristics that contribute to creating a human-centric city: inclusion,

## Culture and creativity key to stimulating cities

A stimulating city provides easy opportunities for residents to explore their surroundings, access leisure facilities, attend events, socialize with others, and benefit from educational opportunities. Creativity is central to making a city stimulating. **As a result, local governments need to recognize creativity’s positive impact on the quality of urban life. Without the involvement and support of the CCS, for example, a city’s nightlife and entertainment (which can be considered vital cultural assets) would not exist.**

London is an example of a stimulating city and has committed to remaining so, retaining its position as one of the most exciting cities in the world. Dedicated to diversity and social cohesion, London also values creativity and the arts—it boasts more than 250 museums and art galleries, many of which are free.<sup>274</sup>

In 2016, London appointed its first Night Czar,<sup>275</sup> responsible for ensuring the city is as vibrant and exciting at night as it is during the day. The Night Czar has identified and launched initiatives such as the Night Tube, where 24-hour public transportation was introduced on Fridays and Saturdays. There have also been measures introduced to help LGBT+ venues thrive, as well as a review of licensing approval processes to promote parity. **With the growing recognition that the CCS can contribute to a smart city’s quality of life and economic prosperity, there is ample room for more sustainable investment products to support policymakers, planners and developers as they strive to implement CCS initiatives in the future.**

# Creativity is central to making a city stimulating.

needs. It is assessed through a broad range of factors, including safety; mobility options and infrastructure; opportunities for education and employment; availability of public space and access to it; and political stability.

Central to a smart city is the deployment of high-speed internet and other relevant technologies, such as artificial intelligence, machine learning, and the internet of things—which can all help improve the running, infrastructure and organization of a city (e.g., using technology to create efficiencies or cost-savings). To make a city smarter, technology can be incorporated for almost any use: from managing traffic to

connection, attachment, stimulation, freedom and agency.<sup>272</sup>

A city’s livability and smartness are central to how lovable it is likely to be—however, a resident’s **connection** to their city is a key attribute often considered less important. Central to lovability is how easy it is for residents or visitors to connect with a city, foster community and evoke a sense of belonging. Although residents’ connectedness to a city is more conceptual than liveability or smartness, it is no less important; connectedness forms the basis of the social and emotional components of residents’ attachment to their cities.<sup>273</sup>

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# 05\_

## Art-secured lending







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# Highlights\_

Despite higher interest rates, the art-secured lending market continues its global expansion.

**The art-secured lending market could reach US\$29 billion by the end of 2023:** Despite higher interest rates, we estimate conservatively that the overall size of outstanding loans against art could reach a market size between US\$29.2 billion and US\$34.1 billion in 2023, up 11% from 2022. Since our last survey in 2021, the overall art-secured lending market growth has increased 10.3% annually.<sup>276</sup> However, growth is anticipated to slow down in 2023 to 7.5% and increase slightly in 2024 to 8%. We estimate that US\$2.2 billion in revenue could be generated from the art-secured lending market in 2023. We also estimate art-secured loans to private collectors between US\$26.3 and US\$30.7 billion in 2023, with the art trade (galleries and dealers) accounting for an estimated US\$2.9 billion to US\$3.4 billion. The need for liquidity in a more uncertain and volatile economic environment could support the growth of the art-secured lending market over the next two years.

**Strong growth in the art-secured lending market in 2022:** Collectors could be taking advantage of higher valuations and the opportunity to lock in lower rates ahead of anticipated interest rate hikes. However, survey results show that asset-based lenders expect the strong growth experienced in 2022 to continue over the next two years, despite the increased cost of funding.

**Higher interest rates force private banks to take a more conservative approach, opening up the market for asset-based lenders:** As interest rates reach new heights, it seems that private banks are continuing to take a more conservative approach to art-secured lending—possibly as a result of what seems to be a cooling in the global art market. However, this seems to have also opened the market for asset-based art lenders to fill the need for art-related finance. According to our survey findings, they can expect to grow their art loan book by 24% annually over the next two years.

**Asset-based lenders increased the size of their art loan book in 2022:** The average art loan book size for the 12 asset-based lenders surveyed was an estimated US\$170 million, up from an average of US\$50 million in our 2021 survey. Part of the growth in the average loan book size has been due to the growing art-secured lending business of Christie's and Sotheby's. Furthermore, we have seen the recent expansionary activities of The Fine Art Group in the United States and Asia, as well as the new partnership with Artnet to offer its users immediate access to apply for art-secured loans.

**Cost of funding on the rise:** Compared to 0% in 2021, 50% of asset-based lenders reported that they now charge 10%-15% in interest on art-secured loans. This suggests that the average funding costs for asset-

based loans have risen significantly on the back of higher interest rates. Among the private banks surveyed, the cost of art financing has also gone up significantly this year. 40% reported interest charges in the region of 3%-6%, and 60% said their average rates were between 6% and 10%. In contrast, none of the private banks surveyed charged this level of interest in 2021.

**Lower loan-to-value ratio indicates a more conservative risk management approach among art-secured lenders:** 40% of the private banks surveyed typically apply a 30%-40% loan-to-value (LTV) ratio on art-secured loans (up from 25% of private banks in 2021). There seems to be less risk aversion among asset-based lenders, where 42% apply a 40%-50% LTV ratio, while a further 42% said they would provide a 50%-60% LTV ratio. This higher LTV ratio among asset-based lenders could be another reason why borrowers might be attracted to using asset-based lenders for financing purposes.

**Art as an alternative capital asset:** There has been a behavioral shift over the last decade in how collectors view their collections—particularly among the younger generation of collectors. In addition to collecting for aesthetic, intellectual and social reasons, collectors are showing increasing interest in the financial aspect of collecting; they are viewing their collections as part of their overall wealth portfolio, and as a source of capital that could be more efficiently managed. This trend is fueling both demand and interest in the art-secured lending market.

**For private banks, providing liquidity for business operations has been the primary driver of growth:** 80% of the private banks surveyed said that the need for liquidity for business operations was a key driver for art-secured loans, and 83% of asset-based lenders said the same.

**For family offices, however, buying more artworks is the strongest motivation for using art leverage:**

41% of family offices say they would consider using art-secured loans to fund the acquisition of more artworks (up from 8% in 2021).

**Transaction financing key driver of demand:**

60% of the private banks surveyed and 67% of the asset-based lenders say that using art-secured financing to buy art without having to sell other assets was a key driver for their art-lending businesses. This motivation is also likely to be a key driver for growth in the coming year. The reason? Collectors and the art trade are considering purchasing more art in a softer market, benefiting from lower prices and less competition.

**Globalization of the art-secured lending market. Asia and Europe are becoming strategic markets for art-secured lending, as the US market reaches maturity:**

39% of art-secured lenders said that Asia (and Hong Kong, in particular) will be a strategic market for growth over the next two years, compared to 10% in 2021. Europe is also seen as an untapped market, with 78% of art-secured lenders viewing it as an opportunity, compared to 70% in 2021. However, lenders, see less opportunity in the mature art-secured lending market in the United States, with 56% believing this would be the most important market over the next two years, compared to 70% in 2021. These findings might also reflect greater awareness among collectors outside of the United States about the possibility to leverage their art collections.

**Tougher economic conditions could lead to higher demand for art financing:**

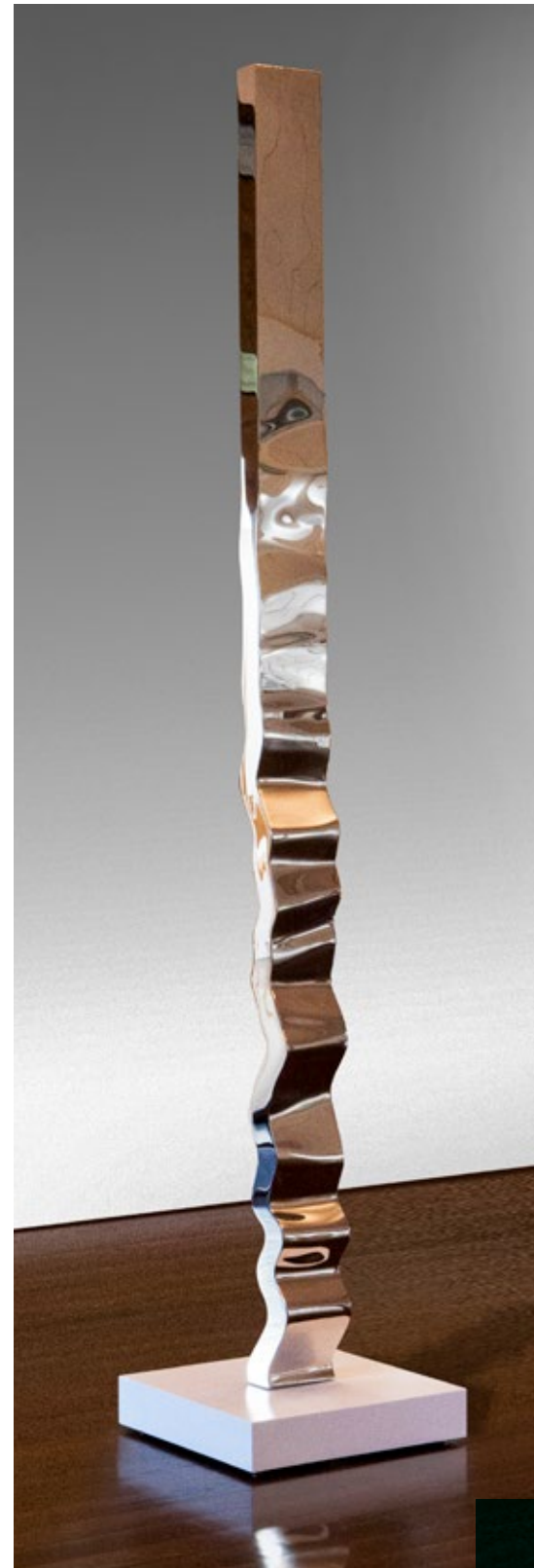
As economic conditions become more challenging in many parts of the world, 63% of wealth managers believe we will see an increase in the number of cases where art owners use their art collections as collateral for loans. 46% of wealth managers believe their clients would do this to purchase more art and take advantage of a softer market and lower prices. 43% said they would do this to support other business activities, and 41% said they would do this for personal projects and pursuits.

**Friction in the art-secured lending market is at its lowest since 2011:**

This may suggest that many of the barriers to developing an art-secured lending service/offering are being addressed, and that the services required to build and manage an art-secured lending business have greatly improved.

**Lower default rates in 2022 compared to the levels seen during the COVID-19 pandemic:**

There was no noticeable increase in default rates for art-secured lenders last year, with lower default rates in 2022 compared to the levels seen during the pandemic.



TURBULENCE III  
© JONATHAN PRINCE



# Introduction

The art-secured lending business is still a niche market, with 83% of existing lenders believing that the market will remain this way. The existing market is populated by three major players: traditional private banks (recourse lenders), boutique specialty lenders (asset-based lenders) and auction houses (asset-based lenders). While private banks typically offer it as a bespoke service to their most valued clients, boutique lenders, on the other hand, will typically cater to a broader audience of investors, collectors, galleries and dealers. While private banks would, in the majority of cases, only lend against museum-quality art with a strong secondary auction market, boutique lenders have a wider scope to look at both fine art and collectibles at various price points.

Findings this year show mixed signals regarding the impact of higher interest rates on the art-secured lending market. On one hand, the increasing borrowing costs are likely to put a lid on the appetite of certain types of borrowers for taking out loans; on the other hand, a more challenging economic environment could trigger a greater need for liquidity and access to capital tied up in art and collectible assets, as well as create arbitrage opportunities due to the high volatility. According to survey results, this is particularly evident among asset-based lenders who, despite less favorable economic conditions, continue to anticipate strong growth in 2023 and 2024.

The findings from our second edition of the *Art-Secured Lenders Survey* in 2023, were based on 20 participating art lenders (up from 11 in 2021). The survey included seven private banks with significant art-lending capabilities, as well as 13 boutique asset-based lenders. We also conducted a series of one-to-one interviews to support and give further context to the results of the survey.

It is important to mention that our analysis only looks at loans collateralized by artwork. However, a certain number of market players (in particular, the asset-based lenders and auction houses surveyed) also accept other collectible assets and luxury assets as collaterals (e.g., classic cars, wine, memorabilia, jewelry and watches). Financial products and services available in the fine art market are becoming increasingly available and applicable to a broader set of collectibles and luxury assets. This shows that the definition of art and collectibles as an alternative capital asset is broadening. Art leasing is also an existing financing activity but will not be covered in this report.

The number of art-secured lenders is limited and, despite the market's promising growth prospects, we have not seen many new entrants in the last two years. Among the recent entrants are Suros Capital (set up by the ex-Borro team). Recently, we noticed some movement and hiring of key staff at Sotheby's, Emigrant, Deutsche Bank and Christie's. However, nearly two-thirds of the wealth managers surveyed use third parties to provide art-secured lending services.

In November 2022, Artnet launched its *Art Secured Lending Brokerage* program together with The Fine Art Group and Luxury Asset Capital as its primary loan providers. This partnership program will facilitate global access to loans from US\$25,000 to more than US\$10 million. In addition to fine art and other auction-quality assets, Artnet clients can obtain loans using a wide variety of luxury assets, including luxury and classic cars; luxury watches; fine jewelry and diamonds, gold and silver; and designer handbags and accessories.<sup>277</sup>



New AML rules and technology can help support the market. In the future—and if fractional ownership develops—they could be new avenues to support the growth of the art-secured lending market and new entrants. Blockchain could also help to make the art-secured lending market more efficient by providing a tool to manage provenance and to facilitate other record-keeping aspects of the due diligence process.

### The prospect of an international register for loans

Having an international register for art loans could help lenders protect their collateral and support the growth of the current art-secured lending market. This could allow borrowers to keep possession of their artworks which is one of the most important factors to consider when choosing a lender for a family office (according to this year's *Family Office Survey*).

In the United States, it is possible for a bank to register a loan with the Uniform Commercial Code (UCC) filing system on any moveable asset which offers a superior

position to the lender in the event of insolvency. There is no similar approach in Europe, and it has been suggested that this has reduced the attractiveness of lending against art or other similar assets.

To overcome this hurdle, banks in most countries have set up a service with a credit reference agency or similar. In the UK, this is done by HPI and Experian and is integrated with insurance data on damages, and theft data from the police.

Launched over 5 years ago, The Art Loss Register (ALR) launched some years ago registers the existence of a loan for the lender but does not require information about the amount or the identity of the borrower. This enables the ALR to check that neither a sale nor a second loan is sought without the authority of the lender. ALR's has launched a consultation process with art-secured lenders to discuss the opportunity to develop an international equivalent of the UCC without the formal statutory backing that, when used by the large majority of banks, achieves the same result; in other words, all items offered for loans are checked before a loan is granted, and all loans are registered.

Section 5 is divided into two parts:

#### Part 1\_

Size and structure of the art-lending market

### INDUSTRY INSIGHTS\_

#### Exploring the full power of your art as a financial asset

by Sam Cook

EMEA Head of Specialty Lending Solutions, J.P. Morgan Private Bank

by Levi De Feyter

Wealth Advisor Benelux, J.P. Morgan Private Bank (Brussels)

#### Painting a picture of the art-lending landscape

A leading non-bank lender's perspective

by Rebecca Fine

Managing Director, Art Finance, Athena-Art Corp

#### Part 2\_

2023 Survey findings

### INDUSTRY INSIGHTS\_

#### Bridging Industries and the road to optimizing art as a financial asset

by Harco van den Oever

CEO, Overstone

by Mia Bouriss

CEO, Overstone Finance

by Chen Chowers

Head of Operations, Overstone

#### Artworks on tour: Is security interest also along for the journey?

by Dr. Marcell Baumann, LL.M.

Rechtsanwalt, Deloitte Legal  
Rechtsanwaltsgesellschaft mbH

## Part 1\_

# Size and structure of the art-lending market\_

This year, we estimate conservatively that the overall size of outstanding loans against art could reach a market size of between US\$29.2 billion and US\$34.1 billion in 2023 (up 11% from 2022). Since our last survey in 2021, overall art-secured lending market growth increased 10.3% annually.<sup>278</sup> However, growth is anticipated to slow down with an anticipated growth of 7.5% from 2023 to 2024, and then increase slightly to 8% from 2024 to 2025. We estimate that US\$2.2 billion in revenue could be generated from the art-lending market in 2023.

Based on survey results from asset-based lenders and private banks, we see two very different stories emerging between the two types of lenders. While private banks anticipate modest growth of around 4% over the next two years, the findings from our asset-based lenders show a more optimistic growth scenario of around 24% growth in the art loan book in 2023 and 2024. The overall art loan book weighted average growth is forecasted to be between 7.5% and 8% over the next two years.

Our survey findings show significant differences in growth rates between art-secured loans provided by private banks and asset-based lenders. While private banks reported an average growth rate of 6.1% in 2022, asset-based lenders reported

a double-digit average growth of 24.2% last year. Private banks anticipate growth rates to slow down to 4.1% between 2023 and 2024, while asset-based lenders project a slightly lower growth rate of 23.8%. The art-secured loan market is projected to grow to between US\$33.9 billion and US\$40.4 billion in 2025.<sup>279</sup>

As interest rates reach new heights, it seems that private banks are continuing to take a more conservative approach to art-secured lending—potentially on the back of what seems to be a cooling in the global art market. However, this seems to have also opened the market for asset-based art lenders to fill the need for art-related finance, which according to our survey findings expect to grow their art loan book by 24% annually over the next two years.

We estimate art-secured loans to private collectors to be in the region of US\$26.3 billion to US\$30.7 billion<sup>280</sup> in 2023, with the art trade (galleries and dealers) accounting for an estimated US\$2.9 billion to US\$3.4 billion.

Reasons to borrow against art are well covered by the JPMorgan article page 270, which identifies four different collector profiles with different motivations: the avid art collector; the occasional collector; the art investor; and the legacy collector.

## INDUSTRY INSIGHTS\_

### Painting a picture of the art-lending landscape A fine art lender's perspective

01. Grow an existing art collection by keeping dry powder at the ready.
02. Art can provide incremental liquidity when other assets are already leveraged.
03. Use art to grow wealth tomorrow, or to meet financial obligations today.
04. Eliminate the pressure to sell and do so on your own terms and timetable.
05. Implement a long-term trust and estate planning strategy while providing immediate liquidity.

**According to Athena Art Finance, the art-secured lending sector is expected to continue to evolve and expand over the next two to three years, driven by changing client needs as well as a growing recognition of the value of art as an investment asset.**

**by Rebecca Fine**  
*Managing Director, Art Finance,  
Athena Art Finance Corp*

INDUSTRY  
INSIGHTS\_

## INTERVIEW

Exploring the full power of  
your art as a financial asset**Sam Cook**

EMEA Head of Specialty Lending  
Solutions, J.P. Morgan Private Bank

**Levi De Feyter**

Wealth Advisor Benelux,  
J.P. Morgan Private Bank (Brussels)

To fulfill the role of a trusted advisor, we must help clients experience the full spectrum of what their wealth can create. Their particular passions should be an integral part of their holistic wealth plan—so how may they best use and build these unique assets to support their overall goals?

An art collection, handled well, can provide financial flexibility, serve collectors' larger wealth plan, and help them create a lasting legacy. However, art is an unusual asset for many reasons, including the owner's emotional attachment, its inherently illiquid nature, and its relative stability over the long term. Nevertheless, whatever the acquisition price, art is an asset.

Whether to fund additional purchases, provide bridge financing to a sale, or simply to release equity in their collection for other purposes, recognizing the rationale for art financing is critical. Understanding a collector's motivations for owning art and their future goals—for their collection and overall wealth—is the starting point in defining how art financing can be beneficial. For example, an individual that collects mainly based on emotional value will likely have different priorities than someone primarily motivated by investment returns.

It is helpful to consider the different types of collectors, their common goals for owning and purchasing artwork, and how art financing can help them achieve

their goals. While not all collectors can be grouped neatly, our experience tells us different types of collectors often share similar characteristics based on the frequency of purchases and sales, their motivations for owning art, and their knowledge and experience of the art markets.

We often consider four different groups of collectors—the avid art collector, the occasional collector, the art investor, and the legacy collector—who benefit differently from an art financing strategy.

### 1. The avid art collector

In many cases, having ready access to liquidity allows collectors to move quickly to acquire important pieces newly introduced to the market. However, not every collector has sufficient cash on hand to acquire a suddenly available masterwork. For this reason, many collectors utilize art financing secured by their existing collection to bridge the purchase to future liquidity events. Art financing can also be used to maintain prudent leverage against the collections over many years as they appreciate in value.

### 2. The occasional collector

For many, collecting art is a diversion from their day-to-day focus as a business owner, entrepreneur, or working professional. However, having access to a diversified



source of capital with potentially low correlation to their underlying business and/or the financial markets can provide many benefits. Collectors can use their art collateral to fund investments to help diversify and grow their personal balance sheets while carefully managing any margin call risks, given the asset's stable nature over time.

### 3. The art investor

For an individual seeking investment returns or to diversify their investment portfolio, art can be an attractive asset class. Accessing financing secured by artworks can be a tool to boost these returns further. The investor may benefit from a flexible source of capital that allows them to capitalize on tactical or strategic investment opportunities, whether a purchase at an upcoming auction, a private purchase, or even providing a third-party guarantee.

### 4. The legacy collector

Some collectors view their collections as part of their legacies. But collections are often liquidated or dismantled, sometimes due to significant taxes when the collections are passed to heirs. These new collectors can benefit from having art-secured lines of credit where they are not restricted to using loan proceeds solely

to acquire art. They can also use their lines to fund unexpected outflows without liquidating the art.

#### A holistic, tailored approach to art financing

It's important to recognize the value of artwork, whether monetary or emotional. We foster this same passion and emotion through our own collection, which continues to be a huge source of pride for the firm. With this recognition, we understand the importance of a flexible and bespoke approach to art financing. We consider a collector's full financial picture, including assets and liabilities, liquidity needs and short-to-long-term goals, to determine the optimal financing approach. This flexibility is achieved through:

**1. The artwork's location:** The collector can retain the artwork in their possession, hold it in an art warehouse, or have it on short- or long-term loans to a museum or gallery, across a number of jurisdictions in Europe, the UK, the US and Canada.

**2. What art can be provided as collateral:** Taking a client-centered approach—as opposed to an asset approach—allows a variety of art to be provided as collateral. Acceptable artworks are not limited to those by blue-chip artists, or from the modern and contemporary markets. We lend against a variety of

periods and mediums of artwork; for example, classic cars is a popular collectible market that has been considered on a bespoke basis. The key variables when providing a loan include the number of pieces, their value, and diversification.

**3. Flexibility on financing terms:** The financing is tailored to the individual's needs, from short-term bridges to mid-term committed facilities, the structure of the financing, or the ability to use the proceeds for any purpose.

**4. The structures used:** A large collection can attract attention—some wanted, but some potentially less so. Given today's social media and cybersecurity risks, owning a collection in a structure can make a lot of sense.

Irrespective of a collector's motivation for owning art, a thoughtful borrowing strategy tied to those artworks is an essential part of any wealth planning analysis—helping collectors build and maintain a collection while supporting their overall goals. We have built a breadth of knowledge over the decades working with our clients and as one of the world's oldest and largest corporate art collectors.

**Art-Secured Lending Market 2021-2025**

The list of providers is non-exhaustive and for illustrative purposes only.

FUNDING SOURCES	Example of non-exhaustive list of providers	
 <p><b>Private Banks</b></p>	<ul style="list-style-type: none"> <li>→ Citi Private Bank</li> <li>→ Deutsche Bank</li> <li>→ Goldman Sachs</li> <li>→ J.P. Morgan Private Bank</li> </ul>	<ul style="list-style-type: none"> <li>→ Morgan Stanley</li> <li>→ Bank of America</li> <li>→ Westend Bank</li> <li>→ Neuflyze OBC</li> </ul>
 <p><b>Specialty-Lenders</b></p>	<ul style="list-style-type: none"> <li>→ Emigrant Bank Fine Art Finance</li> <li>→ Credit Municipal de France</li> <li>→ Artemis</li> <li>→ DHB Bank (Nederland) N.V.</li> <li>→ Internationales Bankenhaus Bodensee AG</li> <li>→ AOI-Advisors</li> <li>→ TCP Art Finance</li> <li>→ Fine Art Group</li> <li>→ Griffin Art Partners</li> </ul>	<ul style="list-style-type: none"> <li>→ Art Capital Group</li> <li>→ Athena Art Finance Corp</li> <li>→ Fine Art Partners</li> <li>→ artLending.com</li> <li>→ Luxury Asset Capital</li> <li>→ Suros Capital</li> <li>→ Lombard Loan Real Assets GmbH</li> <li>→ Art Finance Partners</li> <li>→ Gurr Johns</li> <li>→ Oblyon</li> </ul>
 <p><b>Auction house finance</b></p>	<ul style="list-style-type: none"> <li>→ Sotheby's</li> <li>→ Christie's</li> <li>→ Heritage Auction</li> </ul>	<ul style="list-style-type: none"> <li>→ Phillips</li> <li>→ Artiana</li> </ul>

**Overall size**

**NOTE**



Although we define art-secured lending as predominantly loans against high-quality fine art, many of the boutique asset-based lenders will also offer loans against other collectibles. The table, therefore, could include loans against both art and collectibles.

The article by Athena Art Finance outlines the five primary reasons behind borrowing against art (page 274).

**Estimated total loan size by type of borrower**



**Private Collectors**



**Galleries/Dealers**



<b>Estimated total art loan portfolio against art in 2021</b>	<b>Estimated total art loan portfolio against art in 2022</b>	<b>Estimated total art loan portfolio against art in 2023</b>	<b>Projected total art loan portfolio against art in 2024</b>	<b>Projected total art loan portfolio against art in 2025</b>
\$20.7- 23 bn	\$22.2- 24.7bn	\$24.1- 26.2bn	\$25.1 - \$27.3 bn	\$26.1 - \$28.4 bn
\$1.4-2.4 bn	\$1.7-\$3.0 bn	\$2.2-\$3.7 bn	\$2.7-\$4.6 bn	\$3.3-\$5.7 bn
\$1.9-2.7 bn	\$2.5-\$3.3 bn	\$2.9-\$4.2 bn	\$3.6-\$5.1 bn	\$4.5-\$6.4 bn
\$24-28.2 bn	\$26.3-31.0 bn	\$29.2-34.1 bn	\$31.4-37 bn	\$33.9-40.4 bn
\$21.6-25.3bn	\$23.7-27.9bn	\$26.3-30.7bn	\$28.2-33.3bn	\$30.5-36.4bn
\$2.4-2.8bn	\$2.6-3.1bn	\$2.9-3.4bn	\$3.1-3.7bn	\$3.4-4.0bn

INDUSTRY  
INSIGHTS\_

INTERVIEW

# Painting a picture of the art-lending landscape

## A leading non-bank lender's perspective



**Rebecca Fine**  
Managing Director,  
Athena Art Finance Corp

### **P**lease tell us briefly about Athena Art Finance's business.

Athena Art Finance is a leading, independent, specialty finance company providing art-backed lending solutions since its founding in 2015. Focused exclusively on making loans secured by blue-chip fine art, Athena has extended approximately US\$700 million in art-secured loans. Its core financing products are asset-based bridge and term loans collateralized by high-value artworks by artists with an established liquid auction market. Athena offers art loans to art owners, including collectors, family offices, gallerists, dealers, trustees, foundations and auction houses, principally in the US, Canada, the UK, Luxembourg, Switzerland, Hong Kong and Singapore. Athena's clients maintain their existing bank and art market relationships, preserve future sale flexibility, eliminate valuation conflicts of interest, and retain their privacy—protecting both their financial decisions and art collections.

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### **What are the most common reasons that your clients borrow against their art collections, and are you noticing increased demand for art loans from family offices?**

In our experience, most of our clients are financing acquisitions. The 2023 Art Basel and UBS Survey of Global Collecting bears that out: 46% of respondents had used art lending in 2022 and 2023 and 79% of those credit users had borrowed to finance a purchase of art (vs. other liquidity needs).


The fact that Family Offices and HNWIs can leverage their wealth by borrowing against their assets has been a key strategy for maintaining and expanding wealth. According to Goldman Sachs' *Family Office Investment Insights Report*, 38% of family offices allocate capital to collectibles, of which art comprises 27% (followed by wine and aircraft at 14%, respectively). Given the focus on art as an investment asset, the need for liquidity in an otherwise and illiquid asset is paramount. For this reason, family offices managing art collections use art financing to pursue various goals.

### **Growing an existing art collection by keeping dry powder at the ready**

Art loans provide ready access to cash, enabling buyers to act quickly and take advantage of time-sensitive investment opportunities. Art loans can also help family offices participate in high-value auctions as a third-party guarantor or acquire sought-after pieces at twice the value they could otherwise have been able to afford. By using art loans strategically, art collectors with investment objectives can ultimately build a more robust and diversified collection.

### **When other assets are already levered, art can provide incremental liquidity**

Art-backed loans can help family offices that have already levered their other art or non-art assets to obtain incremental liquidity. Working with an independent art lender also avoids conflicts of interest and maintains clients' privacy. Athena's clients maintain existing bank and art



market relationships and preserve future sale flexibility, so they are free to explore a sale of their art collection when and with whomever they choose.

**Use art to grow wealth tomorrow or to meet financial obligations today**

Art loans provide family offices with a flexible and powerful financial tool to diversify their investment portfolios or otherwise advance their financial goals. For example, loan proceeds can be invested in opportunities that generate a higher return than the interest on the loan, like private equity or high-yielding private market debt. Loans can help investors to increase returns or spread risk across different asset classes. By leveraging their art collection, family offices can unlock liquidity without selling their art or other assets, which trigger tax and other hefty transaction costs.

**Eliminate the pressure to sell, and do so on your own terms and timetable**

Savvy art collectors looking to avoid uncertain economic outcomes (such as selling into a soft market or at an inopportune time, given a particular artist's market performance) use art loans to wait out more favorable market conditions. This is particularly true if the artwork is expected to appreciate meaningfully in value. When an important retrospective or exhibition is on the horizon, collectors can wait to benefit from the bump in value that inevitably follows and sell into the most optimal market.

**Implement a long-term trust and estate planning strategy while providing immediate liquidity**

Art ownership presents particular challenges because (without art loans) it is an illiquid asset that costs significant money to maintain, insure, exhibit and store. Borrowing against the value of the art can address near-term goals while allowing trustees or managers to execute their desired wealth transfer strategies. By providing funds to an estate, art loans offer opportunities to meet liquidity needs (e.g., maintenance, trust and legal expenses), make immediate cash distributions to beneficiaries, support charitable giving, or diversify investments. Art loans also enable art owners to keep their art collection intact, gain more time to execute a longer-term asset disposition strategy, and avoid the tax consequences of selling art that has appreciated in value.

As part of a "buy, borrow, die" strategy, borrowers can monetize their art collection without having to sell it immediately. By pledging art that has appreciated in value since its acquisition (of which the cost basis will generally step up after death, in the U.S.), clients benefit because the loan interest can be deducted when they finally sell. This is especially helpful when the collection is sizable and would flood a given market if sold too quickly.

**Which main changes have you observed over the last 5 years?**

Over the last 5 years, the art-lending industry has significantly evolved in both demand and offerings.

For collectors and dealers who previously partnered with investors, the ability to finance 50% of an acquisition enables the buyer to retain all the upside appreciation and profit. An art loan gives collectors twice their buying power while allowing them to retain full control and all decision-making power. And with a fixed cost of debt, the collector can optimize returns on their investment by deciding when, where and to whom they will eventually sell. This is true for dealers as well. Effectively, they can double their acquisition budget while retaining 100% of future appreciation.

**What are the impacts of the current geopolitical environment and rising interest rates on art finance?**

Rising interest rates are unwelcome developments for clients or lenders against any asset because they raise the cost of borrowing for both borrowers and finance companies. But when clients need liquidity, and traditional bank lenders become increasingly conservative when underwriting borrowers that are cash-flow challenged, specialty art lenders will see growing demand for true asset-based lending arrangements.

Collectors who own artworks that have appreciated meaningfully in value can also extract liquidity on an asset-only basis, thereby avoiding the need to sell other assets (like real estate) into a soft market.

The art market is not directly correlated with public markets or other asset classes. Because investment in blue-chip art continues to beat inflation, more high-net-worth individuals (HNWIs) and family offices are increasing their allocations to art (debt and equity), which also presents opportunities to art advisors. When art is acquired principally for investment purposes, investors often use leverage to increase their returns, similar to acquiring real estate, cars, yachts, etc.

Geopolitical factors are already affecting clients who have lost access to capital and are facing increasingly restricted access to traditional banks. Nonbank art lenders provide access to liquidity without requiring that borrowers keep cash deposits or other assets under the management of a bank.

Given the non-recourse nature of art-backed lending, to manage their risk, art lenders must ensure their artwork valuations are appropriately conservative and monitor pressures that changing market conditions may present to their borrowers.

As private banks pull back on funding or reduce availability in existing credit facilities, which is increasingly the case, the banks' clients will look elsewhere for financing, and we expect demand for specialty art lenders will increase. We also anticipate seeing more lending activity from credit shops, private equity firms and hedge funds, which have always participated in the art-lending space.

### How do you see the art-secured lending sector developing in the next 2-3 years in the US, Europe and Asia?

The art-secured lending sector is expected to continue its growth in the US, Europe and Asia over the next 2 to 3 years. This will likely be driven by several factors, including the increasing recognition of art as an alternative asset class, the growing number of wealthy individuals and families increasing allocations to art, and the expansion of the art market in emerging markets.

In the US, family offices are expected to remain important clients for art lenders, as these clients often have large collections of valuable artworks that they lever for various purposes.

As the US economy recovers from the COVID-19 pandemic, we may also see an increase in demand for art lending as businesses and individuals look for ways to finance new ventures or invest in alternative assets.

The continued growth of the European art-secured lending sector is also likely, particularly in major art markets such as the UK, Switzerland and France. Family offices and other private clients are expected to remain important borrowers, while lenders may expand their offerings to include new products and services that cater to these clients' needs.

We also expect to see significant progress in the Asian art-secured lending sector, with the region's wealthy individuals and families becoming more interested in art as an investment asset and more collectors sharing their collections with the public. According to the Private Art Museum Report published by Larry's List, private

art museums have proliferated in Asia over the last 20 years. Considering that only 18% of global art collectors are based in Asia, it's remarkable that the region is home to 33% of the world's 317 private museums (45 in South Korea, 26 in China and 11 in Japan). Significantly, over half of all Chinese museums were built in the past 5 years.<sup>281</sup> It is reasonable to assume that demand will rise for art lending, insurance, logistics, collection management tools, technology solutions, and professional and art advisory services, among others, to meet the needs of Asian clients.

Overall, the art-secured lending sector is expected to continue to evolve and expand over the next 2 to 3 years, driven by changing client needs and a growing recognition of the value of art as an investment asset. Family offices will likely remain important clients for art lenders, and we may see increased competition among lenders as the market becomes more crowded.

### What do you think about an international public register for art lenders? Is this feasible from your point of view?

We're glad you asked. Art is increasingly used not only as loan collateral but also as an investment asset. Without universal registration standards, title and ownership remain paramount concerns. We organized a symposium in the fall of 2023 with fine art lenders, auction houses, gallerists, museum curators, art advisors, appraisers, tech experts, banks, insurers, and art lawyers to debate the case for an international and global registry for art. The goal of the symposium was to hear from experts with different viewpoints in order to understand the impediments, feasibility

and potential next steps toward the creation of a global art registry. A central registry, similar to other asset classes (like aircraft, classic cars, etc.) could not only expand the art-lending market but also protect investors and fractional art owners. For example, it would virtually eliminate the possibility of unscrupulous persons selling competing interests in the same artwork or double pledging an artwork. But for such a registration system to be effective, would require buy-in and participation from a wide variety of stakeholders.

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**Do you see a different appetite among generations for art-secured lending?**

Yes, unsurprisingly, we are receiving loan requests for acquisition financing from an increasingly younger collector base. They are accustomed to using leverage in most high-value transactions and also tend to view art as a way to diversify their investment portfolios. In comparison, older generations would rarely finance their art purchases, as they viewed art as more of a passion asset than an investment asset. These younger collectors understand the amplifier of financing.

Some younger clients are also a little less patient. If they've already decided to consign works for sale, they use bridge loans to provide immediate liquidity, long before the sale transaction is consummated. This also gives sellers greater flexibility in negotiating consignment terms, since they are under less pressure and can obtain more favorable terms from the galleries or auction houses, for example. In addition, because Athena Art Finance is entirely independent, our clients are well-positioned to negotiate the best terms as the auction houses compete for their business.



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**LIQUID STATE**  
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### A bridge between traditional finance and the tokenized world

In mid-2022, Meta4 Capital introduced Meta4 NFT Finance—a bridge between traditional finance and the tokenized world. According to Meta4 Capital, this initiative, executed with lending partners and off Meta4’s own balance sheet, quickly became the largest institutional investor in NFT-collateralized loans. It contributes to approximately 5%-10% of total monthly volume across peer-to-peer lending protocols, with an average of US\$4 million

in active loans per month. The initiative focuses on grail crypto art, bypassing traditional art-backed lending pain points through data science, machine learning, and audited third-party protocols. Despite the market’s relatively brief existence, this investable market’s growth has been significant.

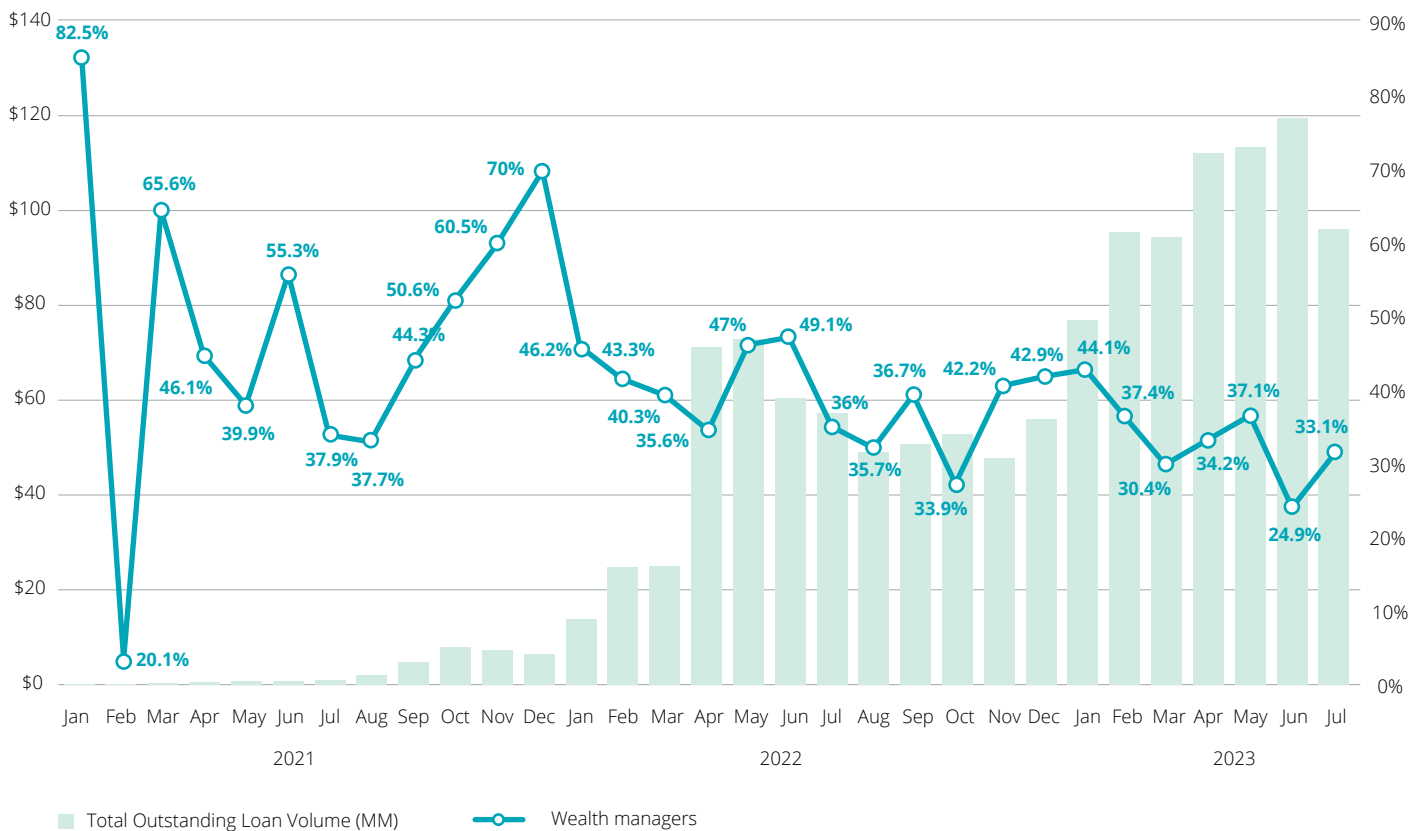
Meta4 Capital reported that NFT loan volumes reached US\$375 million by May 2023, while NFT trading volume during the same period amounted to US\$466 million (YTD cumulative NFT lending volume increased 270%). According to Meta4

Capital, its risk management framework and underwriting process have ensured the preservation of capital and minimized defaults. Given Meta4 Capital’s early entry into the lending market, they have worked in various ways with investors including yield sharing partnerships, managed pools of capital and one lending pool. Of the 82 loans issued on digital assets, only one default occurred, and it was promptly liquidated for an immediate 6% return along with the principal, leading to an estimated overall return of 44.4% since August 2022.

Figure 96: NFT total outstanding loan volume (in US\$ millions) vs. volume-weighted APR (%)

Analysis: Meta4

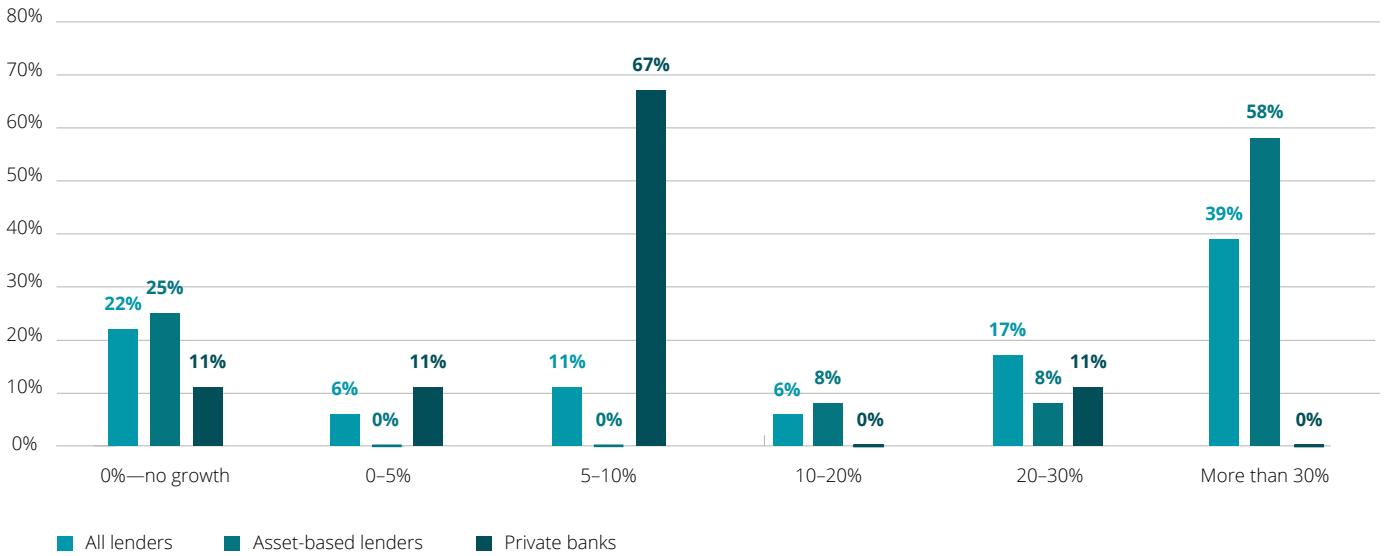
Data Source: Meta4, Metastreet, Dune<sup>282</sup>



## Art-secured lender survey 2023

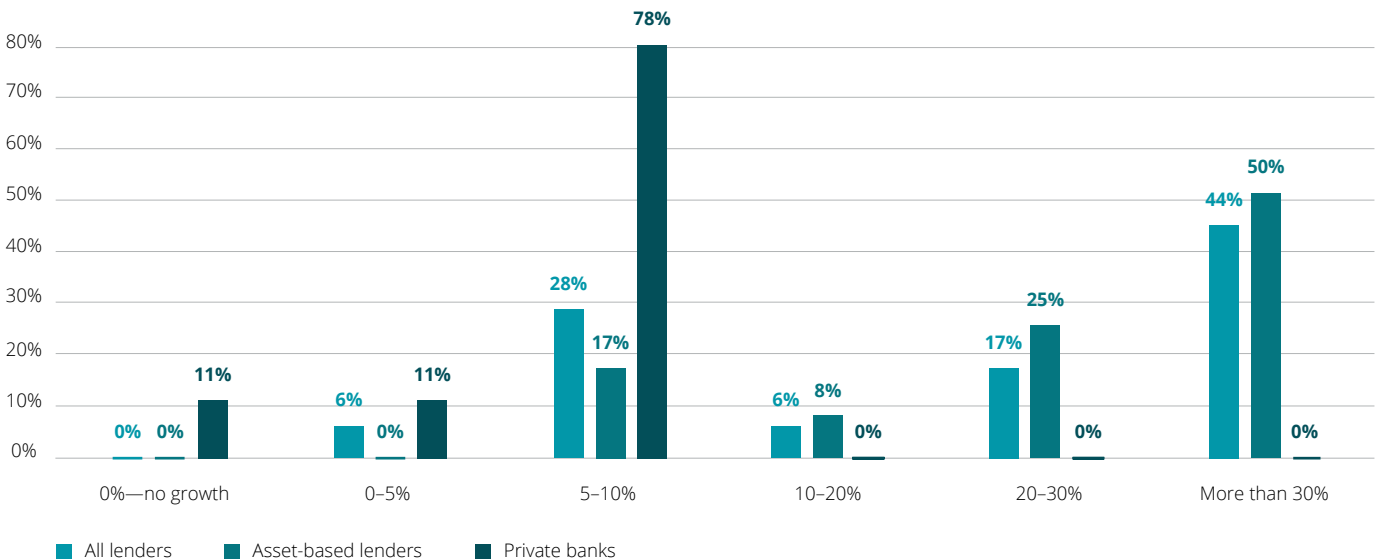
**Figure 97: What was the average growth rate for your art-secured lending book in 2022?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>283</sup>



**Figure 98: What is your expected growth rate outlook for your art lending business over the next 2 years?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>284</sup>





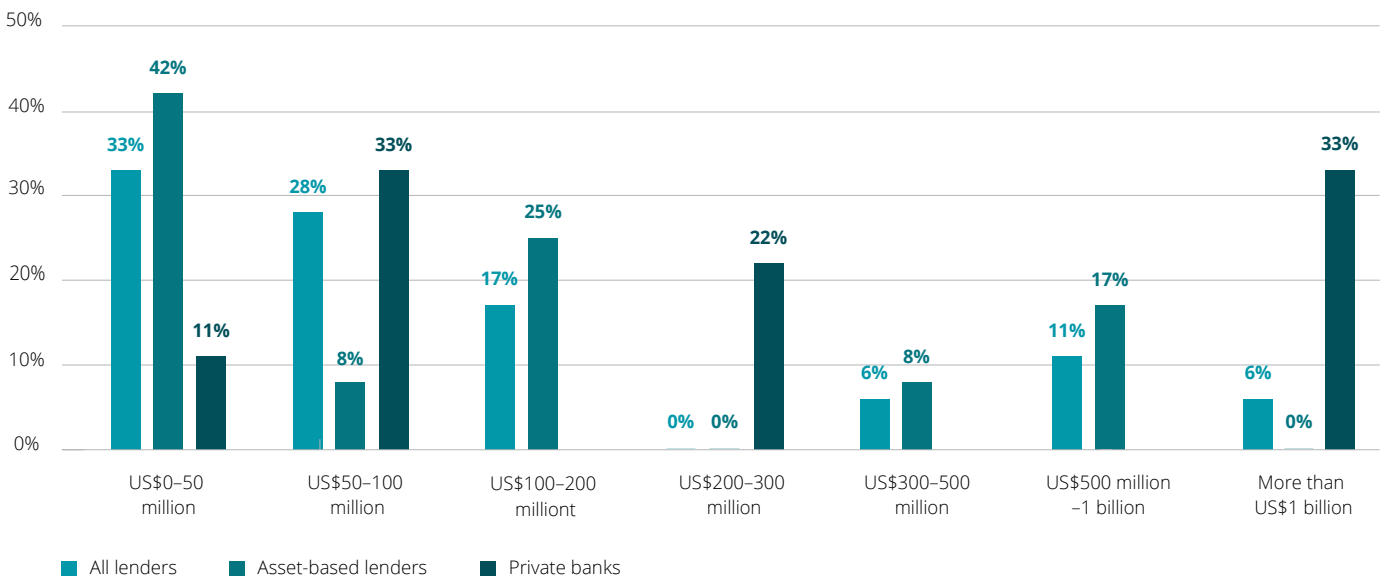
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**Strong growth in the art-secured lending market in 2022** suggests that collectors were taking advantage of higher valuations and the opportunity to lock in lower rates ahead of anticipated interest rate hikes. However, survey findings show that asset-based lenders expect the strong growth experienced in 2022 to continue over the next two years, despite the increased cost of funding. This could suggest that both collectors and the art trade will continue to rely on art financing as a way of supporting their business operations (83% of asset-based lenders said this was the primary motivation for borrowers) and that art-related wealth can be a complementary source of collateral debt, financing businesses that are facing tightening credit conditions and limited access to other forms of finance.

Pure asset-based lenders expect strong growth of 24% for the next two years despite market conditions.

**Figure 99: What is the estimated size of your current art-secured lending book?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>285</sup>



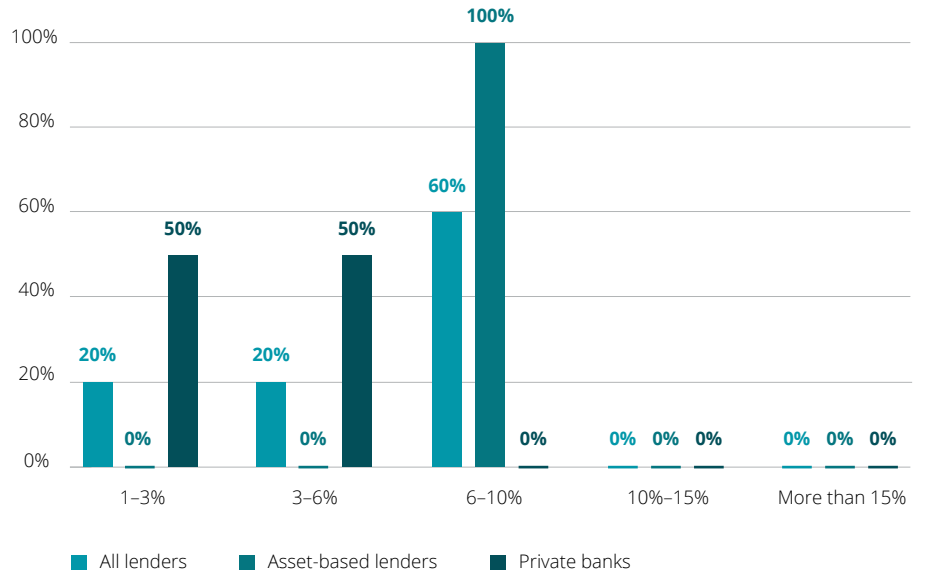


**Average size of the art-secured loan book:**

Three out of the nine banks surveyed had an art-secured loan book that exceeded US\$1 billion, with two private banks stating their loan book was between US\$200 million and US\$300 million secured against art, and a further three private banks saying their loan book was between US\$50 and US\$100 million. The average art loan book for the 12 asset-based lenders surveyed was an estimated US\$170 million (up from an average of US\$50 million in 2021). Part of the growth in the average loan book size has been due to Christie’s re-entry into the art-secured lending space—a market dominated by Sotheby’s Financial Services.

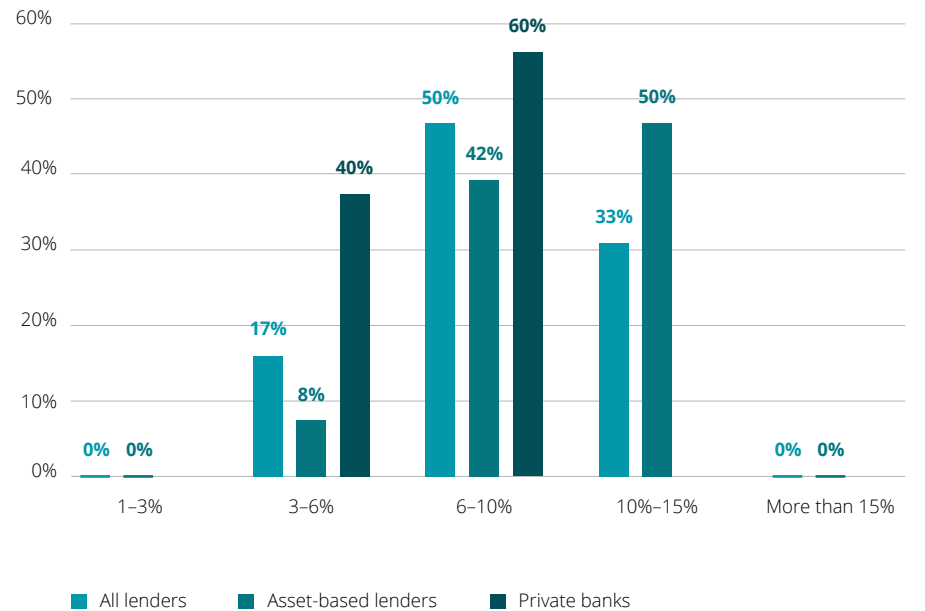
**Figure 100: What was the level of interest that you typically charge for an art-secured loan in 2021?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>286</sup>



**Figure 101: What is the level of interest that you typically charge for an art-secured loan in 2023?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>287</sup>



**Cost of funding on the rise:** Compared to 0% in 2021, half of the asset-based lenders reported that they now apply between 10% and 15% in interest on art-secured loans. This suggests that the average funding costs for asset-based loans have risen significantly on the back of higher interest rates. As for the private banks surveyed, 40% reported interest charges in the region of 3%-6%, and 60% said their average rates were between 6% and 10%, further showing that art financing by traditional lenders has gone up significantly this year.

Could the rise in cost of funding slow the market over the next two years? Based on the survey responses provided by asset-based lenders, the majority (75%) believe the market will grow more than 20% in the next two years, while the vast majority of private banks (78%) believe growth will stay in the range of 5%-10%. The anticipated growth in coming years could be fueled by the fact that borrowers may resort to the art-secured lending market as a liquidity channel if the resale market (auction) shows signs of weakness in the first half of 2023.

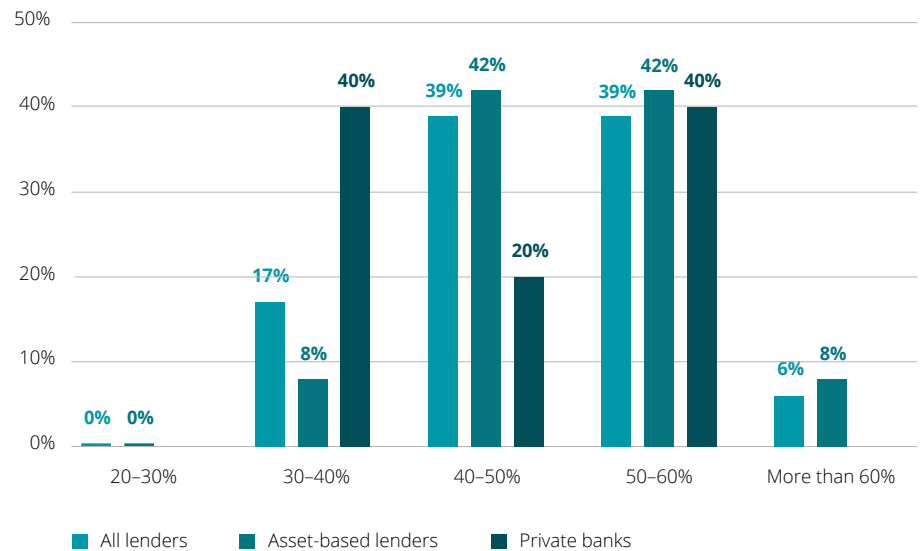
**Figure 102: What was the average LTV that you apply to an art-secured loan in 2021?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>288</sup>



**Figure 103: What is the average LTV that you apply to an art-secured loan in 2023?**

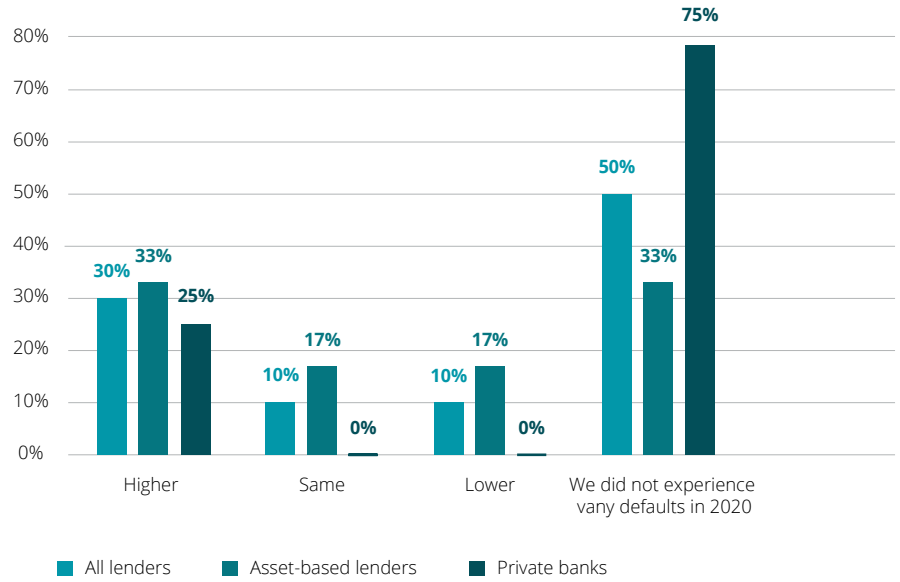
Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>289</sup>



**Lower loan-to-value (LTV) ratio signals increasing risk-aversion among art-secured lenders:** 40% of the private banks surveyed typically apply a 30%-40% LTV ratio on art-secured loans (up from 25% of private in 2021). There seems to be less risk aversion among asset-based lenders, where 42% apply a 40%-50% LTV ratio, while a further 42% said they would provide a 50%-60% LTV ratio. This higher LTV ratio among asset-based lenders could be another reason why borrowers might be attracted to using asset-based lenders for financing purposes.

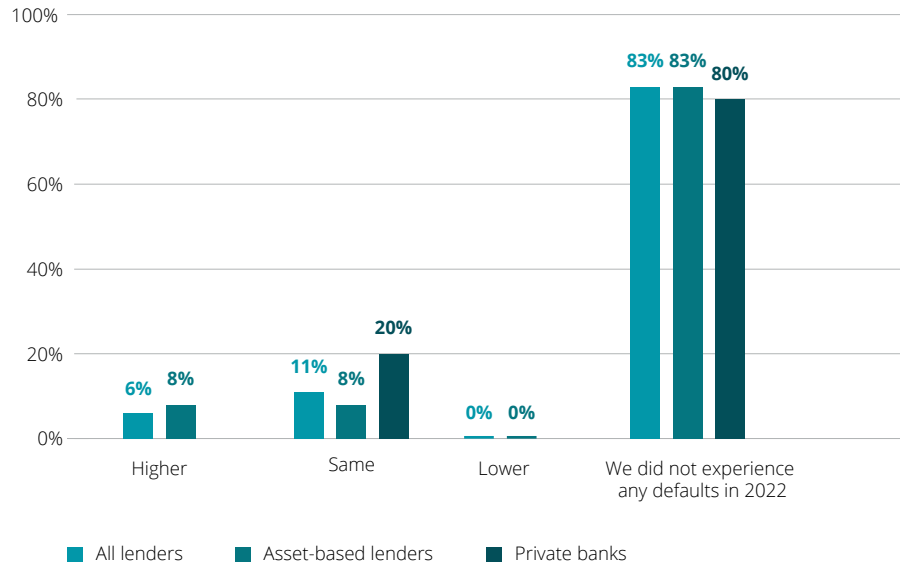
**Figure 104: In your experience, what was the level of defaults during 2020 compared with 2019?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>290</sup>



**Figure 105: In your experience, what was the level of defaults during 2022 compared with 2021?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>291</sup>

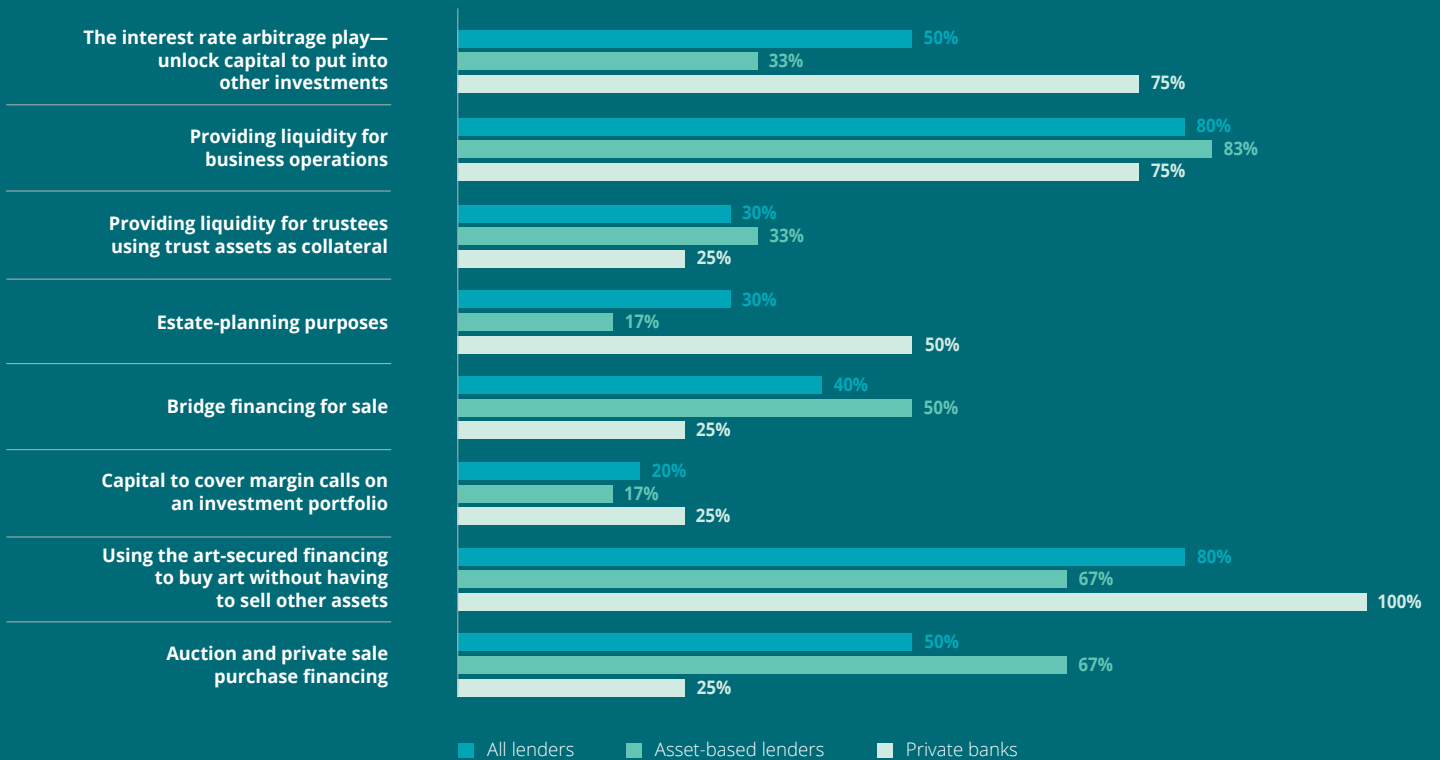


**Lower default rates in 2022 compared to the levels seen during the pandemic:** There was no noticeable increase for art-secured lenders when it came to default rates last year, and only 8% of asset-based lenders said they saw higher default rates in 2022 than in 2021, compared to 33% of asset-based lenders who said they saw higher default rates in 2020 than in 2019.



**Figure 106: In 2021 - What were the most important "demand drivers" for art-secured lending services over the last 2 years?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>292</sup>

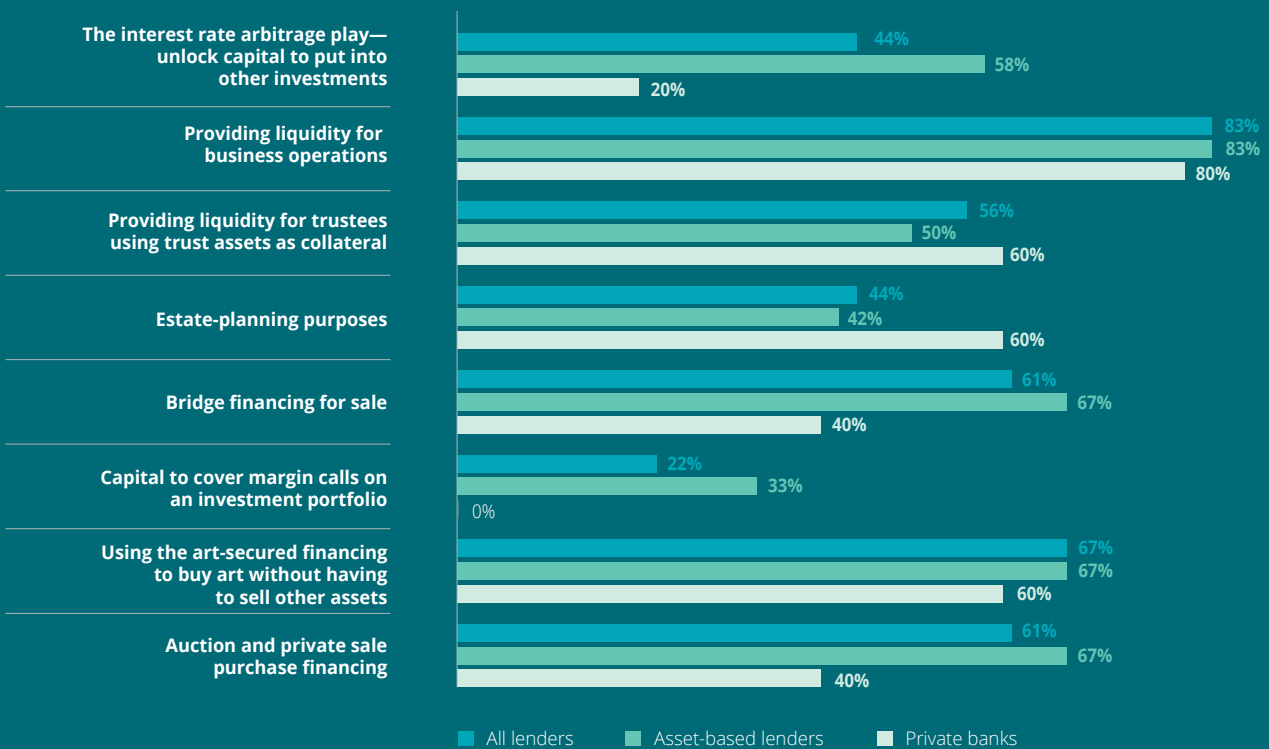




SOUTHERN REMNANT  
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**Figure 107: In 2023 - What are the most important "demand drivers" for art-secured lending services over the last 2 years?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>293</sup>



**Providing liquidity for business operations has been the primary growth driver:**

80% of the private banks surveyed said that the need for liquidity for business operations was a key driver for art-secured loans. 83% of the asset-based lenders agreed.

**Transaction financing key demand driver:**

60% of private banks said that using art-secured financing to buy art without having to sell other assets was a key driver for their art-lending businesses, and 67% of asset-based lenders agreed. A further 67% of asset-based lenders said auction and private sale purchase financing was a key reason for demand in art-secured lending, compared to 40% of the private banks. 67% of asset-based lenders said bridge financing for a sale was a key growth driver, compared to 40% of private banks. This reason is also likely to be a key growth driver in the coming year as collectors and the art trade are on the lookout for opportunities to buy more art

in a softer market, benefiting from lower prices and less competition.

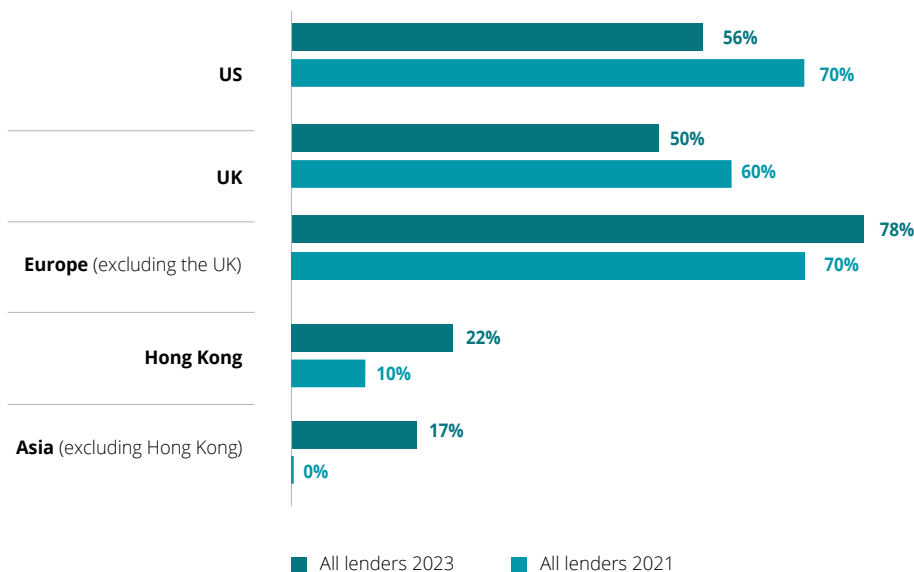
**Providing liquidity for estates using art as collateral is on the increase:**

60% of private banks said that estate-planning issues were a key demand driver for art-lending services, with 42% of asset-based lenders agreeing (up from 17% in 2021). 60% of private banks said providing liquidity for trustees using trust assets as collateral was also a key motivation (up from 30% in 2021), and 50% of asset-based lenders said the same (up from 33% in 2021).

**Interest arbitrage:** 20% of the private banks surveyed say that unlocking capital to put into other investments is a key motivation for clients to use their art-secured lending services (down from 75% in 2021). Although asset-based lenders charge higher interest on their loans, 58% say that unlocking capital to put into other investments is a key driver for demand.

**Figure 108: Which of the following regions are the most important for your business at the moment?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>294</sup>



TURBULENCE I  
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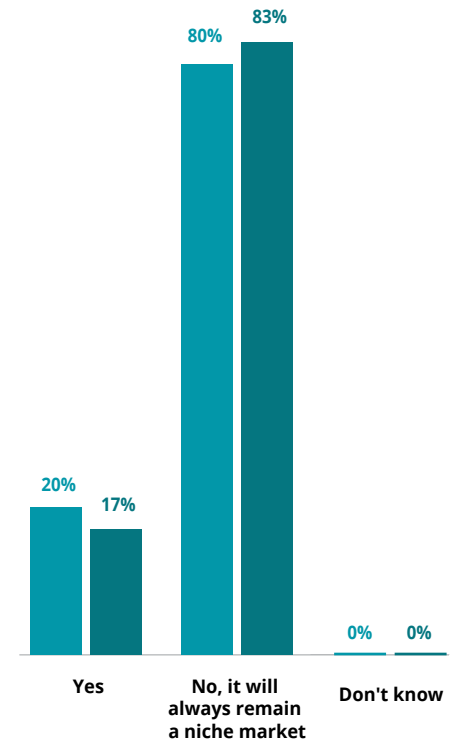
**Asia and Europe are becoming strategic markets for art-secured lending, as the US market reaches maturity:** 39% of art-secured lenders say that Asia and Hong Kong will be strategic markets for growth over the next two years, compared to 10% in 2021. Europe is also seen as an untapped market, with 78% of art-secured lenders viewing this as an opportunity (compared to 70% in 2021). However, lenders see less opportunity in the mature art-secured lending market in the US, with 56% saying it will be the most important market in the next two years, compared to 70% in 2021. This is likely the result of greater awareness among collectors outside of the United States about the possibilities available to them to leverage their collections.

**Majority believes the art-secured lending market will remain a niche market:** 83% of the art-secured lenders surveyed do not believe art-secured financing will become a mainstream product (i.e., in the way mortgages have for the real estate market) and that it will remain a niche market. However, 17% believe there is significant potential in bringing art-lending services into the mainstream in the future, with 17% stating this could open up US\$500 billion for the future art-secured lending market. With the current market size at less than 6% of this future potential, there is certainly room for growth, but also challenges that need to be addressed.

Areas of potential growth can be linked to the increasing interest in the tokenization of non-bankable assets such as art assets. We are already seeing developments in the digital asset and NFT space, with platforms such as Blend seizing an 82% share of the NFT Lending Market<sup>296</sup>, drumming up a loan volume of US\$308 million in the first three weeks of May 2023. However, concerns regarding risks, regulation and lack of liquidity bring into question the sustainability and growth of this sector.

**Figure 109: In the long term, do you see art-secured lending becoming a standard financing tool, like mortgages for real estate?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>295</sup>



Part 2\_

# 2023 Survey findings\_



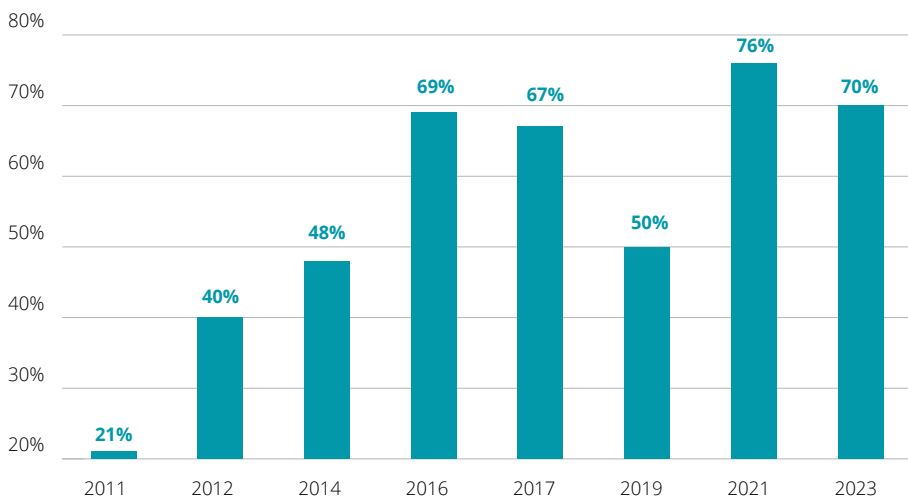
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# Wealth managers, collectors & art professionals

**Figure 110: % of wealth managers offering art-secured lending services**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>297</sup>

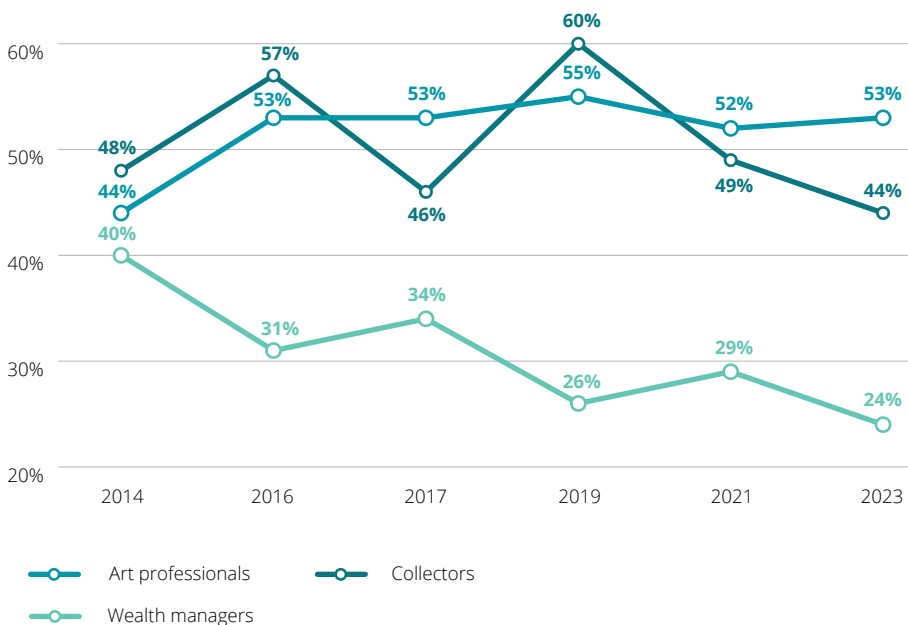


**Fewer wealth managers plan to focus on art-secured lending services over the next 12 months:**

70% of wealth managers say they already offer art-related services (down from 76% in 2021). 28% of the wealth managers surveyed said this service was offered in-house, and 72% through third parties. The relatively high number of wealth managers providing art-related financing solutions corresponds with the growth we have seen over the last few years in the art-secured lending market (see page 272-273). Over the next 12 months, 24% of wealth managers said this will be a strategic area of focus (compared to 29% in 2021).

**Figure 111: Gap analysis: How relevant is art-secured lending to you and your clients vs. what wealth managers are focusing on in the coming 12 months**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>298</sup>



**Collector demand for art-secured loans:**

44% of collectors this year said that art-secured lending services were among the most relevant services that wealth managers could offer (down from 49% in 2021), with 54% of art professionals echoing this view (up from 52% in 2021).

Figure 112: What do you think are the main reasons/motivations for using art as collateral?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>299</sup>

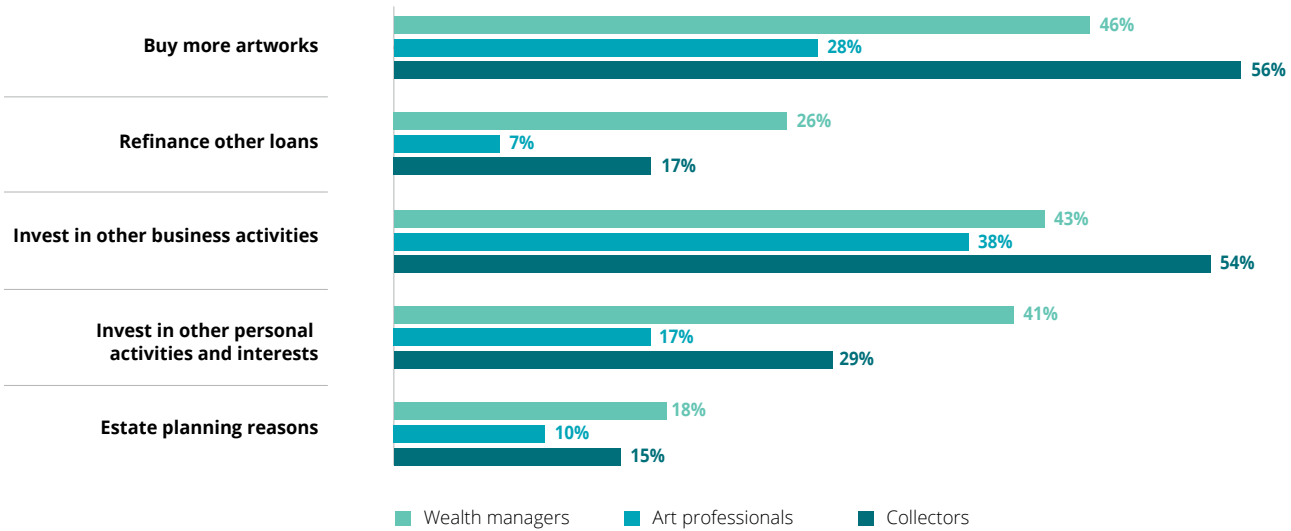
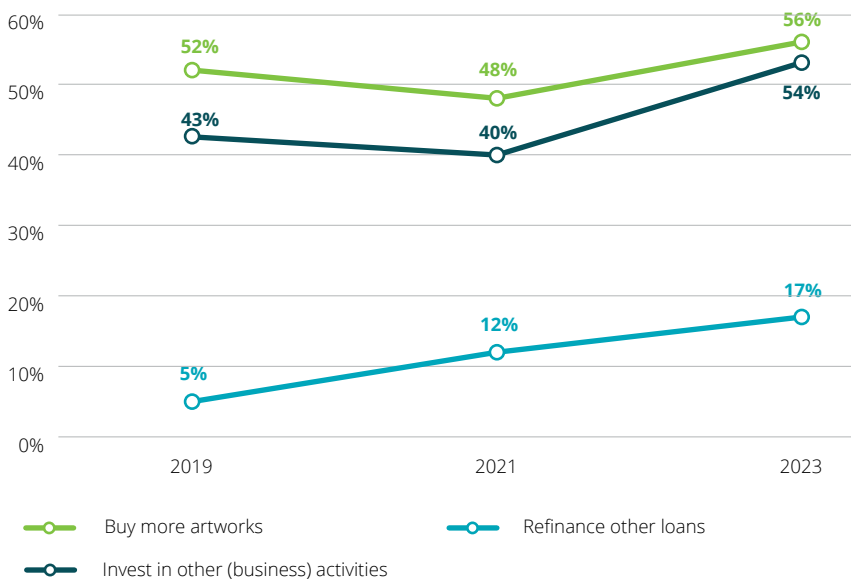


Figure 113: Collectors: What are or could be the main reasons/motivations for using art as collateral for a loan?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>300</sup>



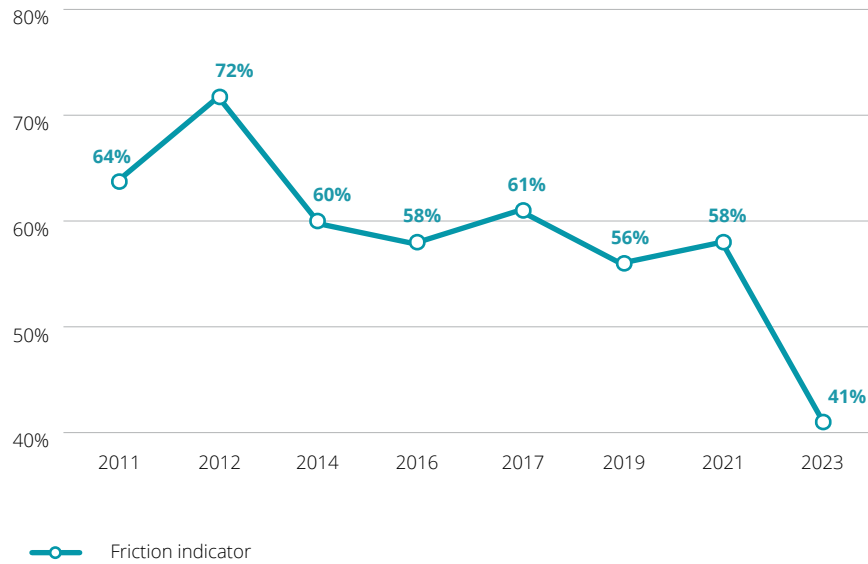
**Tougher economic conditions could lead to higher demand for art finance:**

As economic conditions are becoming more challenging in many parts of the world, 63% of wealth managers believe we will see an increase in the number of cases where art owners use their art collections as collateral for loans. 46% of wealth managers believe their clients would use these loans to purchase more art and take advantage of a softer market and lower prices. 43% said they would use art-secured lending to support other business activities, and 41% said they would use it for personal projects and pursuits. This resonates with survey findings which reveal that 56% of collectors would use art as collateral for a loan to buy more art, and 54% of collectors said they would use loans to invest in other business activities.

## Art-secured lending: what are the key challenges when using art as collateral for a loan?

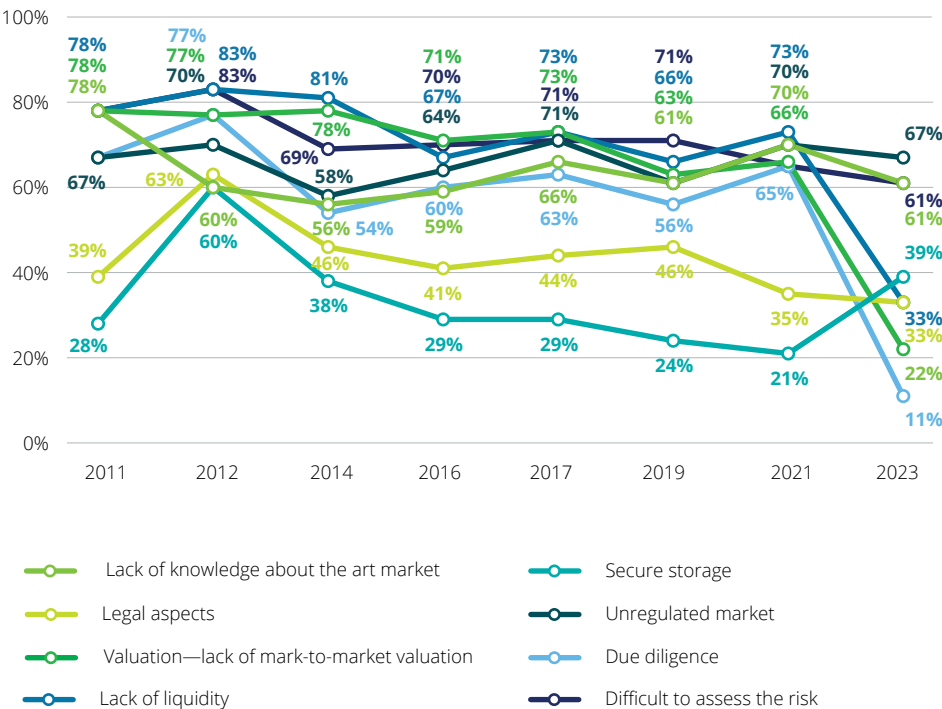
**Figure 114: Friction indicator: Hurdles for providing art lending/using art as collateral for a loan**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>301</sup>



**Figure 115: What do you feel is the main hurdle for providing art lending/using art as collateral to the bank's current clients?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>302</sup>



**Frictions in the art-secured lending market are at their lowest point since 2011**, which could suggest that many of the barriers to developing an art-secured lending service/ offering are being addressed. It also implies that the services required to build and manage an art-secured lending business have greatly improved.



UPPER GALLERY  
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**Unregulated market:** The unregulated nature of the art market was cited by 67% of private banks as the most important challenge when offering art-secured loans, compared to 70% in 2021.

**Lack of knowledge:** 61% of private bankers say that a lack of knowledge about the art market is a major hurdle (compared with 70% in 2021). This indicates that although the majority of private banks are still hesitant to fully embrace art-secured lending, their knowledge about the art market is improving.

**Risk assessment:** 61% of private bankers say that difficulties associated

with measuring and assessing risk are the key challenge to incorporating art-secured lending in their art and wealth service offering (down from 65% in 2021). With better data, as well as new models and tools for art risk management (see Overstone article p.292, we are likely to see more private banks entering the art-secured lending space.

**Lack of liquidity:** Although art market illiquidity was the biggest concern for 73% of the private banks surveyed in 2021, this has dropped significantly in this year's survey, with only 33% saying it is a key hurdle in providing art-secured lending services. With re-sale markets (auctions)



reaching their highest levels in 2022, liquidity concerns seem to have become less of an issue. However, as auction markets and sales softened in the first half of 2023, this concern might resurface in the coming months.

**Due diligence:** While 65% of private banks said this was one of the key hurdles in 2021, only 11% cited this as a main concern for offering art-secured lending services to their clients. The recent AML regulation is likely to have enforced more transparency in the art market. Moreover, with the advent of more data, access to expertise and new analytical models to address and assess risks, the due diligence process

seems to have become easier according to the private banks surveyed.

**Valuation risk:** Better valuation tools and new technologies—as well as an increased understanding and more confidence in prices as market liquidity reached a new high in 2022—seem to have significantly reduced private bankers' perceptions of valuation risk as a major hurdle in offering art-secured lending services. Only 22% said this was a major concern this year, down from 66% in 2021.

**Legal aspects:** 33% of private banks reported that legal aspects were a key challenge when offering art-secured

loans, compared to 35% in 2021. This number seems quite low given our knowledge of the cross-jurisdictional challenges in offering such a service. That said, it also suggests that most private banks are becoming more confident and have developed robust frameworks for managing the legal risks associated with art-secured loans.

Overstone (page 294) looks at the challenges and barriers that may impede further integration of art as a financial asset within the wider financial and insurance ecosystem, and suggests some solutions to overcome those challenges.

INDUSTRY  
INSIGHTS\_

# Bridging industries and the road to optimizing art as a financial asset

**L**everaging art as a financial asset has grown in sophistication in recent years. From existing collectors using art as collateral to the emergence of art tokenization providing access to the wider public, the innovation potential is significant.

In this article, we at Overstone, an art analytics and finance company, **provide an overview of art's unique features as a financial asset and the necessary tools to extract and protect its value.** We also consider the challenges and barriers that may impede its further integration within the wider financial and insurance ecosystem.

Unlike more traditional classes of financial assets, the art market is influenced by its underlying assets' physical indivisibility. Additionally, asymmetric information, substantial transaction costs, and liquidity issues significantly impact its efficiency. This combination of factors poses a considerable challenge for the art lending market and art's other financial applications.

This market's future growth depends on addressing key challenges, such as establishing robust risk management practices with a particular emphasis on valuation, regulation and liquidity, with the latter being one of the most critical risks of owning art. There are three crucial hurdles in this journey.

**The first challenge** is the inability to value and monitor art in a universally accepted manner across industries. Art, being the product of human creativity, is a heterogenous good and inherently unique. This uniqueness poses a singular challenge when considering it as a financial asset, from valuation to performance tracking to how it is sold.

Although art is not immune to factors affecting the value of more traditional financial assets, we find that even during global political volatility, other factors can promote a more favorable sales environment. These include its unique supply and scarcity driven market, the complexities around the pricing of art, and its singular positioning as an object not always acquired for financial reasons.

Unfortunately, the valuation of traditional art often appears as a closed shop, with limited transparency outside the industry. To standardize this process, we need to challenge the existing status quo.

One way is through technology and data science. While technology cannot replace art valuation's traditional approaches, the industry can make headway in its standardization journey by using high-frequency data, analyzing data patterns and developing analysis and metrics. This, in turn, enhances transparency and reduces friction within the art market.

**A second challenge** is that art research lacks a universally accepted methodology. There is still no agreed-upon protocol that ensures the accurate identification of specific artworks' risks, such as authenticity, provenance or condition. This creates an "unknown unknown" for potential participants unfamiliar with the art world.

Standardization is again the crucial first step in this challenge. By establishing a set of structured questions and adopting a systematic approach to answering them, industry stakeholders can receive technology-enabled clarity and direction. Only recently have we seen the emergence of art-tech companies tackling the industry's particular pain points, such as the intricacies of due diligence research. These companies focus on addressing the industry's critical "plumbing," rather than the previous emphasis on sales channel innovations, such as online sales or tokenization.

These innovative solutions comprise a range of applications, such as micro-imaging for verifying the identity of artworks and companies tackling the challenges of material and authenticity risks. However, to be truly effective and gain trust, these solutions must incorporate the art world's deep knowledge, rather than aiming to entirely replace this expertise with technology. Similarly, while there are a myriad of



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**Chen Chowers**  
Head of Operations, Overstone

collection management systems designed for collectors, commercial galleries, museums and artists, their fragmentation and the lack of standardization act as barriers to growth and more systemic solutions. This can be partially addressed by clear data structuring and standardizing systems to allow for application programming interfaces (APIs). These tools can ease integration, safeguard art, monitor its value, and enable its physical and financial management as part of a collector's or institution's overall assets and risk assessment.

**The third and final challenge** is a lack of connectivity between art and the wider financial and insurance ecosystem, primarily due to the uncertainty of an artwork's agreed attributes, dynamic value and risks. Connectivity is highly dependent on transparency and data exchange. Therefore, to be effectively connected to the wider financial ecosystem, the exclusive art market must open up and develop coordination mechanisms.

With such a fragmented market, regulation would enhance transparency and elevate the sector's wealth creation. Disclosure and transparency rules are synonymous with responsibility, creating a safer investment

environment. However, unlike other markets, the art market does not currently benefit from dedicated external regulation.

These challenges significantly impact not only art collectors seeking loans or insurance coverage, but also museums, galleries and artists. The finance and insurance industries struggle to assess these entities' assets, hindering their ability to offer suitable financing solutions and insurance coverage for the assets themselves and the associated transactions.

With the substantial volume of liquid capital circulating in global markets, there is a clear opportunity to enhance the appeal of art as a financial asset class. Art collateralization and securitization are increasingly being applied to the art as an asset class. We believe that the transition of art to a tradable asset is inevitable, and mirrors the evolution of other asset classes seen across the financial markets.

However, to successfully achieve the art market's financialization, the industry must address the aforementioned issues from a legal, technological, and financial standpoint. To bridge industries and optimize art as a financial asset, we need to

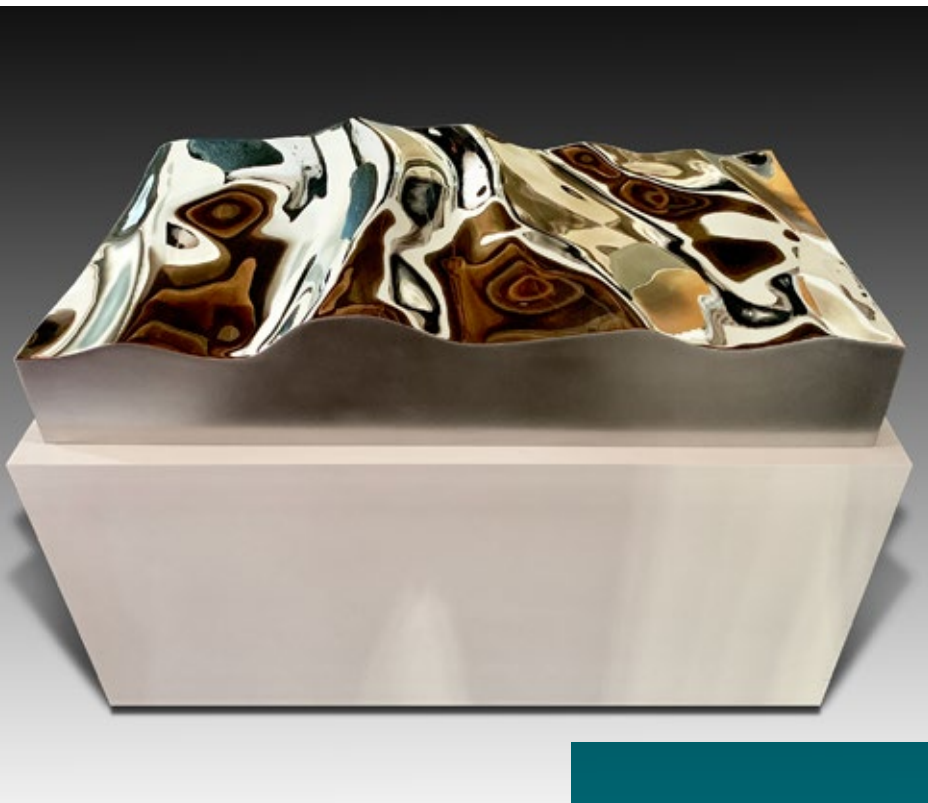
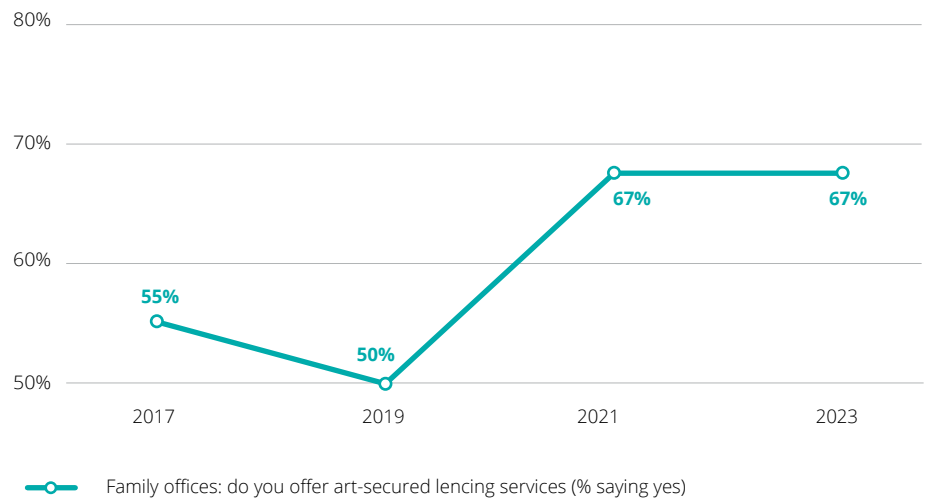
harness augmented views of value through data integration, technological innovations, and traditional art expertise. This will undoubtedly enhance the liquidity of art as a financial asset, leading to increased demand and subsequent supply that, in turn, should encourage further innovation.

Art as an investment offers real economic and non-economic returns. While technology and standardization could generate even more meaningful returns, their adoption by the art market has been sluggish for the reasons explored in this article. However, market players are beginning to take a deeper interest in these solutions.

## Family offices – Insights

**Figure 116: Family offices: Do you offer art-secured lending services (% saying yes)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>303</sup>



WAVE BLOCK  
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**Two-thirds of family offices offer art-secured lending services:** 67% of the family offices surveyed said they offer art-secured loans through third-party providers (the same as in 2021).

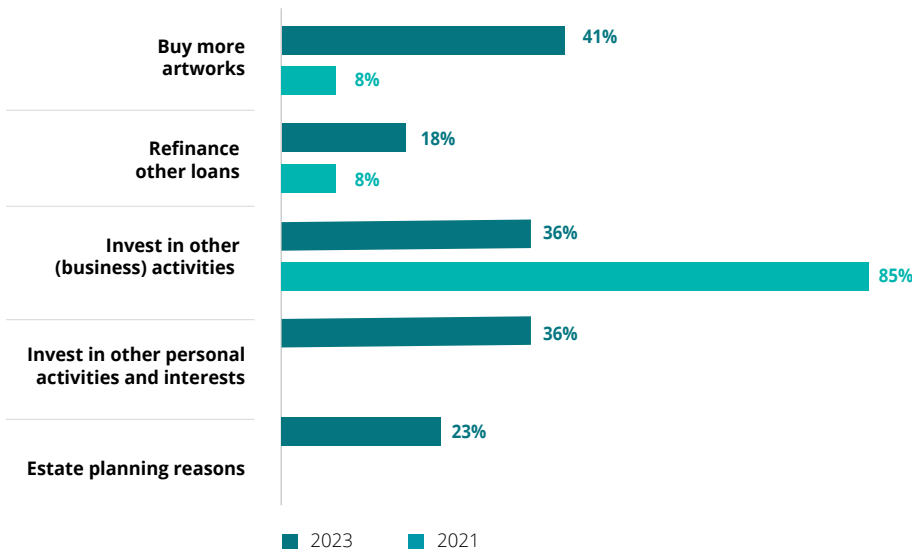
**Buying more artworks is the strongest motivation for using art leverage:** 41% of family offices said they would consider using art-secured loans to fund the acquisition of more artworks (up from 8% in 2021), which could indicate that family offices see opportunities in the current softer art market, and opt to use the value of clients’ existing collections to acquire more art.

**Investment in business and personal activities:** 36% of family offices said they would consider using art-secured loans to fund business activities, and another 36% said they would use the loans for personal projects and pursuits. 23% of family offices said they would use them for estate planning purposes.



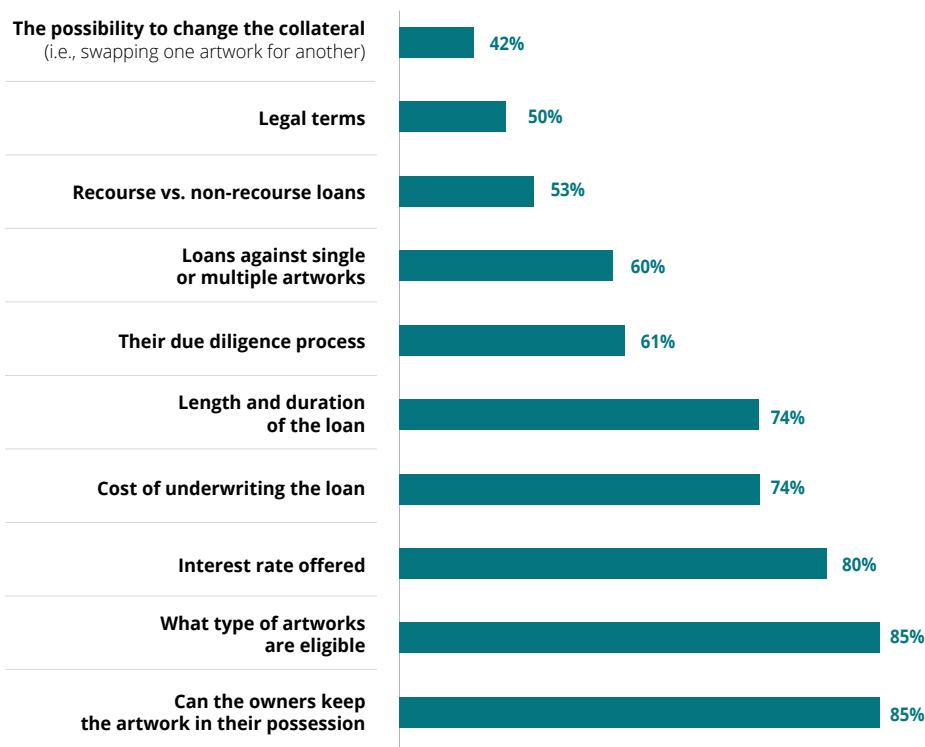
**Figure 117: Family offices: What would be the main reasons/motivations for using art as collateral for a loan?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>304</sup>



**Figure 118: Family offices: What key factors do you look for when selecting a provider of an art-secured loan?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>305</sup>



**Keeping possession of the artwork is the most important factor when selecting a lender:** 85% of family offices said that lenders that allow owners to keep artworks in their possession was one of the two most important factors considered by owners when choosing a provider. This was followed by 84% who said the other most important factor is the type(s) of artworks that are eligible.

**Borrowing costs:** With interest rates on the rise, 80% of family offices said that the interest rate offered was the third most important factor when selecting an art-secured lending provider. This was followed by 74% who said the cost of underwriting the loan was an important factor. 61% said the due diligence process required by the lender played an important role when deciding on the most appropriate provider.

**Loan duration:** Almost three-quarters (74%) of family offices considered the duration of the loan when selecting a provider, and 53% made their decision based on whether it was a recourse or non-recourse loan.

**Single or multiple artworks:** 60% of family offices said that an important selection criterion would be if the lender provided a loan against single vs. multiple artworks, with 42% looking for the flexibility to change the collateral (swapping one artwork for another).





## NextGen Collectors

**Younger collectors show less interest in art-secured loans:** Only 45% of NextGen collectors said an art-secured lending service would be the most relevant service that a wealth manager could offer (down from 62% in 2021). The higher cost of these loans is likely to be a contributing factor to the decline in interest this year.

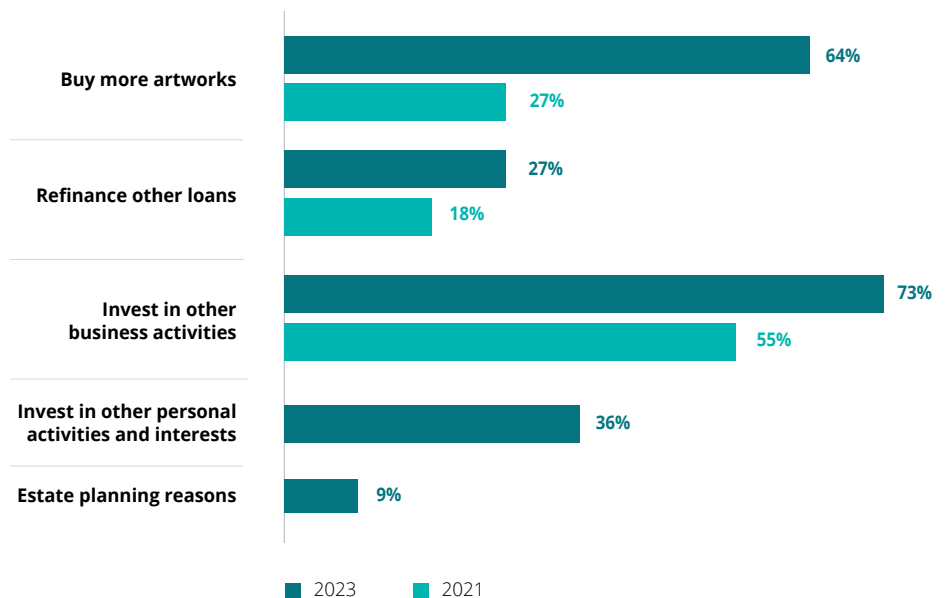
**Freeing up capital to fund business opportunities and buy more art drives interest in art-secured loans:** The majority (73%) of younger collectors

would be motivated to use art-secured lending to invest in other business activities, while 64% say they would use it to buy more artworks. 36% say they would use it to invest in other personal projects and pursuits, with 27% revealing they would use it to refinance existing loans.

Deloitte Germany looks at the rules that apply when works of art with security interests go on tour.

**Figure 119: NextGen collectors: What do you think are the main reasons/motivations for using art as collateral?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>306</sup>



INDUSTRY  
INSIGHTS\_

# Artworks on tour:

## Is security interest also along for the journey?



**Dr. Marcell Baumann, LL.M.**  
Rechtsanwalt,  
Deloitte Legal  
Rechtsanwalts-gesellschaft mbH

**N**owadays, highly specialized, global art logistics companies move masterpieces of art all over the world with incredible speed. But does the security interest in these artworks also accompany these journeys?

### Introduction

Given the international nature of the art business, demand for artwork transport is high: art houses, galleries, auction houses, art dealers, collectors or even family offices trade in artworks worldwide, loan them for exhibitions across borders, and exhibit them for sale at international art fairs. However, these artworks often also serve as **loan collateral for art-based financing**.

Whenever **works of art encumbered with security interests** embark on a journey, secured parties often ask whether their security interests are still valid abroad. For creditors of secured receivables, and lenders in particular, it is vital they retain their security interest when an artwork serving as collateral is exhibited abroad and, if necessary, can claim this collateral item.

### National law: law of the host state

Most of the world's legal systems allow contracting parties, especially those engaged in entrepreneurial activities, to **freely define their mutual rights**


**and obligations** in a contract following the law of a country of their choice. For example, within the EU, Article 3 of the Rome I Regulation states that contracting parties residing in an EU Member State **may select the governing law of any EU Member State** or third country for their contracts. The same also applies to persons that have their habitual place of residence or registered office in a third country.

However, regarding the rights that exist in a movable thing, the **decisive principle** of almost the entire world is that the law of the place where the object is located applies, and the parties may not, by way of contractual agreement, replace this law's applicability with the law of another country (**lex rei sitae**).

In practice, this means the parties can only agree on a security interest in an artwork that is governed by the law of the country where the artwork is **physically located**. Therefore, they cannot agree on a valid right of pledge in a painting stored in Stuttgart governed by Swiss law, nor create any security interest in a sculpture exhibited in London in favor of the secured party under German law.

### Converting security interest after artworks cross the border

The cross-border transport of movables serving as collateral follows the **principle of lex rei sitae**—the security interest



arising in the home country continues to exist after the border is crossed, but only if and to the extent the destination country's law also recognizes such a security interest. Therefore, the home security interest can be **transformed into the destination country's security interest**, which must be examined in advance when preparing to transport an artwork with a security interest.

For example, Germany's "Sicherungseigentum" (ownership transferred by way of security) enables the secured party to obtain a security interest against a movable thing without having to take possession of that thing. Therefore, despite a security interest in favor of the secured creditor, owners can leave their paintings hanging on the walls of their homes and continue to admire them—or exhibit the art in their galleries.

However, many legal jurisdictions do not recognize a security interest where the secured party is not required to possess the thing and the securing party retains the possession of the thing itself. For example, if art lovers want to take their artwork to their vacation homes abroad, creditors or their attorneys must check whether the destination country's law recognizes the Sicherungseigentum as a means of security and, if yes, what are the differences in application.

If the artwork moves through several countries in its journey, the rule that

applies in principle, **at least for transport by air and sea**, is that for the transport's duration, the security interest in the thing is governed by the law of the country under which the boat or airplane transporting the artwork is registered.

#### Requirements of contractual provisions

To maintain the security interest in the destination country with legal certainty, secured parties should also obtain legal advice about whether their security interest will continue to be valid in that country, and with what differences. If possible, a **separate contractual agreement** between the parties should stipulate that the security interest created in the home country is also **valid abroad**. If the security interest's prerequisites are identical in both countries, as a general rule, clauses confirming and clarifying the applicability of the foreign security interest should suffice.

If the security interest **abroad differs**, the contract must include appropriate clauses to ensure the initially created security interest is validly converted into that of the destination country. If the destination country's legal system **allows the security interest to be registered in public registers**, this option—at least if the artwork remains in the destination country for an extended period—should be considered.

#### Summary

Organizing the transport of an encumbered artwork not only requires planning its logistics and insurance, but also examining whether the security right survives when arriving in the destination country. Usually, the parties involved can agree on contractual provisions at a reasonable expense, so that a creditor's security interest in works of art can remain in force abroad.

However, since the transport of artworks is often connected with the special situations of an exhibition or a possible sale abroad, **additional provisions** between the parties involved that are specific to these circumstances are required.

# Endnotes

276 This is the two-year compounded growth rate between 2021 and 2023.

277 NewsReleases, "[Artnet introduces Art Secured Lending Brokerage](#)" 8 November 2022.

278 This is the two-year compounded growth rate between 2021 and 2023.

279 This is the estimated figure going into 2025, based on a growth rate of 8% between 2024 and 2025.

280 For the breakdown by borrower type, we have used the findings from TEFAF Art Dealer Finance Report 2018 and assumed that the ratio of private vs. art trade-related lending has been constant since 2018 with 90% of art-secured loans going to individuals and 10% to galleries and dealers.

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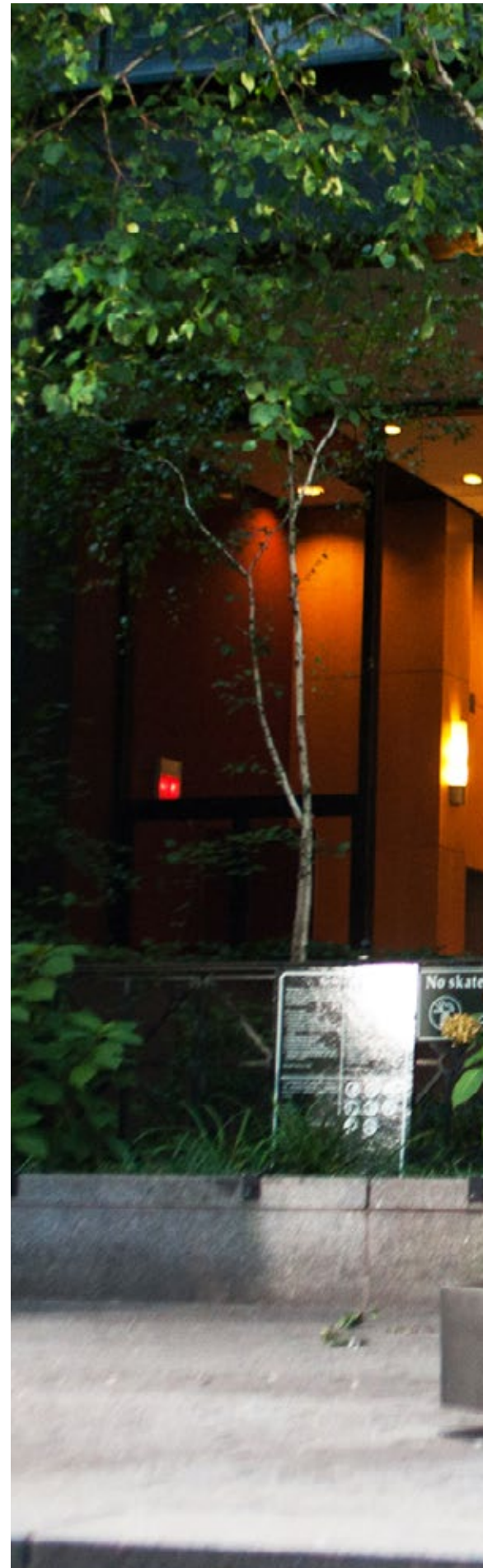
306 Deloitte, [Art & Finance report](#), 2021



TURBULENCE COLUMN 2  
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# 06\_

## Art and investment










**SOUTHERN REMNANT**  
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# Highlights\_





The time for fractional ownership in art may have arrived as more regulated fractional art ownership initiatives emerge.

 **Art acts as a hedge in times of uncertainty:** According to Artnet's Index for Fine Art, the art market exceeded the S&P 500 performance between January 2022 and July 2023, where fine art returns grew a nominal 4.2% against a 6.6% loss for the S&P 500 during the same period. Despite a spike in inflation and higher interest rates, art prices suffered less than other asset classes during this period of economic stress, demonstrating the asset class' ability to serve partially as an effective hedge, especially regarding the blue-chip, high-end fine art category.<sup>307</sup>

 **Blue-chip art market remains positive, despite uncertainty:** Four out of the six art movements monitored by Artnet have gained momentum in the 12 months to July 2023, with respective indices increasing between 3.8% and 8.9% year-over-year. Among the best performers were European old masters, which delivered the best short-term return with the lowest level of risk and most uncorrelated with other traditional assets. However, the two weakest categories were post-war and contemporary art, where Artnet's performance indices fell 9.8% and 10.6%, respectively, between July 2022 and July 2023. While the top-end of these markets remained positive, the underperformance of these indices was fuelled by a softer mid-market and weaker results from smaller auction houses. These results highlight the

need for potential investors to be particularly careful and diligent when analyzing the performance of art as an investment.

 **Art shows mixed long-term performance:** The financial performance reported by Artnet's indices shows modest returns across all categories over the medium to long-term, underperforming against other traditional asset classes such as equity, real estate and gold. Artnet's Top 100 Fine Art Index produced a 2.5% compound annual growth rate (CAGR) between 2008 and the first half of 2023, compared to 8.5% for S&P 500, 3.8% for real estate and 4.9% for gold.

 **Store of value is a stronger motivation than return on investment in the current economic environment:** The majority of collectors (76%) and art professionals (73%) see higher inflation as a trigger for increased interest in art as an asset class. However, more collectors and art professionals are seeing increasing interest in art and collectible assets as a store of value rather than investment—44% of collectors (up from 30% in 2021) and 47% of art professionals (up from 37% in 2021). This can be compared to 32% of collectors who said they have seen an increasing interest in art as an investment (down from 39% in 2021), with 26% of art professionals stating the same (down from 27% in 2021). This corresponds to 68% of wealth

managers saying asset diversification was one of the strongest arguments for incorporating art and collectibles in traditional wealth management, up from 62% in 2021.

**Direct investment in art remains the most popular form of investment:** A large majority (88% of collectors and 83% of art professionals) still say that direct investment in art (outright ownership) continues to be the preferred option when it comes to investing in art and collectibles.

**Sharing economy may have paved the way for a more sustainable fractional ownership industry:**

In the last three years, there has been a noticeable global interest in the topic of fractional art and collectible investment. New initiatives have emerged, **with several being supervised by financial regulators in Europe, the United States and Asia for the first time.** This could mean that we have entered a new era in the development of the fractional ownership market in art and collectibles, supported by a broader generational shift and interest in what we define as the sharing economy.<sup>308</sup>

**Conservative approach to fractional ownership and tokenization among wealth managers and older generations of collectors:** Possibly due to a lack of track record and the emerging nature of the fractional ownership industry, only 23% of wealth managers said they believed fractional ownership and tokenization of art and collectibles would be investment products of interest to their clients (down from 29% in 2021), with 34% of art professionals stating the same (up from 26% in 2021). Collectors remain slightly more cautious, with 21% saying this would be an investment product of interest (the same percentage in 2021).

**Younger collectors more open to new art investment models:** Although the large majority (87%) of family offices have a strong preference for investment in physical ownership of art and collectibles, we have seen an increasing interest this year in alternative models: 31% of family offices said they were interested in art and culture-related social impact investment products, and 30% said they were interested in fractional ownership in art. In 2021, however, none of the family offices expressed any strong interest in these forms of investments.

**Around a quarter of stakeholders still show interest in traditional art investment funds:** 24% of wealth managers said that art investment funds would be of most interest to their clients (slightly lower than 25% in 2021), along with 36% of art professionals (up from 22% in 2021) and 27% of collectors (down from

28%). 26% of family offices expressed a strong interest in art investment funds (up from 21% in 2021, and 5% in 2019).

**Lower levels of interest in NFTs across all stakeholders:**

The collapse in prices in the NFT market in 2022 and 2023 seems to have put a damper on wealth managers' interest in these types of investments this year. Only 10% of wealth managers said NFTs would be an investment product of interest to their clients (down from 33% in 2021). A similar trend can be seen among collectors, where 14% said they were interested in investing in NFTs (down from 25% in 2021) and 14% of art professionals said the same (down from 44% in 2021).



# Introduction\_

The financial aspect associated with art and collectibles ownership has become more relevant to collectors since our last survey in 2021. More of today's collectors (the younger generation in particular) are motivated by using art and collectibles as a portfolio diversification tool, store of value, hedge against higher inflation, as well as a way of seeking higher investment returns. These findings are reflected in how stakeholders are increasingly widening their horizons around the type of investment models that could give them exposure to the global art and collectibles market.

The content of this section is divided into the following parts:



## Part 1\_

### Past performance of art as an asset class

This part includes an art market performance analysis by Artnet between 2000 and the first half of 2023. It examines the performance of different art categories and art market segments over this period, including a comparative analysis of other asset classes.

## INDUSTRY INSIGHTS\_

### A look at the performance of art as an asset class

by Robert Cacharani

*Director, Business Intelligence, Artnet*

by Mia Fernandez

*Data Analyst, Business Intelligence, Artnet*

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## Part 2\_

### Survey findings around art investment products and stakeholder preferences:

In this year's survey, we take a more in-depth look at the increasingly popular phenomenon of fractional ownership, blockchain-based art investment products such as asset tokenization, and recent developments in the NFT market. We have studied the motivations and demands of both younger and older collectors when it comes to these new investment products, and the implications they could have for the art investment market in the future.

## INDUSTRY INSIGHTS\_

### Case study: ARTEX MTF AG

[Understanding art IPOs: Risks and rewards of investing in iconic art stocks](#)

by Yassir Benjelloun-Touimi

*Co-Founder & Chief Executive Officer, ARTEX*

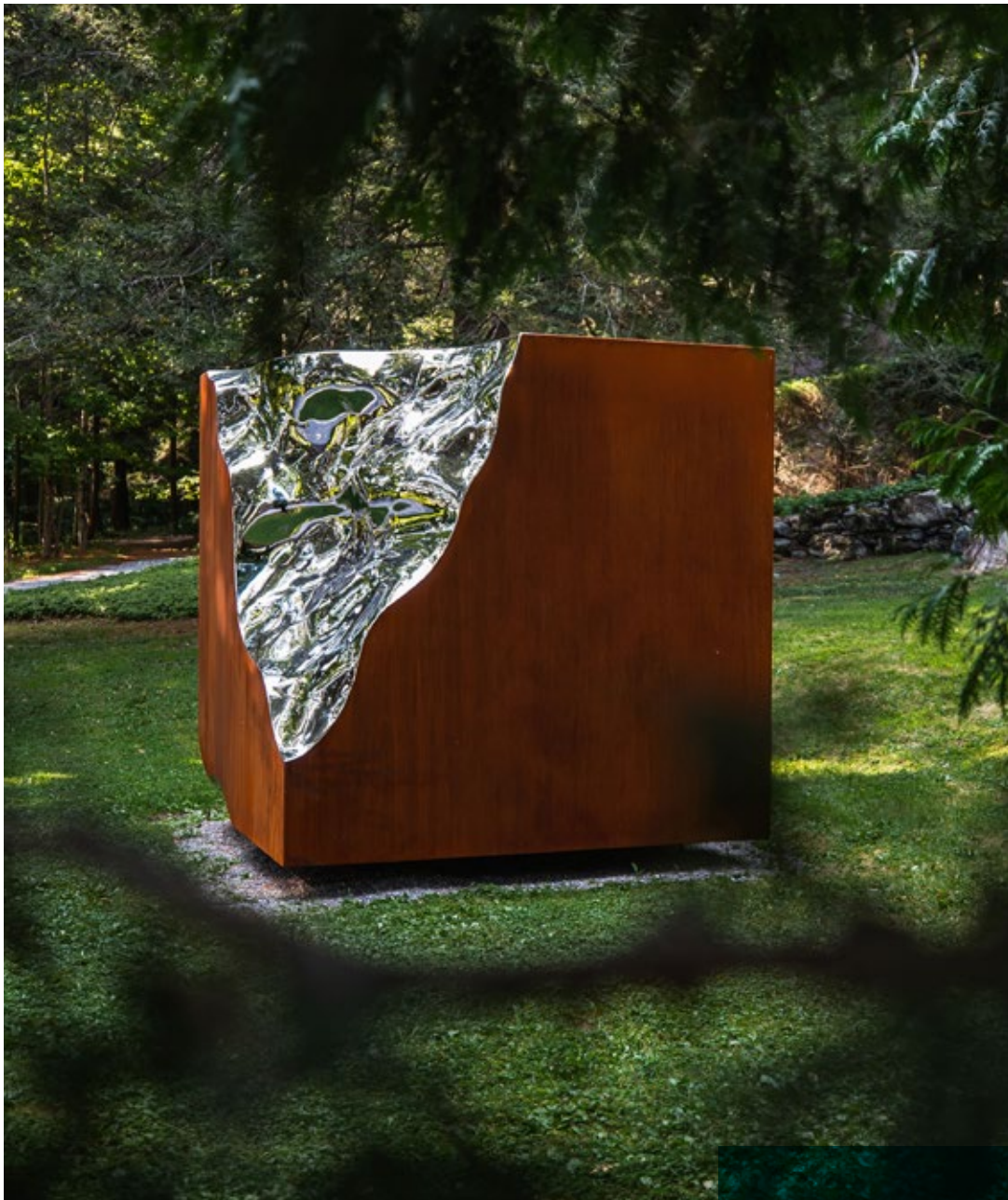
## Part 3\_

### Digital assets, tokenization and fractional ownership:

Building on our survey findings, we showcase new offerings in the art market and have invited ARTEX, a regulated stock exchange that complies with MiFID II, to contribute their insights (page 340).

Part 1\_

# Performance of art as an asset class\_



**ALEMBIC CUBE**  
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# A look at the performance of art as an asset class

Thank you to Artnet for their contributions to this section.



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Director,  
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**Mia Fernandez**  
Data Analyst,  
Business Intelligence,  
Artnet

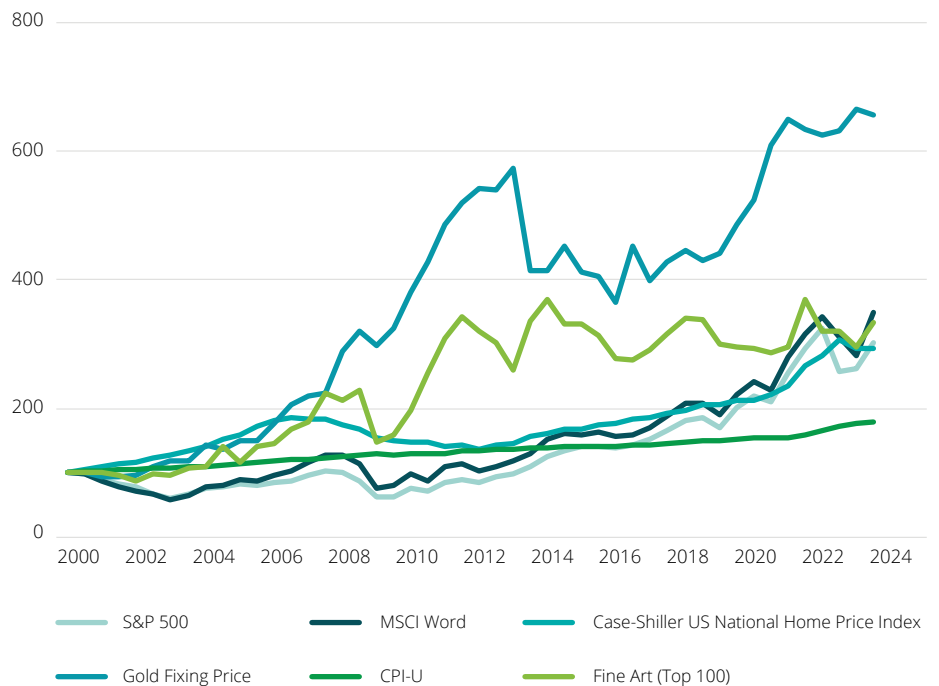
## Art market performance

By evaluating the performance of art as an asset class through a post-pandemic lens and amid the Russia-Ukraine war, the Artnet Indices showed moderate short-term and long-term returns by mid-2023 (Table 6). Despite a drop in the early post-pandemic market, Artnet's Index for Fine Art began to rebound toward pre-pandemic normalcy in the second half of 2022.

In particular, the Fine Art market exceeded the S&P 500 Index between January 2022 and July 2023, growing at a nominal 4.2% compared to a 6.6% loss for the S&P 500. With the 8% US inflation spike shocking the global economy in 2022, art prices suffered less than other asset classes but did not fully compensate for the 8% loss in real terms.

**Figure 120: Artnet Index for Fine Art**

Source: Artnet Worldwide Corporation



While the Artnet Index for Fine Art tracks the market's rigor at a given time, the art market's varying and shifting segments often perform independently of each other. A closer look at each market sector provides additional insight into the strengths and weaknesses of specific collecting categories.

All but two of the monitored art movements grew in the second half of 2022 compared to the first half. While prices fell for Global Post-War and Contemporary by -14% and -13%, respectively, all other art indices rose between 3% to 8%.

Entering 2023, the market performance for Global Post-War and Contemporary Art rebounded to a respective 5% and 3%.

The European Old Masters sector (European artists born 1250–1820) has traditionally underperformed compared to financial markets and other art sectors. From 2013 to 2022, the Index for European Old Masters slid from 156 to 135, peaking

at 139 in mid-2021. However, by mid-2023, its market performance grew by 6% to reach 143, the highest in 10 years.

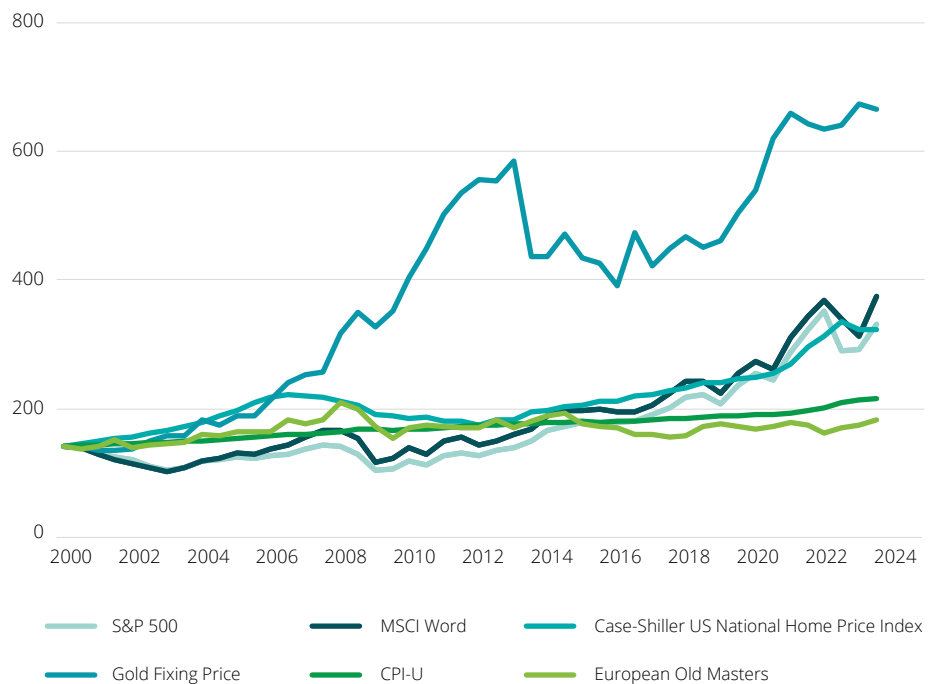
The Index for European Old Masters has produced a 2.9% compound annual growth rate (CAGR) in the last 5 years, marking the highest 5-year return of the art sector. In addition, the category saw the best 12-month return, with 9.7% in 2022 year-over-year. In recent auction cycles, the total sales value for this collecting category has hovered around the US\$600 million mark. However, in 2021 and 2022, total sales value rose to US\$704 million and US\$785 million, respectively, due to selling higher quality works.

With the art market's recent post-pandemic growth, this collecting category is generating similar sales to roughly a decade ago. While not immune to fluctuations, European Old Masters produce the least risk comparatively, with a volatility of 11%.

While not immune to fluctuations, European Old Masters produce the least risk comparatively, with a volatility of 11%.

Figure 121: Artnet Index for European Old Masters

Source: Artnet Worldwide Corporation





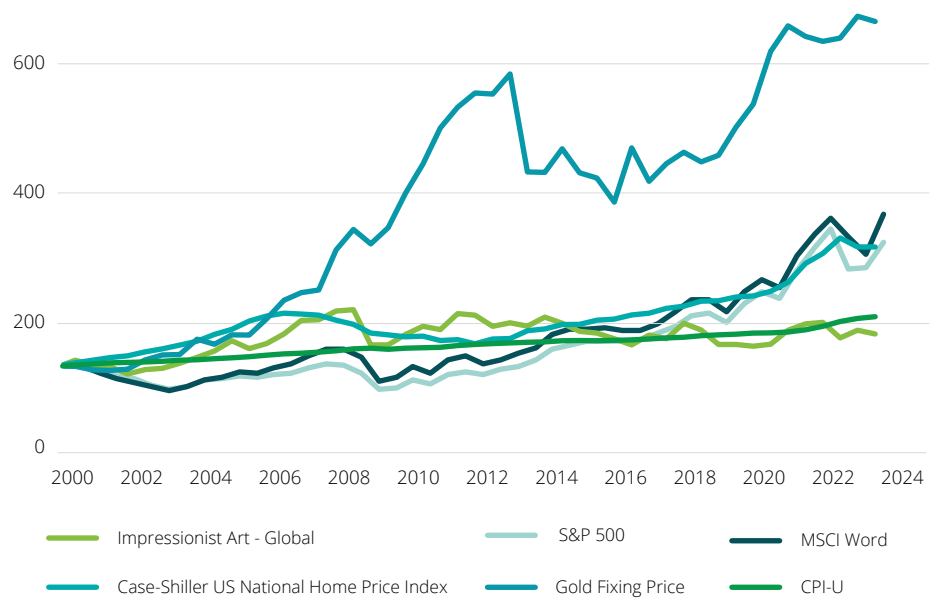
Unlike European Old Masters, Impressionist Art (artists born 1821–1874) shows a negative short-term return. Over the past decade, the Index of Global Impressionist Art peaked at 179 in 2014 but fell to a low of 135 during the COVID-19 pandemic. Despite market fluctuations, this sector's performance has been steadily improving.

While Impressionist Art spiked to 171 at the end of 2021—its highest performance since 2014—by the end of 2022, it had seemingly returned to its pre-pandemic performance, with a 12-month return of -7.5% CAGR and a 5-year return of -1.4% CAGR. On the other hand, by mid-2023, there was a positive 12-month return of 4.3% CAGR and a negative 5-year return of -0.4% CAGR.

The market sector for Modern Art (artists born 1875–1910) tells a similar story. With a positive correlation coefficient of 0.54 with the Impressionist market, Modern Art similarly displayed a poor return on investment, with an unimpressive 12-month return of -3.6% and a 15-year return of -1.5% CAGR by the end of 2022. According to the Artnet Price Database, Modern Art's total sales value reached US\$3.7 billion and US\$4 billion in 2021 and 2022, respectively, the highest since 2018. On the other hand, the 2023 market shows a slight positive return—generating US\$1.7 billion in the first half of the year and has a 12-month return of 5.8% with a 5-year return of -0.4%.

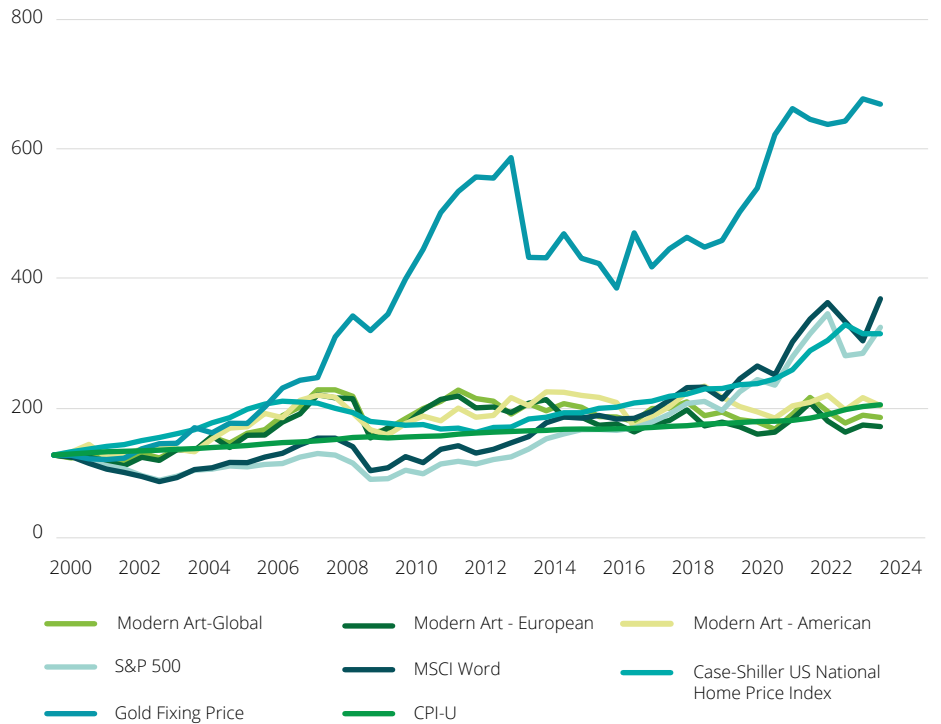
**Figure 122: Artnet Index for Global Impressionist Art**

Source: Artnet Worldwide Corporation



**Figure 123: Artnet Index for Modern Art**

Source: Artnet Worldwide Corporation



The two strongest collecting categories are Post-War (artists born 1911–1944) and Contemporary Art (artists born in 1945 or later). While historically these sectors generated more than US\$4 billion yearly, they surged to US\$6 billion and US\$5.9 billion in 2021 and 2022, respectively. Up until 2018, Impressionist and Modern Art continuously enjoyed the highest sales compared to other art market sectors. However, over the past few years, there has been a massive inventory of artworks for Post-War and Contemporary artworks sold at auctions.

Due to these artworks' high demand, the market return for these categories has been exemplary. Post-War and Contemporary Art outsold Impressionist and Modern by more than 600 in 2021, marking their most impressive market performance yet. In the first half of 2021, Post-War and Contemporary Art had a market performance of 392 and 374, respectively, a robust 10% and 8% increase from pre-pandemic levels. Not only did these markets outperform other collecting categories during this period, but also financial markets like the S&P 500.

Figure 124: Artnet Index for Post-War Art

Source: Artnet Worldwide Corporation

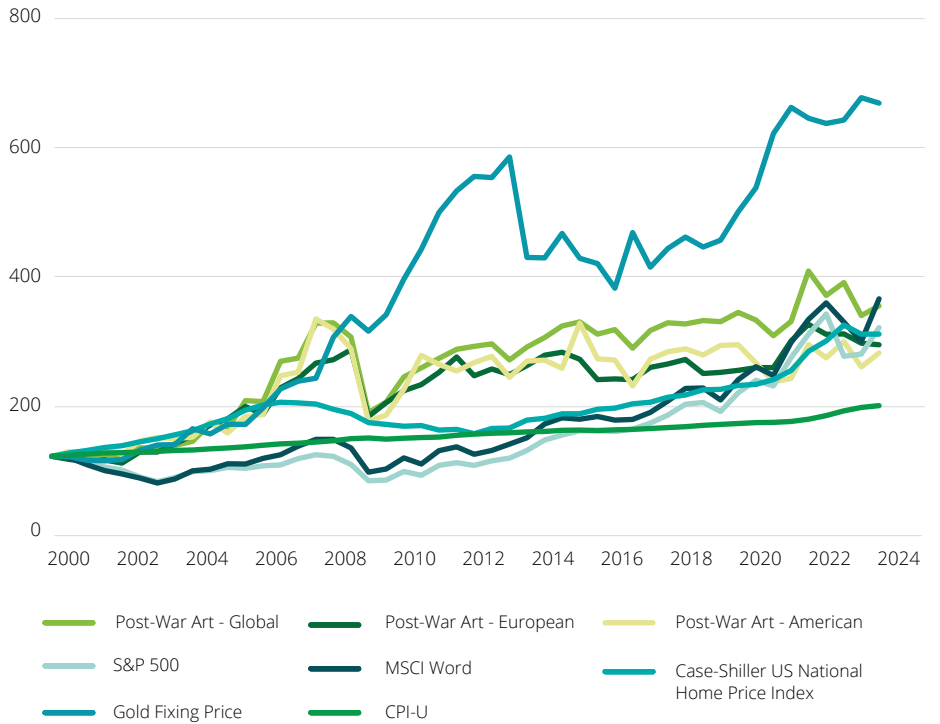
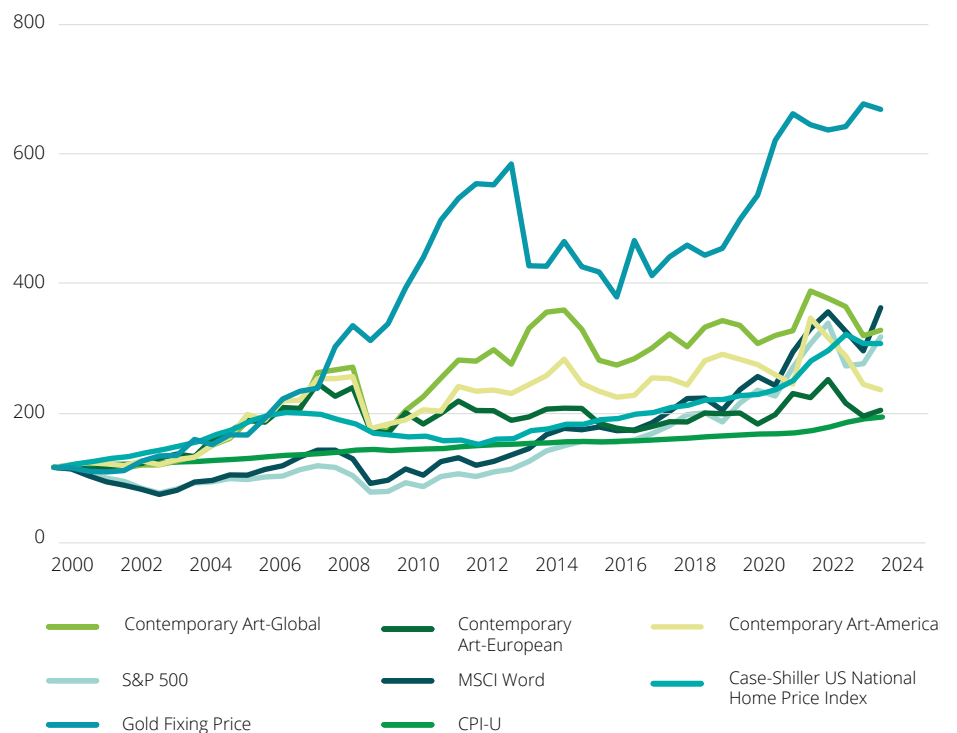


Figure 125 Artnet Index for Contemporary Art

Source: Artnet Worldwide Corporation



**Table 5: Compound annual growth return up to H2 2022**

Source: Artnet Worldwide Corporation

Artnet indices and financial indices	Up to H2 2022				
	12-month return	5-year CAGR	10-year CAGR	15-year CAGR	20-year CAGR
<b>Fine Art (Top 100)</b>	-7.3%	-2.8%	1.3%	2.2%	5.8%
<b>European Old Masters</b>	9.7%	2.9%	0.3%	-1.6%	1.3%
<b>Impressionist Art - Global</b>	-7.5%	-1.4%	-0.7%	-1.2%	2.5%
<b>Modern Art - Global</b>	-3.6%	-2.4%	-0.1%	-1.5%	2.7%
<b>Post-War Art - Global</b>	-9.0%	0.8%	2.5%	0.2%	5.4%
<b>Contemporary Art - Global</b>	-5.6%	-2.2%	0.7%	-1.5%	5.5%
<b>S&amp;P 500</b>	-19.4%	7.5%	10.4%	6.6%	7.6%
<b>MSCI World</b>	-17.7%	6.3%	9.0%	5.5%	8.2%
<b>Case-Shiller US National Home Price Index</b>	3.8%	8.3%	7.3%	3.5%	4.2%
<b>Gold Fixing Price</b>	6.5%	8.3%	1.5%	5.8%	9.0%
<b>CPI-U</b>	7.7%	3.8%	2.6%	2.4%	2.5%



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Between 2021 and 2022, Artnet art indices show particularly negative CAGR for various collecting categories, except European Old Masters.

Looking deeper at the return on investment over different time periods, all sector price indices show a mostly negative CAGR in the long run. Between 2021 and 2022, Artnet art indices show particularly negative CAGR for various collecting

categories, except European Old Masters. The worst-performing art categories for this period were Post-War (-9%), Impressionist (-7.5%), and Contemporary (-5.6%). Surprisingly, these negative returns contradict the strong performances of major auction houses in 2022, revealing a pervasive weakness of the mid-market and a corresponding underperformance of smaller auction houses.

Among the various fine art collecting segments, European Old Masters, Global Post-War and Global Contemporary Art showed a positive growth rate over the last 10 years.

**Table 6: Compound annual growth return up to H1 2023**

Source: Artnet Worldwide Corporation

Up to H1 2023

Artnet indices and financial indices	12-month return	5-year CAGR	10-year CAGR	15-year CAGR	20-year CAGR
<b>Fine Art (Top 100)</b>	3.8%	-0.4%	-0.1%	2.5%	5.8%
<b>European Old Masters</b>	8.9%	1.6%	0.1%	-0.8%	1.4%
<b>Impressionist Art - Global</b>	4.3%	-0.8%	-0.8%	-1.5%	1.9%
<b>Modern Art - Global</b>	5.8%	-0.4%	-1.3%	-1.3%	1.9%
<b>Post-War Art - Global</b>	-9.8%	1.4%	2.2%	1.1%	5.4%
<b>Contemporary Art - Global</b>	-10.6%	-0.3%	-0.1%	1.4%	5.4%
<b>S&amp;P 500</b>	17.6%	10.4%	10.7%	8.7%	7.9%
<b>MSCI World</b>	11.7%	10.9%	10.4%	7.8%	8.8%
<b>Case-Shiller US National Home Price Index</b>	-4.7%	7.4%	6.4%	3.8%	4.0%
<b>Gold Fixing Price</b>	4.2%	8.8%	4.7%	4.9%	8.9%
<b>CPI-U</b>	5%	4%	3%	2%	2.5%

The global economic stress caused by 2022's inflation spike could increase investors' appetites for artworks, as they are both an investment and a consumption good. Their positive correlation to equities (see Table 7) triggers downward performance in bear markets under inflationary pressure, but their consumption-good status pushes their prices toward an inflation-linked behavior. Therefore, overall, art acts as a better inflation hedge than traditional asset classes, whose valuations depend mostly on expected future cash flows and the time value of money.

With the Russia-Ukraine war impacting the world's fragile post-COVID-19 recovery, there has been a global supply surge. Since art is regarded as a value-preserving asset, similar to gold, it is less susceptible to risks associated with financial market crashes. As a result, investors are eager to buy either of these assets to retain their purchasing power.

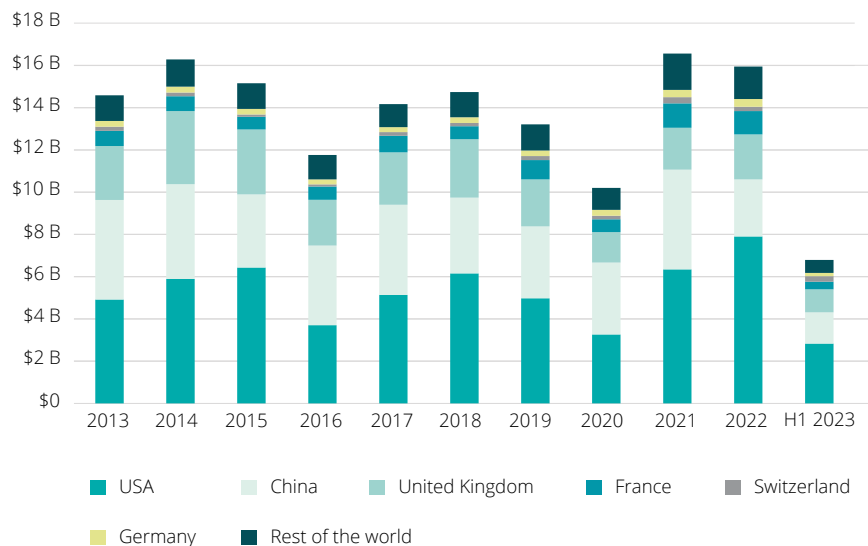
US interest rates reached a 20-year record high in 2022 due to tightening monetary policy to fight inflation. This contrasts with 2008 and 2011, where borrowing power was hurt by the financial crisis in a low

inflationary environment. However, despite the interest rate turmoil, Artnet's Index on Fine Art and Gold rose following these infamous market crashes. As expected from this indirect relationship between these markets, inflationary pressure drives overall growth.

**Table 7: Volatility and correlation up to H1 2023**

Source: Artnet Worldwide Corporation

Artnet indices	Up to H1 2023					
	Volatility	Correlation with S&P 500	Correlation with MSCI World	Correlation with Case-Shiller	Correlation with Gold Fixing Price	Correlation with CPI-U
<b>Fine Art (Top 100)</b>	19%	0.40	0.43	0.27	-0.02	0.02
<b>European Old Masters</b>	11%	0.18	0.23	0.17	0.22	0.23
<b>Impressionist Art - Global</b>	14%	0.50	0.51	0.11	0.32	0.05
<b>Modern Art - Global</b>	15%	0.40	0.39	0.25	0.03	0.00
<b>Post-War Art - Global</b>	18%	0.37	0.45	0.42	0.04	0.05
<b>Contemporary Art - Global</b>	16%	0.43	0.46	0.38	0.06	0.10

**Figure 126: Auction sales by country***Source: Artnet Worldwide Corporation*

### Impact of inflation and interest rates

Higher inflation rates have introduced new dynamics in the art market, with discernible shifts in both volume and momentum across different art segments. Consumption-driven art—the bottom 90% of artworks by price that typically cater to buyers seeking aesthetic enjoyment and personal preferences—has seen a drop in demand. These artworks' price sensitivity makes them more susceptible to economic fluctuations, particularly when affordability is a concern for buyers grappling with rising living costs.

Investment-focused art, on the other hand, has experienced a sustained interest and activity. This segment primarily includes blue-chip art, which is recognized for its historical significance, provenance and long-term value. These artworks, often created by established and renowned artists, hold intrinsic qualities that attract investors seeking assets with inflation-hedging potential. This appeal stems from the perception that blue-chip art can retain or increase its value over time, offering a measure of protection against eroding purchasing power.

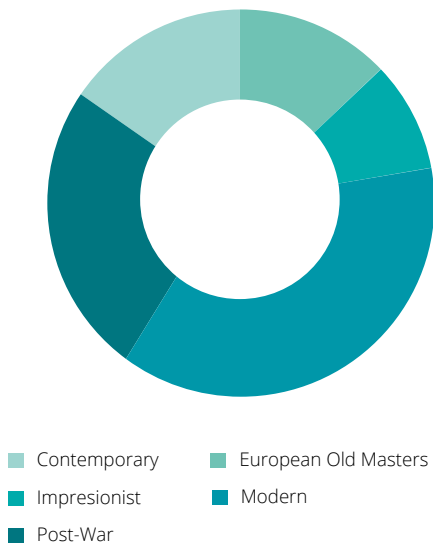
One of the key reasons behind the resilience of investment-focused art in the face of inflation is its perceived ability to serve as an effective hedge. Blue-chip art has demonstrated the capacity to preserve and even appreciate during periods of inflationary pressure, as evidenced by Öztürkkal and Togan-Eğrican.<sup>309</sup> This attribute attracts investors who view art as a tangible and non-correlated asset that can potentially outperform traditional investments during times of economic uncertainty.

Furthermore, the art market's reliance on cash transactions has contributed to its ability to withstand rate hikes. Unlike other sectors where substantial debt-financed transactions are common, art acquisitions predominantly occur without resorting to borrowing. This cash-driven nature of art purchases reduces its vulnerability to interest rate fluctuations, shielding the market from the adverse effects of rising borrowing costs.

## Wealth transfer

**Figure 127: Estate sales by art movement 2018-2022**

Source: Artnet Worldwide Corporation



As we explore the interconnected worlds of art, generational wealth transfer and the art market's evolving dynamics, we find both a celebration of the past and an exciting anticipation for the future. The passing of visionary art collectors and philanthropists has resulted in significant auctions that showcase masterpieces, providing a captivating insight into their vast and esteemed collections that transcend time and inspire awe and admiration. In recent years, these auctions have witnessed record-breaking sales. The collection of the late Microsoft co-founder, Paul G. Allen, generated a staggering US\$1.6 billion in late 2022, while *The Collection of Anne H. Bass* and *The Cox Collection: The Story of Impressionism* generated US\$363 million and US\$332 million, respectively.<sup>310</sup> These collectors, born in the early to mid-1900s, foresaw the inherent value of art in the 1980s, and their acquisitions have proven to be exceptional investments.

The Paul G. Allen Collection offers us a tantalizing glimpse into the tastes of these older generational art collectors. Among

the 155 pieces in the sale, Modern and Postwar artworks captivated bidders, generating a combined US\$648 million, but it was the Impressionist works that truly dazzled, generating a startling US\$835 million. Notably, five of the 10 highest-priced works of 2022 hailed from this remarkable collection. The Collection of Anne H. Bass similarly showcased the enduring allure of Impressionist artworks, which accounted for 63% of the entire collection's value, reaffirming their timeless appeal.

As wealth transfers from generation to generation, the art market finds itself on the cusp of transformation. The younger generation, expecting substantial inheritances, seeks to carve its path in the art world. Contemporary art has emerged as their coveted focal point. Artists like Jean-Michel Basquiat and Adrian Ghenie have experienced astounding increases in sales, with Adrian Ghenie's artwork achieving a remarkable 444% increase in value from 2018 to 2022, generating US\$49.7 million.<sup>311</sup>

The younger generation's ever-expanding and diverse demographics reflect a newfound inclusivity in the art market. Female and global collectors have emerged as prominent forces, ushering in a shift toward younger and more diverse artists. The Ultra-Contemporary sub-market, featuring artists born in 1975 or later, has surged in value. Artists Shara Hughes and Ayako Rokkaku have contributed an impressive 10% of the US\$668 million increase in this market, four times its value five years prior.<sup>312</sup>

The world of art and generational wealth transfer is a captivating journey that bridges the past with the future. Auctions provide a window into the visionary collections of the past, with Impressionist works and other classics continuing to mesmerize audiences. Simultaneously, the art market's future is fueled by the younger generation's passion and aspirations, embracing diversity, inclusivity, and an ever-evolving appreciation of artistic brilliance. It is a testament to the enduring power of art to inspire and enrich the lives of generations to come.



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## NOTES

**I. Data sources for Artnet and financial indices**

1. All data for the Artnet indices is based on information reported to the Artnet Price Database Fine Art and Design as of:

Year(s)	Data pulled as of
2000–2023	26 July 2023

2. All prices are converted from their original currency to US\$, based on the exchange rate on the day of the sale. All prices are adjusted to include the buyer's premium.

3. The Artnet price index employs a hedonic regression framework that explicitly defines an underlying stochastic process, allowing to treat the volatility parameter of fine art as the object of interest. The model can be estimated using maximum likelihood in combination with the Kalman filter. More about the Artnet indices methodology can be found in [this paper](#).

4. Data for **S&P 500** is sourced from Yahoo Finance ([link](#)).

5. Data for **MSCI World Index** is sourced directly from MSCI ([link](#)).

6. Data for **Case-Shiller US National Home Price Index** is sourced from the Federal Reserve Bank of St. Louis ([link](#)), which originally sources the data from S&P Dow Jones Indices LLC.

7. Data for **Gold Fixing Price** is sourced from the Federal Reserve Bank of St. Louis ([link](#)), which originally sources the data from ICE Benchmark Administration Limited (IBA).

8. Data for **CPI-U** is sourced from the U.S. Bureau of Labor Statistics ([link](#)).

**II. Data scope for Artnet indices**

1. Artnet indices are rebalanced annually, according to the top 100 performing artists, as defined by total sales over the previous 3 years.

2. Indices are composed of auction sales of paintings and works on paper produced by the top 100 performing artists in the category.

3. The art categories are defined as follows:

Art category	Index description
Fine Art	All artists were considered for this category.
European Old Masters	Works created by European artists born between 1250 and 1820.
Global Impressionist Art	Works created by artists born between 1821 and 1874, excluding single-nationality Chinese artists.
Modern Art	Works created by artists born between 1875 and 1910, excluding single-nationality Chinese artists.
Post-War Art	Works created by artists born between 1911 and 1944, excluding single-nationality Chinese artists.
Contemporary Art	Works created by artists born after 1944, excluding Chinese artists.

**III. Disclaimer**

Artnet Analytics reports do not include an appraisal, opinion, or legal, tax, accounting, investment, or other expert advice. Users of Artnet Analytics reports are advised to consult with art and financial experts about the interpretation and usefulness of information contained therein.

Unless otherwise agreed upon, each product is non-transferable and is



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Any images included in Artnet Analytics reports are intended for identification purposes only. We do not own the right to these images, and do not recommend their use for appraisal purposes. We cannot confirm that these images are of high resolution, or that they represent the exact work in question.

Although most auction houses report transaction prices that include a buyer's premium, some auction houses report only the hammer price. Based on analysis of historical auction catalogs, Artnet applies a formula to all records with hammer prices only, to estimate the effect of a buyer's premium. All prices in Artnet Analytics reports are therefore either reported as, or equated to, hammer price plus buyer's premium.

While we try to ensure that information included in each Artnet report is correctly calculated based on reported data, we rely on the information made available to us by all auction houses covered by the Artnet Price Database; we cannot be held responsible for any mistakes, inaccuracies, or omissions in the data provided to us, or for the integrity of each auction house itself. Artnet disclaims any responsibility to investigate the authenticity or condition of the artworks aggregated in the reports. We do not warrant or represent that the sales data used in these reports is complete, accurate, up-to-date, verified, or includes all available auction market data.



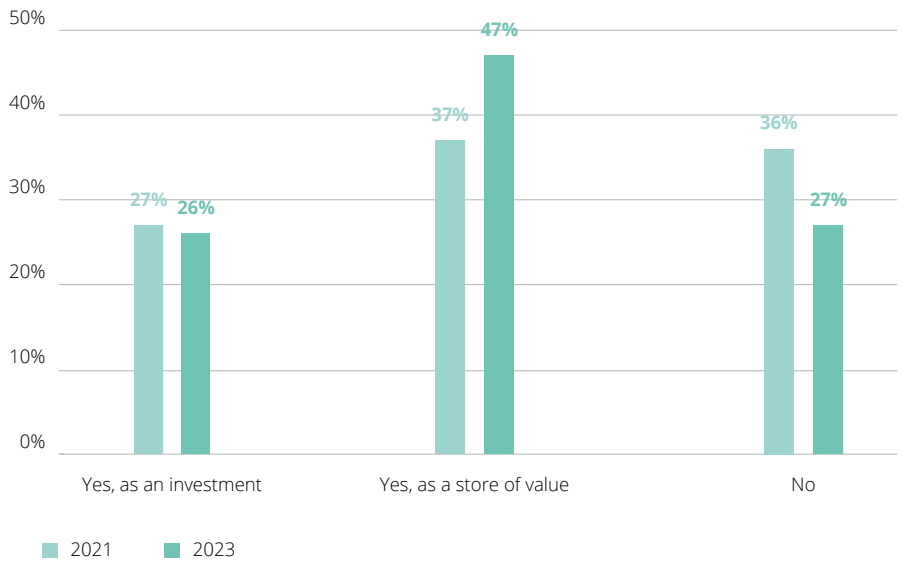
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Part 2\_

# 2023 Survey findings\_

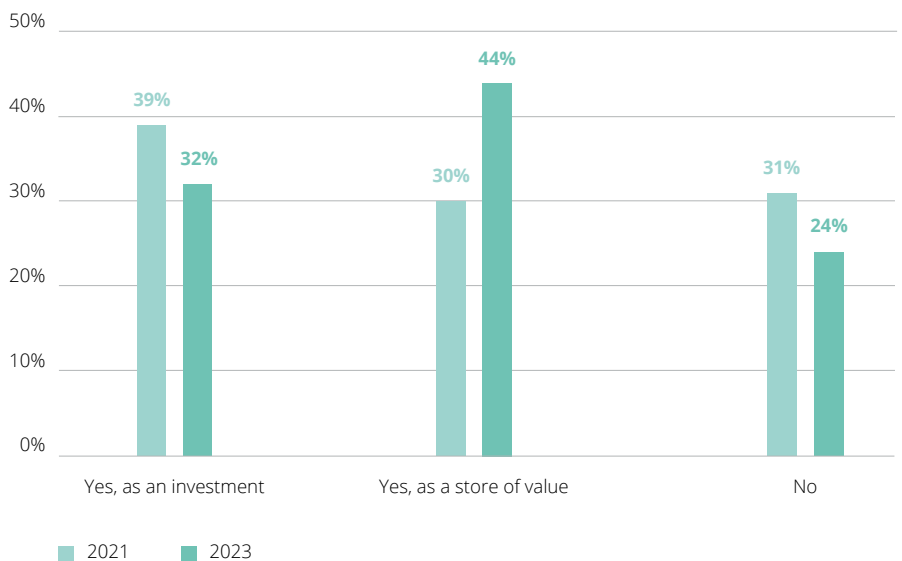
**Figure 128: Art professionals: have you seen an increasing interest in art and collectible assets as an investment or store of value?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 129: Collectors: have you seen an increasing interest in art and collectible assets as an investment or store of value?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

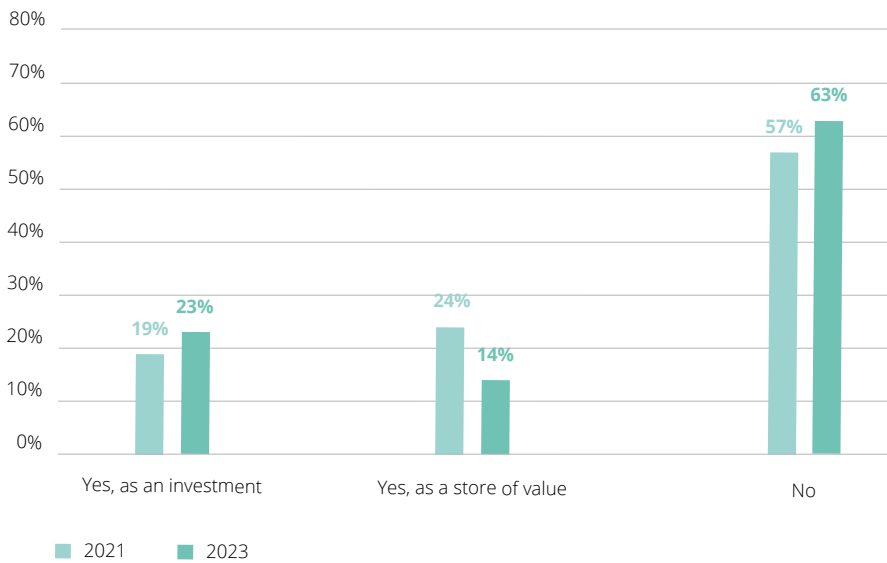




LIQUID STATE STONE  
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**Figure 130: Wealth managers: have you seen an increasing interest in art and collectible assets as an investment or store of value?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Store of value is a stronger motivation than return on investment:**

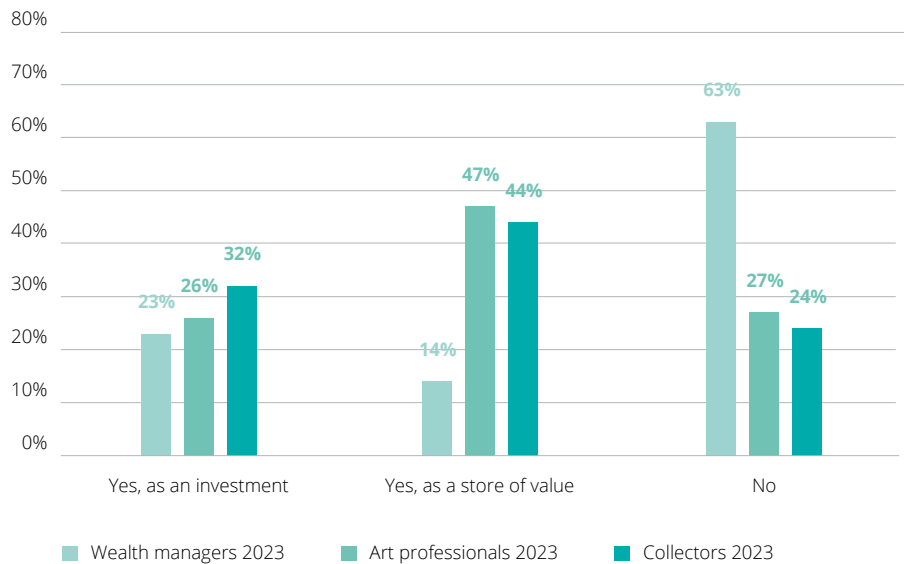
With inflation rates running high, more collectors and art professionals are seeing an increasing interest in art and collectible assets as a store of value, with 44% of collectors saying so (up from 30% in 2021) and 47% of art professionals (compared to 37% in 2021). This compares to 32% of collectors who said they have seen an increasing interest in art as an investment (down from 39% in 2021), with 26% of art professionals saying the same (down from 27% in 2021).

The majority of collectors (76%)<sup>313</sup> and art professionals (73%) see higher inflation as a trigger for increasing interest in art as an asset class. However, only 37% of wealth managers said the same. A possible explanation for this discrepancy is that wealth managers are typically not involved in the “investment” aspect of art ownership, and are primarily focused on “care-taking” services instead.

Interestingly, wealth managers have seen an uptick in interest in art as an investment in 2023, with 23% saying so (compared to 19% in 2021), while fewer wealth managers (14%) see art as a store of value (down from 24% in 2021).

**Figure 131: Due to the higher inflation environment, have you seen an increasing interest in art and collectible assets as an investment or store of value?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 132: How important are the following motivations when buying/investing in art in today's market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

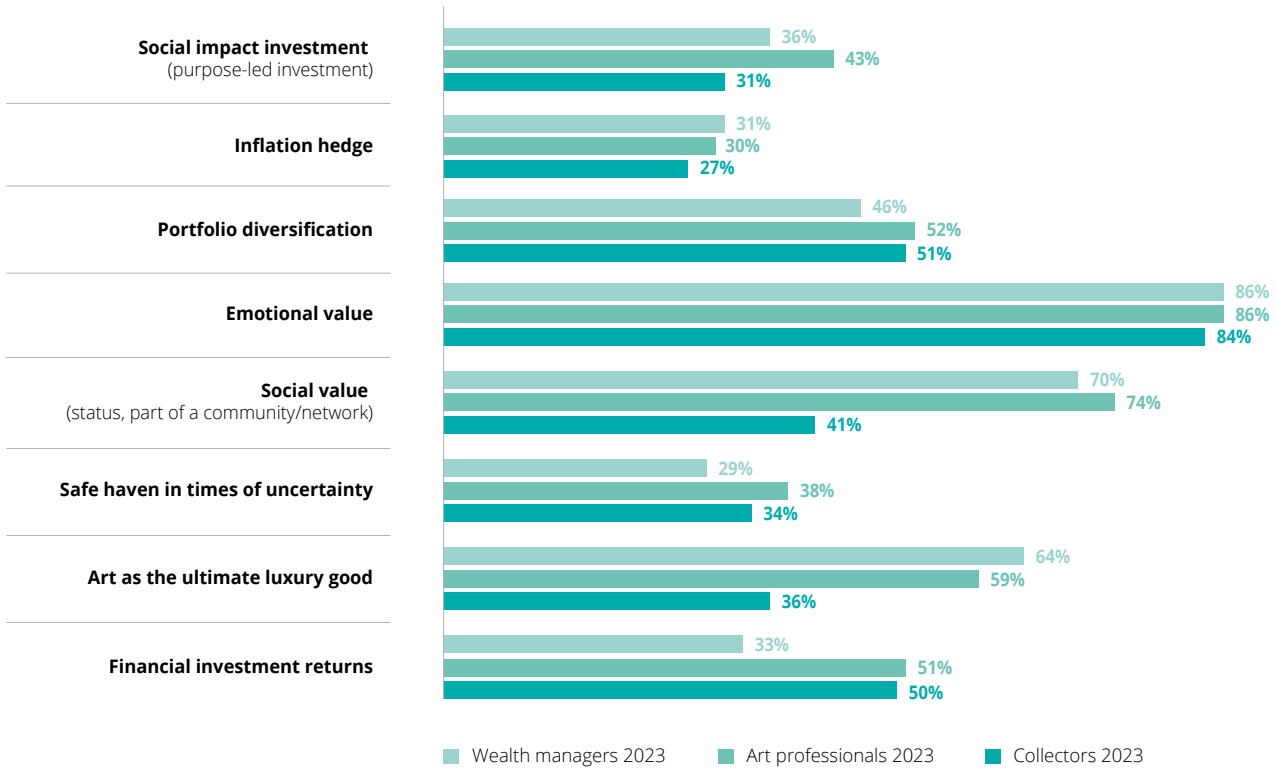
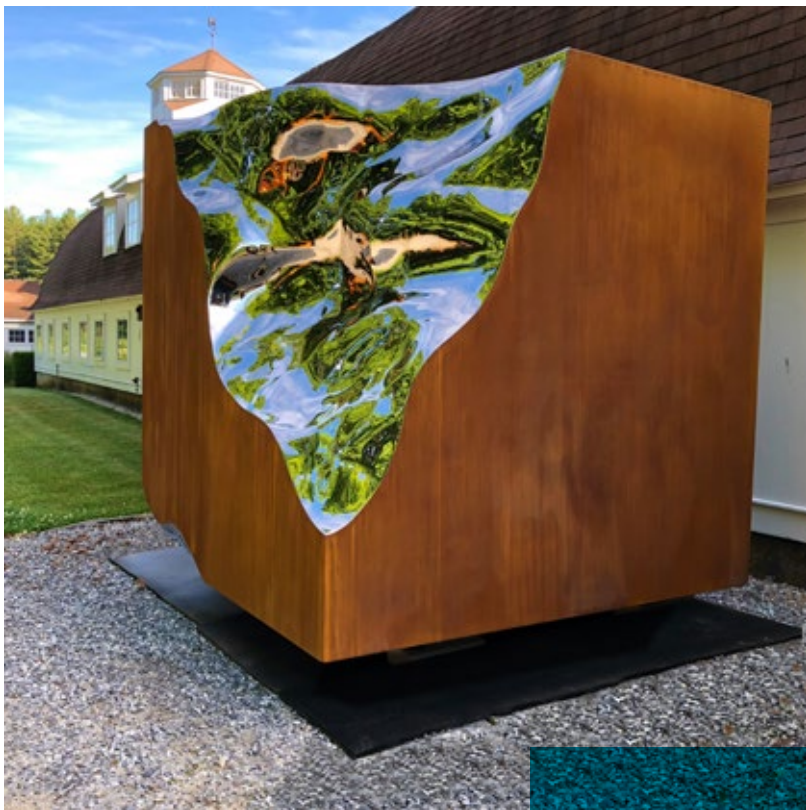
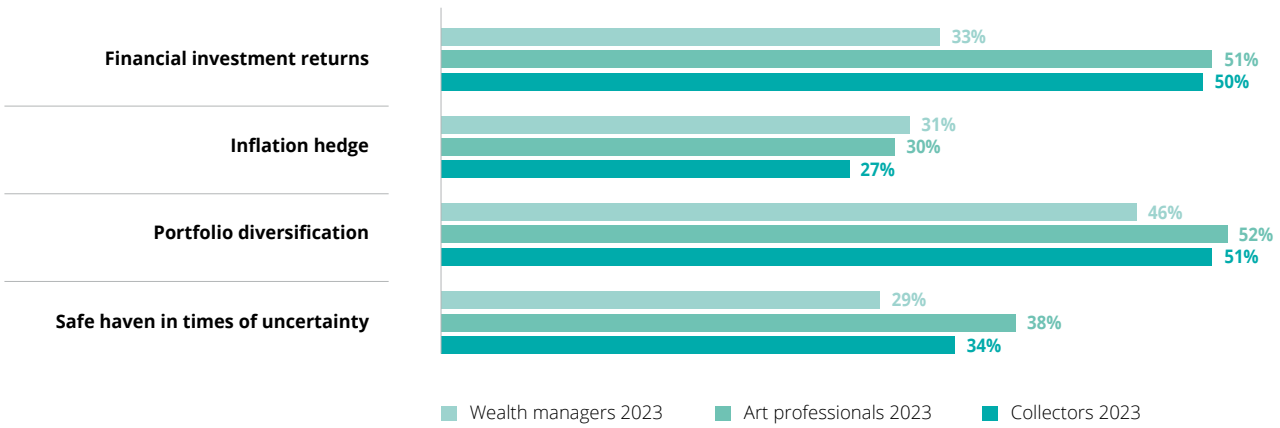


Figure 133: What are the key financial motivations when buying or investing in art in today's market?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



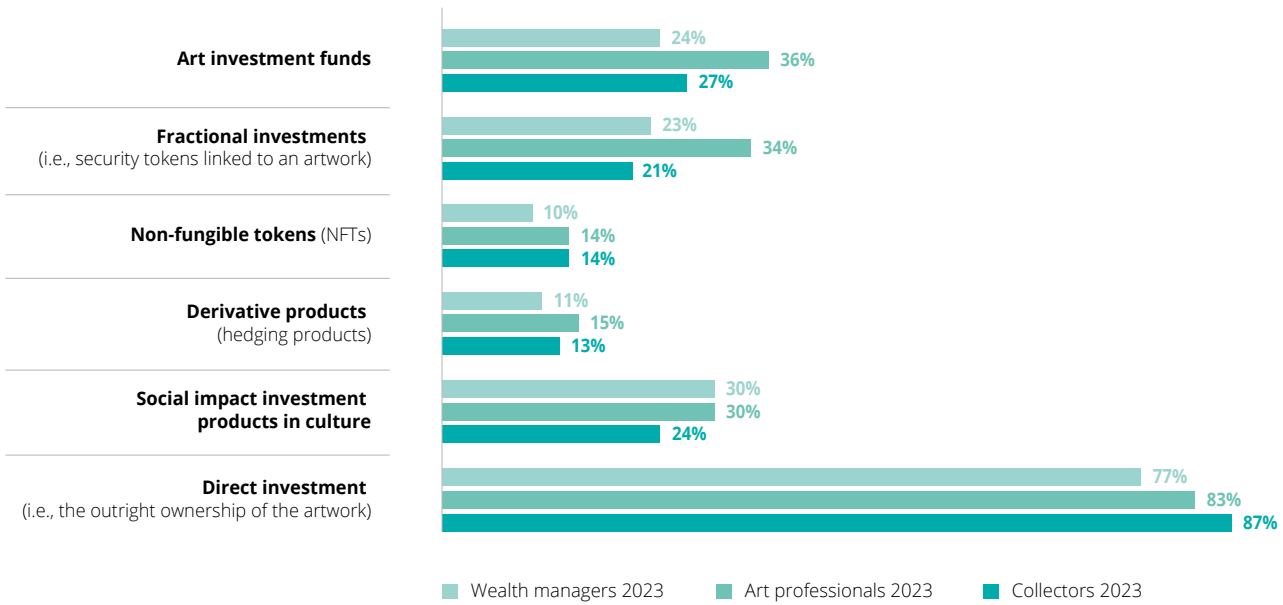
ALEMBIC CUBE  
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**Art and collectible investment**

**models:** Interest among collectors for new investment models like fractional ownership has marginally increased between 2019 and 2023. There has been a slight overall decrease in interest in art investment funds and social impact investment in culture. However, there is a clear generational difference, with younger collectors expressing a much stronger appetite for new art investment models (see NextGen section below). This is important, particularly as we are currently at the beginning of a generational wealth transfer, and these new models could act as catalysts for introducing the next generation to new forms of art ownership and investment models (that were previously only available to a select few). The significant increase in these emerging art investment models can also be explained by these typically not targeting existing art collectors but focusing on a broader community of investors with an appetite for alternative assets.

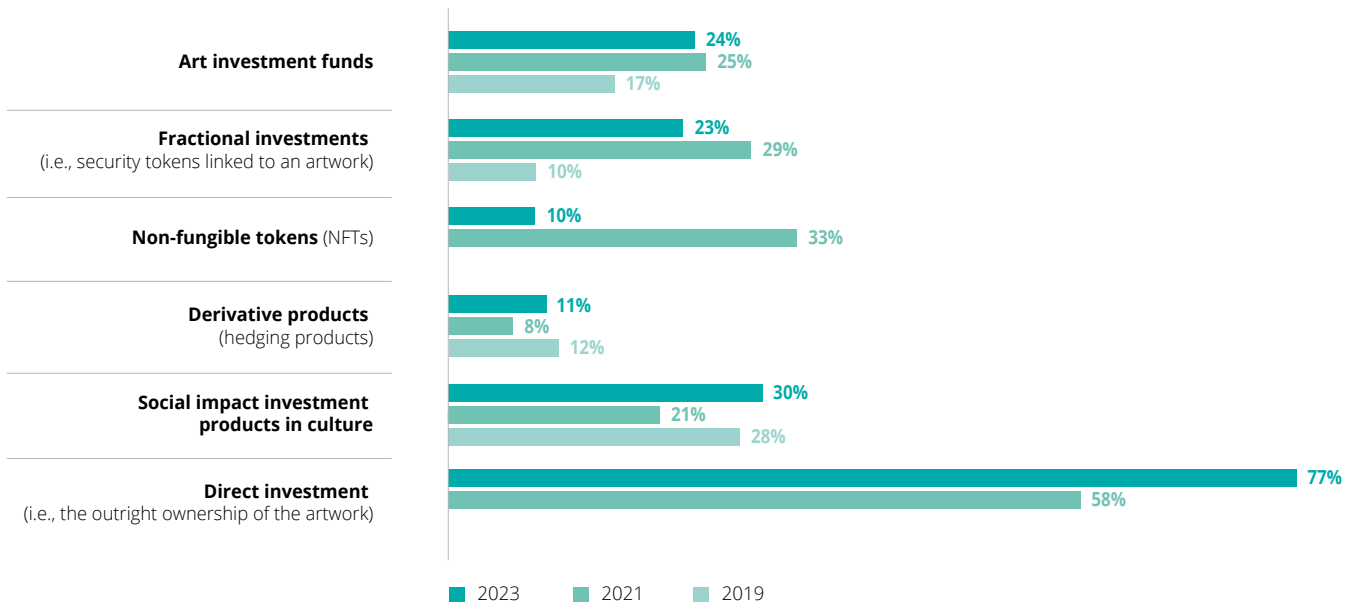
**Figure 134: In terms of investing in art, which of the following art investment products would be of most interest to you?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



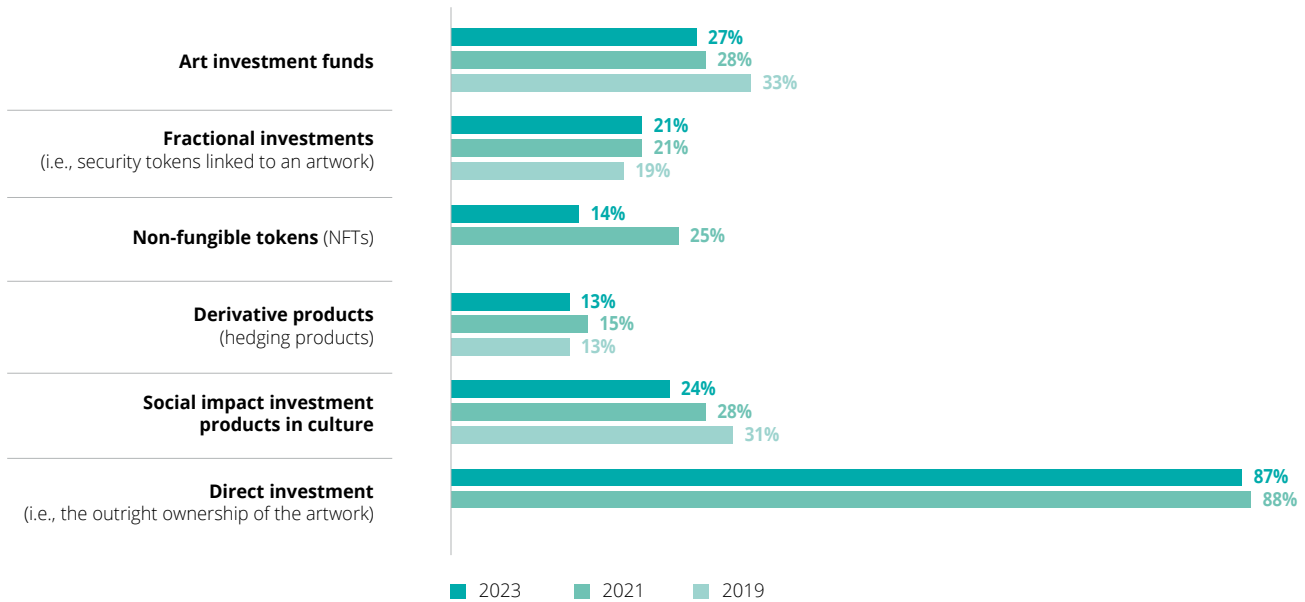
**Figure 135: Wealth managers: in terms of investing in art, which of the following art investment products would most interest your clients?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023<sup>314</sup>



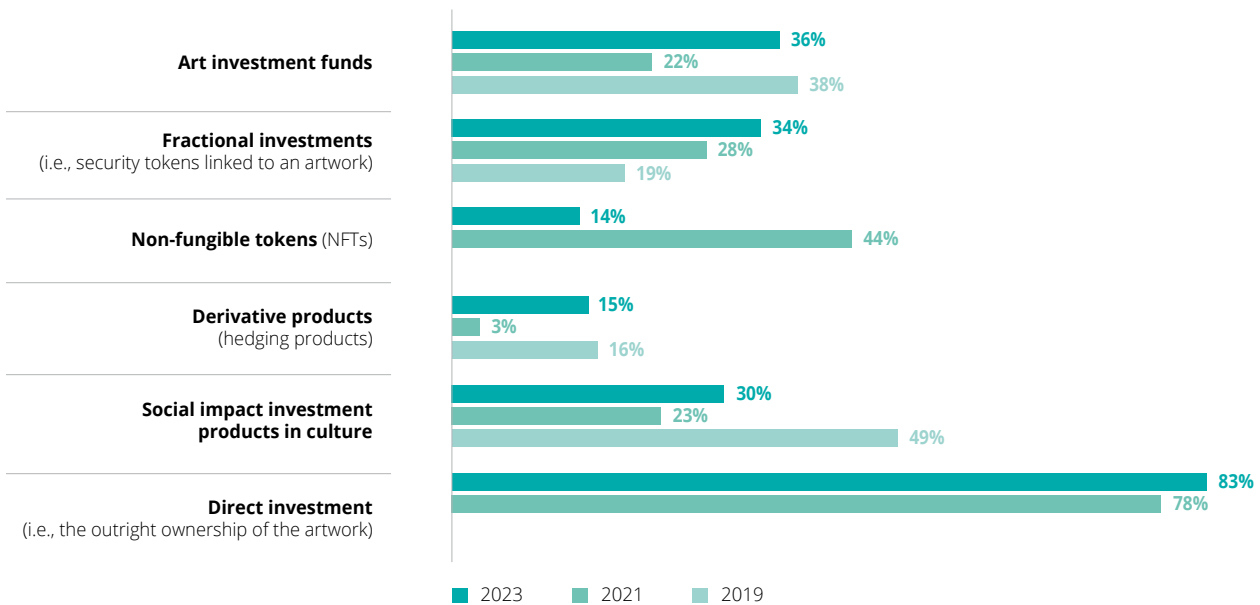
**Figure 136: Collectors: in terms of investing in art, which of the following art investment products would be of most interest to you?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 137: Art professionals: in terms of investing in art, which of the following art investment products would be of most interest to you?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023





**Inflation and asset diversification trigger continued interest in alternative forms of art ownership:**

During the COVID-19 pandemic, we saw a stronger interest in various forms of art investment, both in terms of store of value and from an investment return perspective. Since then, the economic challenges have been mounting, with slower growth and high inflation across many of the world's leading economies. In this year's survey, wealth managers continue to see demand among their clients for both outright ownership of art as well as alternative models of art investment.

had expressed an increased interest in social impact investment in culture (up from 21% in 2021). This suggests that broader investment trends could be filtering down to the cultural domain, such as the increasing focus on environmental, social and governance (ESG) compliant investments. This sentiment was echoed among 30% of art professionals (up from 23% in 2021). However, just under a quarter (24%) of collectors surveyed expressed an interest in these investment products (down from 28% in 2021). Interestingly, the demand for social impact investment in culture is significantly higher among a

investment product of interest (same as in 2021). Despite the momentum we have seen over the last two years in new fractional ownership platforms being set up, doubt remains among the stakeholders surveyed about the viability and suitability of these types of investments. This is likely due to the lack of track record and the emerging nature of the fractional ownership industry. It is important to note that the perception among stakeholders in this survey (wealth managers, collectors and art professionals) is likely to differ from the audience that these new platforms are targeting. The growth of the fractional ownership market suggests that these audiences are very different, and that the democratization of art investment is broadening the art investment community beyond its traditional demographics. However, it is worth noting that interest in fractional ownership among the younger collectors surveyed is significantly higher, with 50% this year (up from 43% in 2021) saying that they are interested in these types of investments.

The growth of the fractional ownership market suggests that these audiences are very different, and that the democratization of art investment is broadening the art investment community beyond its traditional demographics.

**Direct investment in art remains the most popular form of investment:**

A large majority (88%) of collectors and 83% of art professionals say that direct investment in art (outright ownership) is still the preferred option when investing in art and collectibles. This shows that art investments combining the emotional value of ownership with potential financial characteristics (store of value, diversification, inflation hedge and investment returns) are highly attractive to existing collectors and art professionals. The same trend can be seen among wealth managers, with 77% saying their clients preferred to invest in physical artworks, up from 58% in 2021.

**Social impact investment in culture is gaining interest among art professionals and wealth managers:**

30% of wealth managers said their clients

younger generation of collectors, with 66% saying they would be interested in such an investment product (up from 50% in 2021). This indicates a clear generational difference when it comes to investments in purpose-led and social impact projects in the arts and cultural sector. The relatively low interest among older collectors could also be due to the lack of awareness of investment opportunities in this emerging sector (see Section 4 for an overview of some key initiatives).

**Fractional ownership and tokenization:**

23% of wealth managers said they believed fractional ownership and tokenization of art and collectibles could become investment products of interest to their clients (down from 29% in 2021), with 34% of art professionals agreeing (up from 26% in 2021). Collectors remain slightly more cautious, with 21% saying it would be an

**A quarter of wealth managers see interest in traditional art investment funds:**

24% of wealth managers said that art investment funds would be the most attractive type of investment for their clients (slightly lower than 25% in 2021), with 36% of art professionals saying the same (up from 22% in 2021). Although the art investment fund market is yet to gain mainstream interest, there are signs of continued interest in this investment model. 27% of collectors said that art investment funds would be of interest to them (down from 28% in 2021).

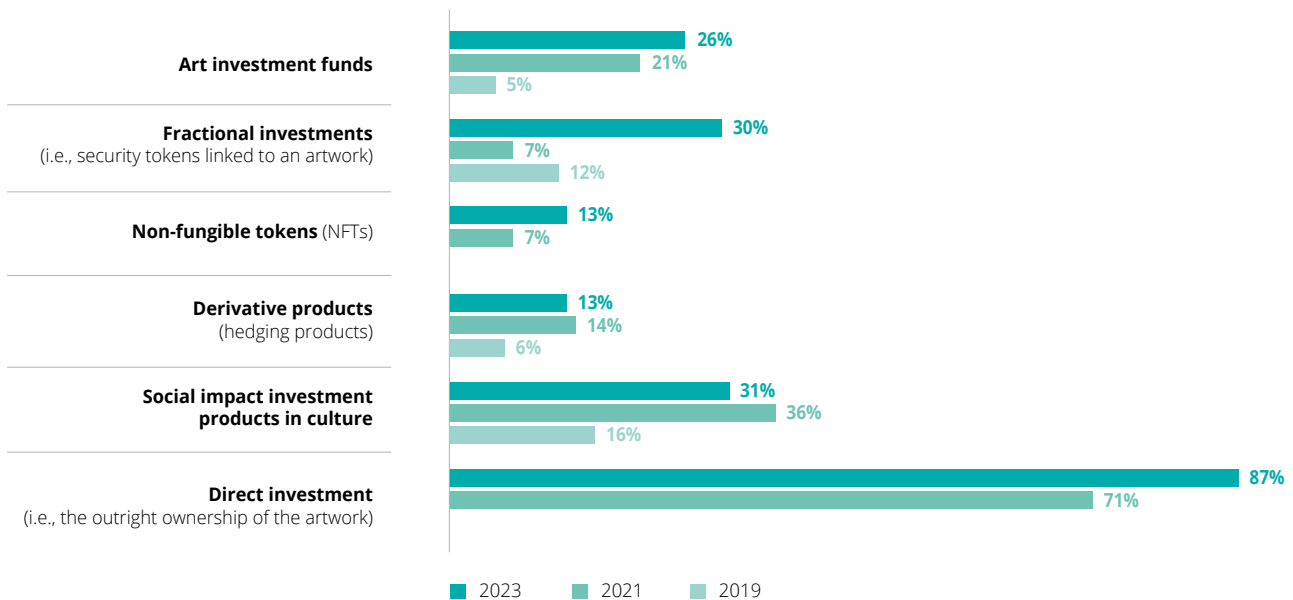
**Falling interest in NFTs over the last two years:**

The collapse in prices in the NFT market in 2022 and 2023 seems to have put a damper on the interest in these types of investments among wealth managers this year. Only 10% of wealth managers said NFTs would be an investment product of interest to their clients (down from 33% in 2021). A similar trend can be seen among collectors, where 14% said they were interested in investing in NFTs (down from 25% in 2021), and 14% of art professionals said the same (down from 44% in 2021).

Family offices—insights:

Figure 138: Family offices: what art investment products would you be most interested in?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Direct investment in physical artworks remains a core interest for family offices:** 87% of family offices surveyed said they prefer investing directly in physical art and collectibles (compared to 71% of family offices in 2021).

**Fractional ownership models also attract attention from family offices:** 30% of the family offices surveyed said they were strongly interested in fractional investments in artworks. In 2021, 7% of the family offices expressed an interest in fractional ownership, and only 12% expressed an interest in 2019. This signals that family offices are increasingly open to new investment models in art and could

be important stakeholders in the future development and sustainability of these new initiatives.

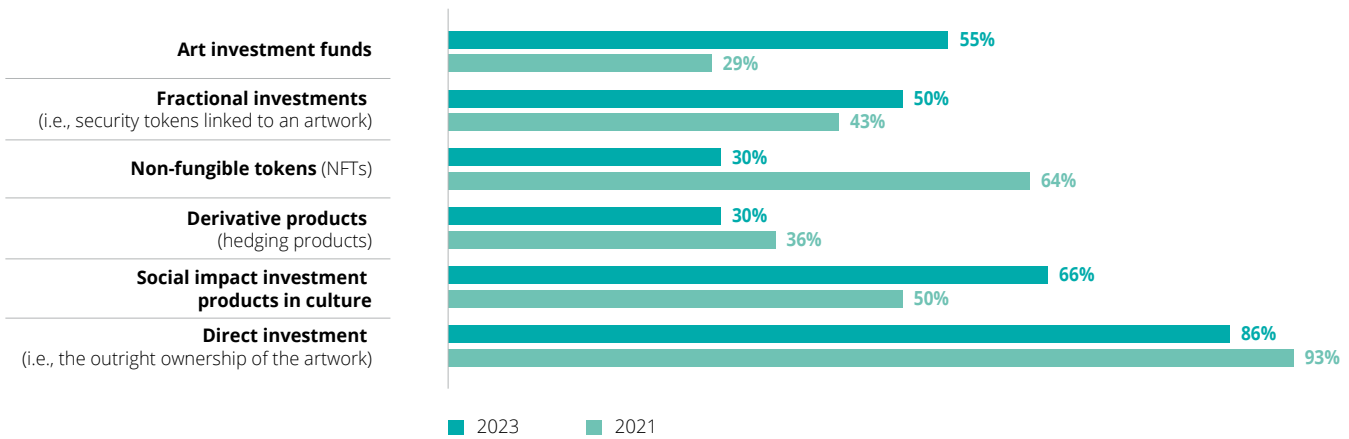
**More interest in art investment funds as family offices are looking for asset diversification:** 26% of family offices expressed a strong interest in art investment funds as the appropriate model for art investment (up from 21% in 2021, and 5% in 2019). This corresponds to 71% of family offices saying asset diversification was one of the strongest arguments for incorporating art and collectibles in traditional wealth management, up from 55% in 2021.

87% of family offices surveyed said they prefer investing directly in physical art and collectibles (compared to 71% of family offices in 2021).

**NextGen collectors—insights:**

**Figure 139: NextGen collectors: in terms of investing in art, which of the following art investment products would be of most interest to you?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Younger art collectors more open to new models of art investment:**

Although the majority (86%) of young collectors also prefer outright ownership of art and collectibles, more than half of these individuals would also be interested in other types of art investment. 55% said they would be interested in art investment funds, and 50% said that fractional ownership in art would be of interest to them. Far fewer see the same potential for NFTs this year, with 30% of young collectors expressing an interest in NFTs, compared to 64% in 2021.



**MARROW**  
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### Part 3\_

# New developments in Art Investment Funds and fractionalization\_

In our three previous Art & Finance Reports (2017, 2019 and 2021), we introduced developments around several new art investment products, such as fractional ownership models. The market for these products has evolved further in the last six years, with the launch of new fractional ownership and asset tokenization products (F-NFT, security tokens, etc.) for art and collectibles. Here, we take a closer look at some of these

emerging trends and how these new models could impact the development of a regulated market for art and collectible assets. We also examine the effect on the growth and future development of the art and finance industry, as well as the art market as a whole. In terms of regulation, we recommend reading this report's "MICA and the art market" article in Section 8, (page 416).

### Fractional ownership phenomenon: a result of the sharing economy:

The term “ownership” has continued to evolve over generations<sup>315</sup> as populations consider how and when they use various assets and services, and what is practical to them in terms of possession, usage and accessibility.

The sharing economy refers to scenarios where assets or services are paid for on the basis of consumption or demand at the user’s convenience, instead of purchasing the asset outright or signing a long-term contract for services.<sup>316</sup>

While the benefits of a sharing economy are becoming increasingly recognized, some believe that fractional ownership (a subsector of the sharing economy) is not developing at the same pace as the sharing economy.<sup>317</sup> Fractional ownership allows buyers to expand and diversify their asset base, while minimizing the costs associated with ownership by reducing maintenance costs, purchase prices and risk based on only partial ownership.<sup>318</sup>

Fractional ownership can be relatively complex or simple. It is possible, for example, to have fractional ownership of luxury goods (e.g., real estate, art, yachts, IP music rights, or luxury cars)<sup>319</sup>, enabling fractional owners to access or use these assets without owning them outright or paying their full price.

At the other end of the scale, fractional ownership can be more sophisticated, as seen with energy communities that have also emerged as a result of the sharing economy.<sup>320</sup> An energy community is where local citizens, small businesses and other relevant parties work together to create energy efficiency for the benefit of the wider group by sharing the ownership and consumption of a common energy resource. Energy communities usually support a transition to clean energy.

### Fractional ownership models emerging across the art and collectible sector

We estimate that the current regulated fractional ownership market for art and collectibles is over US\$1 billion.<sup>321</sup> Several more established fractional ownership platforms have seen their assets under management doubling<sup>322</sup> annually since 2020.

Price inflation seen in the art market over the past decade has resulted in investment-grade art now being too expensive for the majority of collectors and investors to purchase outright. However, investment demand remains high, resulting in the emergence of new regulated investment models that allow investors to continue investing in these assets.<sup>323</sup> The concept of “democratizing” art investment has become increasingly popular over the last two years, appealing to a new demographic of art investors who have traditionally been excluded from investing in art and collectibles or found the obstacles too big to merit the effort.

The concept of fractional ownership in art is not new; in fact, several art investment clubs and art funds were launched in the early 20th century. Some proved a success, while others did not. We first documented the emergence of fractional art ownership in our inaugural Art & Finance Report in 2011. A fractional art ownership model was tested between 2009 and 2012 in the Chinese art market, for example.<sup>324</sup> At the time, the Chinese art market was growing rapidly due to government policies that encouraged investment in the cultural industry to drive economic growth. First launched as art and cultural exchanges, investors were able to invest in shares of artworks that could be traded on specific exchanges. However, the Chinese government changed the initial model, adding restrictions and tightening regulations in 2012 in response to price volatility and speculative behavior, which

underlined flaws in the initial model. As a result, most of the exchanges closed. Those that remain now operate under very different operating models to comply with the necessary regulations. Other similar initiatives were also launched in other parts of the world, but without success.

In the last three years, there has been a noticeable global surge in interest in fractional art and collectibles investment, with multiple initiatives being regulated by financial regulators for the first time. This signals that we may have entered a new era of fractional ownership in art and collectibles which is more likely to reach mass adoption this time.

The year 2018 saw an acceleration in fractional art ownership, when Masterworks launched an SEC-regulated product that initially allowed investors to purchase fractional ownership of Andy Warhol’s 1979 1 Colored Marilyn (Reversal Series). The product was not an initial success, and the company only gained real traction two years after its launch. However, there is plenty of demand today, with the company offering investors fractional ownership of 300<sup>325</sup> artworks representing just under US\$815 million in assets under management.

The increasing demand for fractional investment in art has encouraged other companies to follow suit. Table 8 has an overview of some of the new and existing fractional ownership initiatives.

Price inflation seen in the art market over the past decade has resulted in investment-grade art now being too expensive for the majority of collectors and investors to purchase outright.

**Table 8: Art and collectibles: Examples of fractional ownership platforms<sup>326</sup>**

	Founding year	Status	Country
<b>Masterworks</b>	2017	Live	United States
<b>Rally</b>	2017	Live	United States
<b>Look Lateral</b>	2017	Live	Italy/United States
<b>ArtnGuide</b>	2018	Live	South Korea
<b>Art Together</b>	2018	Live	South Korea
<b>Public.com</b>	2019	Live	United States
<b>Tessa</b>	2020	Live	South Korea
<b>Rares</b>	2020	Live	United States
<b>Particle</b>	2021	Live	United States
<b>Sygnum</b>	2021	Live	Switzerland
<b>Showpiece</b>	2021	Live	United Kingdom
<b>SOTWO</b>	2021	Live	South Korea
<b>Petale</b>	2021	Live	France
<b>Tessera</b>	2021	Live	United States
<b>Luxus</b>	2021	Live	United States
<b>Mintus</b>	2022	Live	United Kingdom
<b>Artsplit</b>	2022	Live	Ghana
<b>Arkefi</b>	2023	Live	Switzerland
<b>Artex</b>	2023	In process	Liechtenstein
<b>Freeport</b>	2023	Live	United States
<b>360X Art</b>	2023	In process	Germany
<b>The Rare Antiquities</b>	2022	In process	United Arab Emirates
<b>The Global Art Exchange</b>	2023	In process	United States
<b>Timeless</b>	2018	Live	Germany
<b>Artsquare</b>	2018	Live	United Kingdom
<b>Artrium</b>	2022	In process	Denmark
<b>aShareX</b>	2022	In process	United States

This is not an exhaustive list of fractional ownership platforms for art and collectibles, and is intended for illustration purposes only. Deloitte and ArtTactic do not endorse any of these initiatives.

### Recent tokenization initiatives

Tokenization is also attracting interest in less mainstream asset classes.<sup>327</sup> 360X is a digital assets marketplace backed by Deutsche Börse and Commerzbank, aiming to tokenize rights in art, music and real estate assets (sometimes in partnership with firms that specialize in the sector). These tokenized rights are verified by experts. 360X Music already issues tokens and promotes them to investors, and has issued security tokens backed by music royalties. 360X Art will also follow suit.<sup>328</sup> It is interesting to see some traditional finance players supporting these initiatives, as this is something we have not seen in the past.

Although music is a US\$1 trillion asset class, investment into the industry has predominantly come from industry insiders and specialty funds. Sonomo, a music investment platform launched in 2021 to democratize access to music investing, allows investors to trade fractionalized shares that they own in songs and exchange-traded-fund-like “baskets”.<sup>329</sup> The platform has curated its collection of songs carefully so it can offer investors a broad range of genres and artists. Investors can, therefore, invest in new songs (which are speculative in the sense their success and future earning power are unknown) or in classic songs written by established artists such as Gloria Gaynor and Barbara Mason. Sonomo-owned songs are played on more than 100 streaming platforms garnering royalties, which are paid out to shareholders each month. Investors have access to a real-time data feed that provides information on how a song is performing, allowing them to make investment decisions based on factors like historic earnings or daily streaming count. External market makers operate on the platform, injecting liquidity into assets.<sup>330</sup>

In May 2023, Artory partnered with Tokeny to expand Artory’s asset tokens with the ERC-3643 standard. The ERC-3643 is an open-source suite of smart contracts that allows market players to apply trust, compliance and control on a shared infrastructure and achieve enhanced transferability.<sup>331</sup> Artory chose to expand their asset tokens with the ERC3643 standard so they would be able to trade more extensively, rather than be limited to a single local trading platform as would otherwise have been the case. This expansion has allowed them to take advantage of the standard’s

Today, Artory’s expert certification, tokenization and data-driven valuation for risk-weighted assets, together with Tokeny’s compliant infrastructure leveraging the ERC-3643 standard, makes art and collectibles investment offerings accessible across multiple platforms, and promises to unlock liquidity, opening up access within the art market.

on-chain compliance as a result of the integral identity system, which is an in-built attribute of the standard. Financial instruments that are tokenized under the standard are interoperable with any other centralized or decentralized trading venue, provided it is on the same blockchain network.<sup>332</sup> This new token standard removes jurisdictional silos and brings tokenized art to global platforms of investors. Today, Artory’s expert certification, tokenization and data-driven valuation for risk-weighted assets, together with Tokeny’s compliant infrastructure leveraging the ERC-3643 standard, makes art and collectibles investment offerings accessible across multiple platforms, and

promises to unlock liquidity, opening up access within the art market. Art collectors and professionals can now seamlessly tokenize trusted physical artworks and access liquidity in a compliant digital ecosystem through streamlined asset fractionalization, asset-backed credit products, funds and other art investment offerings.

Global Art Exchange LLC (GAX), a Delaware/US company with offices in Miami and New York, announced the plan to open its business to sell digital asset securities (DAS) backed by blue chip artworks

GAX’s ArtBits in the first quarter of 2024. All recently introduced SEC rules and regulations covering the custody of the DAS and the buying, selling and trading of DAS will be strictly followed and observed by GAX. Regarding the now-required Special Purpose Broker Dealer (SPBD) to act as custodian, GAX intends to use Prometheus Capital (ProCap), which is the first US-registered SPBD by the Financial Industry Regulatory Authority (FINRA). The purchasing, selling and trading of ArtBits is intended to begin when GAX’s Alternative Trading System (ATS) is registered with FINRA, planned for the first quarter of 2024. To transact this new and innovative activity, GAX has developed its platform



as an alternative trading system (ATS) that specializes in handling digital asset securities backed by blue-chip artworks. GAX is currently filing to register its ATS with the SEC to comply with SEC rule 301(b) (2). Gusrae Kaplan Nusbaum PLLC, NYC, has been contracted for legal consulting.

### Fractional ownership models—overview

#### On-chain versus off-chain

Masterworks' initial plan was to introduce and use blockchain technology as a means to record and track fractional ownership in artworks, although the firm ultimately decided to opt for a traditional approach that did not utilize blockchain technology. However, over the past two years, we have seen a trend where companies have started to integrate hybrid approaches that incorporate both blockchain as well as traditional tracking and recording of fractional artwork ownership. Newer platforms are typically using the blockchain to record and transfer ownership of fractions (shares) in art in a secure and decentralized way (on-chain). Simultaneously, they are using off-chain transactions to handle, validate and authenticate these transactions—usually because this part of the process is more cost and time-efficient off chain. Off-chain transactions can later be integrated back into a blockchain if required.

#### Long-term versus short term

**Buy-and-hold strategy:** Most fractional ownership platforms have adopted this strategy, which involves purchasing fractional ownership interests with the expectation that they will appreciate in value over time. This approach focuses on medium to long-term capital appreciation.



**BUMP BLOCK**  
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**Trading:** Although some of the existing platforms offer short-term opportunities to trade fractions (shares) in artworks through peer-to-peer platforms, we have only recently seen the emergence of a regulated exchange for art (see page 340 article by Artex).

### Ownership structure

**Direct ownership:** In some cases, fractional ownership investors hold direct ownership interests in the underlying asset. This means that their names are recorded as co-owners, and they have a direct claim to their share of the asset.

### Ownership through legal entities:

Alternatively, fractional ownership investments may be structured through legal entities such as limited liability companies (LLCs) or special purpose vehicles (SPVs). In this case, investors own shares in the entity, which in turn owns the underlying asset.

### Marketplace versus exchange

The large majority of platforms launched so far would be defined as marketplaces, acting as intermediaries between investors and artworks. In July this year, Artex launched one of the first regulated blockchain-based exchange for shares in artworks.

### Regulation versus non-regulation

Fractional ownership interests may be considered securities or crypto assets, subject to regulation by securities authorities (see the MICA and the art market article in Section 8). Fractional ownership interests may be represented by security tokens or crypto assets—for example, fractional NFTs (F-NFTs)—and investors can often trade these on secondary markets. Platforms that offer any kind of investment in fractional artwork ownership must comply with the relevant securities or crypto asset regulations, including registration, disclosure and

reporting requirements. In May 2023, the SEC-backed FINRA announced that it had approved its first broker-dealer<sup>333</sup> that provides custody rights for digital assets securities.<sup>334</sup> We believe that for fractional ownership in art to be a viable model, this industry will need to be regulated, and investors would need to be very cautious about entering into any investment that does not comply with securities regulations in the respective country.

### Retail investors versus professional investors

Not all fractional investment initiatives are eligible for all investors, with some restricted to “well-informed investors” or professional investors. These are investors who can be considered to be professional clients or may, on request, be treated as professional clients within the meaning of Annex II of MiFID II—those who have the experience, knowledge and expertise to make their own investment decisions and can adequately assess the associated risks.<sup>335</sup> In comparison, investors who do not meet the MiFID II criteria are known as “retail investors.”

### Tokenization and fractionalization

The tokenization of art and collectible assets, empowered by blockchain and smart contracts, could be a true innovation in the art industry. Converting physical assets into digital tokens opens up a range of possibilities—from broadening the investor base to increasing liquidity, securing royalties for artists, and creating new models to finance culture (see Section 4 of this report).

Tokenization has become significantly more prominent over the last two years. There are two main types of tokenization; the first covers established assets, which include private equity or venture capital, while the second covers non-bankable assets, which include fine art and collectibles.<sup>336</sup> In recent years, the entry point for investable art required a minimum investment of around

US\$1 million. However, the tokenization and fractionalization<sup>337</sup> of high-end art could provide a more accessible price point for entry into the investable art market. As wealth managers and family offices are increasingly investing capital into private markets, there is a growing need to find new types of assets for investment,<sup>338</sup> and tokenization may help meet this demand.

Despite recent traction in this market, art market and wealth managers are yet to be convinced by fractional investment models. Although this year’s Art & Finance survey shows an increase in interest among art professionals, with 34% expressing an interest in fractional ownership (up from 26% in 2021), only 21% of collectors surveyed said the same (unchanged from 2021). Interestingly, 23% of wealth managers (down from 29% in 2021) said they were interested in these products for their clients who still show some resistance to the idea of fractional ownership as an investment product.

### Art investment funds

Over the last two decades, we saw very little movement and interest in art investment funds. However, the increasing focus on art as an investment and the financial aspects of art ownership have led to a rise in new initiatives over the last 12 months.

Among these new initiatives is the Artory/Winston diversified fine art fund, which provides access to the higher echelon of the art market through a portfolio of artworks hand-selected by Winston Art Group, one of the largest independent art advisory and appraisal firms in the United States. Artory has created the next generation of financial products by building NFTs on top of trusted physical artworks for efficient trade in the financial and crypto markets.

Another provider of art investment products is Athena Art Finance x Yieldstreet that, so far, has set up four art

equity funds (typically for a term of five years) with the aim to invest in a diversified fund of artworks by globally acclaimed artists. The company also has two art debt portfolios, including the “Diversified Art Debt Portfolio II” with a 30-month term and an expected monthly interest above traditional fixed income. The portfolio is secured by 162 artworks by 107 different artists.

The Fine Art Group, a pioneer in the art fund industry over the last 20 years, has not continued its strategy of setting up new art investment funds. Instead, it is focusing its efforts on building more nimble and flexible art investment structures, such as co-investment opportunities and managed accounts.

Meta4, dedicated to the financialization of NFTs, launched Meta4 NFT Fund I, LP in late 2021, which invests in digital art and NFTs and is anchored by a16z.<sup>339</sup> This US\$25 million fund, now over 90% deployed, is an exercise in digital art history (or digital antiquities), in which they seek to acquire rare specimens of NFTs that represent the beginning, evolution and continued transformation of the asset class spanning multiple genres (e.g., art, collectibles, gaming, music and virtual land) dating back to as early as 2014. The portfolio contains “grail” assets (i.e., ‘fine art’ in the traditional art world) spread across collections from the previously mentioned genres, including Refik Anadol’s Sense of Healing: AI Data Sculpture A; Robbie Barrat’s Lost Robbie; Mitchell F Chan’s IKB; and Rare Pepes’ PEPENOPOULOS and the Nakamoto card series.

### Non-bankable assets and generational wealth transfer

A significant part of a UHNW family or UHNWI’s global net worth is often invested in assets difficult to manage and quantify, such as real estate, high-end art, jewelry and other passion assets. Accenture estimates that just under 50% of total

**Table 9: Meta4 NFT Fund I, LP details**

<b>Established</b>	2021
<b>Size</b>	US\$25 million
<b>Duration</b>	5 years (+ at GPs discretion)
<b>Auditor</b>	Berkower
<b>Fund Administrator</b>	NAV Fund Administration Group
<b>Incorporation</b>	Delaware
<b>Investor Profile</b>	Qualified Purchasers

UNHW wealth is in these non-bankable assets, accounting for US\$30 trillion globally.<sup>340</sup> The recent advancements in technology have allowed these non-bankable assets to be tokenized, enabling them to be formally included in professionally managed portfolios. These assets’ tokenization will likely add liquidity to the non-bankable asset market, while increasing transparency and reducing the costs of transactions related to these assets.<sup>341</sup>

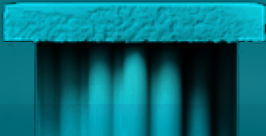
For wealth managers, the use of tokenization in inheritance and succession planning (discussed in more detail in Section 3 of this report) will be particularly relevant, as this technology would allow the transfer of non-bankable asset ownership to the next generation or heirs at any time. Tokenization can be particularly useful if families or individuals want to split assets equally between heirs in a transparent way, limiting potential disputes, and also help with inheritance planning from a legal and tax perspective.

One of the key challenges of this ownership transfer is valuation, which can be complex and require specialist knowledge. Custody and security issues are also potential hurdles, given it is crucial for physical

art assets to be stored securely and adequately safeguarded against theft and damage. However, these challenges also present new opportunities for wealth managers. For example, wealth managers could incorporate appraisers, advisors, and blockchain technologists<sup>342</sup> into their service offerings, alongside lending specialists and investment managers.

Tokenization may also include opportunities for wealth management firms to differentiate themselves and add more value for their clients compared to their competitors. Those that move quickly to embrace relevant technology may find themselves able to offer services that include managing non-bankable assets, which will streamline and professionalize inheritance planning around these assets.<sup>343</sup> There is little doubt that tokenization will play an important role in the future of wealth management services.

Tokenization is gaining momentum. According to Dr. Bulling, Avaloq’s head of strategic innovation, ecosystem and digital assets: “Generally, banks talk about it but haven’t yet offered it [tokenization] but it might move in the next two or three years.”<sup>344</sup>

INDUSTRY  
INSIGHTS\_

## Case study: ARTEX MTF AG

## Understanding art IPOs: Risks and rewards of investing in iconic art stocks



**Yassir Benjelloun-Touimi**  
Co-Founder & Chief  
Executive Officer, ARTEX

#### Q1: What are the benefits of investing in iconic art stocks?

In this high-interest-rate environment, the attractiveness of the global art market is on the rise, as illustrated by the record activity of auctions. Numerous studies show that art is an important asset class (estimated at US\$3.2 trillion), characterized by long-term steady returns and a low correlation with equity markets and more traditional bonds. As the art market becomes more accessible, its appeal as an asset class will increase.

#### Q2: What are initial public offerings (IPOs) of iconic artwork

While buying iconic artworks has traditionally been the preserve of the very wealthy, the emergence of art IPOs may trigger a sea change in the art world. Similar to traditional IPOs, where shares of a private company are issued to the public for the first time, art IPOs involve dividing the ownership of a single artwork into smaller units. Instead of buying an entire artwork, investors can buy a piece of it. These shares can then be bought, sold or traded on a secondary market via a specialized stock exchange.

#### Q3: What are the benefits and challenges of fractional ownership?


Interest in fractional ownership and art IPOs is heightening due to their potential to open up market access and diversify investment portfolios. However, private banks and asset managers must understand how these models work in practice to properly advise their clients.

The main areas of discussion are:

- Why include art in managed portfolios?
- What are the main factors driving the demand for co-ownership and art IPOs, and how may they be affected by economic, demographic and cultural shifts?
- What are the potential financial returns, and how do they compare to other investment options?
- How are returns generated?
- How can the authenticity, provenance and accuracy of art valuations be guaranteed to protect investors' interests and maintain confidence in the fractional art market?
- What is the expected liquidity of fractional shares in secondary markets, and how can investors effectively manage the trade-offs between potential capital appreciation and the ease of buying or selling shares?
- What are the compliance and investment risks of fractional ownership's legal, regulatory and tax frameworks, and how may these rules evolve as the market grows and matures?

#### Q4: What is ARTEX MTF AG?

ARTEX MTF AG, founded in 2020, is the world's first regulated global stock exchange for artworks, and obtained its multi-trading facility (MTF) operating license in December 2022. ARTEX is domiciled in the European Economic Area (EEA) and



supervised by the Liechtenstein Financial Markets Authority (FMA) under the EU's second Markets in Financial Instruments Directive (MiFID II).

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**Q5: Who can invest in art shares, and how does ARTEX plan to solve the art market's liquidity issues?**

The ARTEX stock exchange offers millions of investors access to a unique alternative asset class. Dedicated market makers ensure continuous liquidity, allowing art shares listed on the ARTEX stock exchange to be traded smoothly and transparently with tight trading ranges on a daily basis. This approval also allows ARTEX to onboard financial institutions as members of the stock exchange, so that they can offer their clients secure access to its first listing of a master painting, which is expected in the fall of 2023. ARTEX aims to IPO more than €1 billion worth of artworks over the next few quarters.

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**Q6: How are iconic art IPOs structured?**

Initially, ARTEX is focused on iconic canvases by the world's greatest painters from the Renaissance to the 20th century. Each artwork is owned by a public limited company under Luxembourg law, whose shares will be admitted to trading on ARTEX through an IPO. The shareholders will not bear any operating costs, including those related to the company's administration, the artwork's custody, or its insurance premium. Art shares will be in the form of standardized securities similar to any other publicly traded share.

The art shares will have a starting nominal value of €100, allowing as many people as possible to invest in the world's most emblematic paintings. In addition, masterpieces listed on ARTEX will be openly displayed in museums and exhibitions worldwide. Finally, through its dedicated media platform [artexplored.com](https://artexplored.com), ARTEX will help investors better understand the art market and standardize art investment by offering the latest insights, analysis, reports and updates from the art world.

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**Q7: What will be the first iconic artwork IPO on ARTEX?**

On 30 May 2023, the first artwork to be listed on the ARTEX MTF stock exchange was unveiled at the prestigious Victoria and Albert Museum in London: the Three Studies for Portrait of George Dyer (1963), an oil on canvas triptych by British artist Francis Bacon. This portrait of Dyer, who would become Bacon's greatest muse, is the first in a unique series of five Dyer triptychs that Bacon created between 1963 and 1969 at the height of his career. It sold at auction in May 2017 for nearly US\$52 million.

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**Q8: Who are ARTEX's partners?**

ARTEX has partnered with recognized exchange infrastructure service providers to offer a smooth trading experience and a robust platform. SIX will provide clearing and settlement services and the provision of data feeds. Bloomberg tools will allow market users to access state-of-the-art infrastructure for order placement and risk

management. UnaVista, the London Stock Exchange Group's regulatory reporting platform, will enable ARTEX to fulfill its information exchange and transaction reporting obligations to supervisory authorities. And Rothschild & Co is acting as ARTEX's financial advisor for its artwork IPOs.

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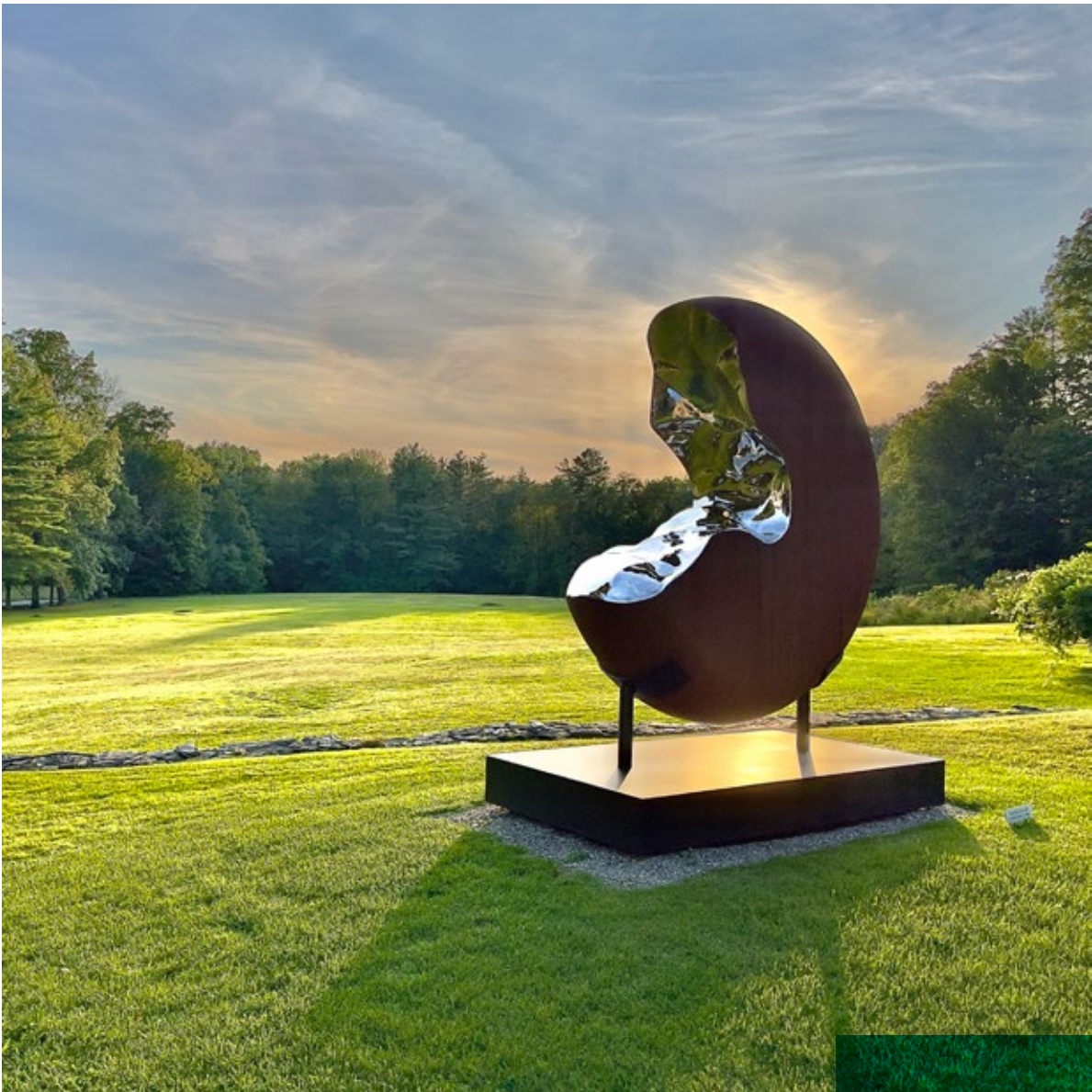
**Q9: Where do you see ARTEX in 2 to 3 years?**

In the near future, ARTEX will have revolutionized access to this new asset class, making it available to any investor, anywhere. Whether you are a retail investor, involved in wealth management, or represent an institutional entity, ARTEX offers diverse investment options, including single stocks, exchange-traded funds (ETFs) and debt products. This inclusive approach ensures that individuals and organizations from all backgrounds can participate in and benefit from the dynamic world of art investment.

ARTEX's website, [artexplored.com](https://artexplored.com), will galvanize millions of art enthusiasts not just interested in investing and making a profit, but also eager to learn about these masterpieces and their artists. When we delve into these narratives, we realize what was once seemingly ordinary can evoke joy, bring tears to our eyes, and grant us access to a profound knowledge of humanity and awareness previously beyond our reach.

# Endnotes

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- 336 Tom Burroughes, "Asset Tokenization Market Could Reach \$16.1 Trillion By 2030 – Study," *Family Wealth Report*, September 14, 2022 and RWAs as digital tokens on a blockchain. This opens up opportunities for new private markets, where fractionalization can be used to democratize ownership.
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G2V  
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# 07\_

## Art and technology

**DARK MATTER**  
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ELLIPSIS  
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# Highlights

New technologies will soon take art and finance to the next level.

## **Technological innovation drives the art and finance sectors closer together:**

Most of the advancements seen in the intersection between art and technology are also going to benefit the future development of the art and finance industry. While only 18% of wealth managers in 2019 said that blockchain technology could have a significant impact on the development of art and wealth management services, a significantly higher proportion (58%) of wealth managers said the same this year.

## **Strong optimism for change arises from technological innovation:**

64% of wealth managers surveyed this year said that technology could be a catalyst for incorporating art and collectible assets into their existing wealth management services.

## **Technological innovation will drive more transparency in the art market:**

This year, 81% of wealth managers, 79% of collectors and 83% of art professionals said that technology could be a catalyst for creating more transparency in the art market. Increasing transparency is one of the key challenges to take into consideration when incorporating art into wealth management service offerings.

## **Track and trace:** 82% of wealth managers, 88% of art professionals and 82% of art collectors believe that technology (e.g., blockchain) will improve the provenance tracking and traceability of art and collectibles.

## **Authenticity concerns can be addressed through improved technology:**

70% of wealth managers, 81% of art professionals and 80% of art collectors believe that technology (e.g., AI and DNA technology) will help address authenticity issues related to art and collectibles.

## **Blockchain technology gains traction among art stakeholders:**

Following the rise and fall of the NFT market, in the last 12 months, we have seen increasing adoption of blockchain technology as an infrastructure tool for payment, royalties, KYC and AML verification, as well as for storing information concerning provenance and ownership of physical artworks. New services such as Arcual's

## Increasing transparency is one of the key challenges to take into consideration when incorporating art into wealth management service offerings.

blockchain applications (founded by MCH Group and LUMA Foundation) are an example of this.

## **Blockchain provides a paradigm shift in the arts and cultural sector:**

Blockchain technology has transformed how communities communicate and engage with their

own assets. Also known as Web3, this concept relies on the transaction and data infrastructure provided by the blockchain. It is decentralized, open to everyone and transparent to users and non-users alike. Catalyzed by this movement, the arts and cultural sector has been launched into a paradigm of new market structures, ownership models and innovative creation which empowers creators and collectors alike.

## **NextGen collectors drive the digital transformation:**

80% of young collectors believe in blockchain (as an asset register for art and collectibles), and a further 79% see the rapid developments around artwork identification technologies as instruments to address many of the current inefficiencies in today's art market.

## **The growing interest in tokenizing Real-World Assets:**

High volatility in the crypto asset market and the collapse of centralized DeFi exchanges in 2022, have shifted the focus in recent months toward real-world assets (RWAs) on the blockchain. This has been cited as one of the most

exciting use cases for blockchain technology and, based on a report by Boston Consulting Group, the on-chain RWA market is expected to reach between US\$4 trillion and US\$16 trillion by 2030.<sup>345</sup>

# Introduction\_

Six key facets – The maturing art technology industry is a key enabler for the art and finance industry

Source: Deloitte Luxembourg

## ANALYTICS\_

Big Data & AI: Better data and analytics shifts the balance of power | valuation | forecast artist's careers | track down fakes | data capture & processing

## DIGITALIZATION, 3D & TOKENIZATION\_

New digital technologies brings new mediums for artists, museums, etc | NFT platforms and fractional ownership

## SECURITY\_

Collection management | scientific analysis | provenance tracking and certification | authenticity | DNA technology - fingerprinting | KYC - AML | condition reporting | expert communities and networks | liquidity risk management



## EXPERIENCE - AR - VR - MIXED REALITY\_

Technology is making it easier to access and enjoy art | immersive experience | gamification

## GEOGRAPHY\_

Reach: technology connects artists, buyers, sellers and diffuses art on a global scale | Online viewing room (OVR)

## 5G - SOCIAL\_

Mobile & Social media influences art and promotes artists Social communities

The digitalization of the art market has entered a new phase. Since the 2020 COVID-19 pandemic, the art industry and its stakeholders have embarked on a journey of digital transformation: A transition from traditional sales channels to the rapid adoption of online sales platforms during the pandemic; and from the rise and fall of the NFT market in 2021 to the subsequent focus on blockchain technology as the new provenance and ownership tracking tool for the art and collectibles market.

Most of the advancements that we see in the intersection between art and technology are also going to benefit the future development of the art and finance industry, with wealth managers saying that blockchain technology (58%) and big data and analytics (48%) will have the most impact on art and wealth services going forward. The integration of data and art market analytics, improved collection management systems and blockchain technology that could facilitate cost-effective due diligence—not to mention new, technology-enabled art investment products—could open the art market up to the US\$1.7 trillion<sup>346</sup> revenue-generating wealth management industry.

**Traditional art market players increasingly behind digital transformation in the art market:**

The digital transformation of the art market has entered a new era. Since the outbreak of the pandemic, the traditional art market has been more open to technological advancement. As a result, we have seen significant digital innovation in the sector, which is likely to change how art businesses operate and incorporate technology going forward.<sup>347</sup> New initiatives, such as Christie’s Ventures<sup>348</sup> launched in 2022, are a sign that traditional art market players are moving firmly behind the trend toward a digital future.

**Wealth managers move beyond cryptocurrencies:**

As wealth managers experience increasing client demand for digital assets, the industry has started to look beyond cryptocurrencies and is exploring metaverse assets, tokenization and NFTs. In 2022, HSBC

launched a fund<sup>349</sup> that offers investment opportunities in companies linked to the metaverse ecosystem for the institution’s private banking clients in Hong Kong and Singapore. The fund predominantly invests in companies that operate in the virtualization, infrastructure, computing, experience and discovery, and interface<sup>350</sup> industries.

**Blockchain technology gains traction among art stakeholders:**

Following the rise and fall of the NFT market, we have seen over the last 12 months increasing adoption of blockchain technology as an infrastructure tool. An example of this is the launch of Arcual’s blockchain application (founded by MCH Group and LUMA Foundation). The application provides a centralized space in which to share and store information, partnerships and transactions relevant to the art world. Rather than building a marketplace to disseminate this information (as would

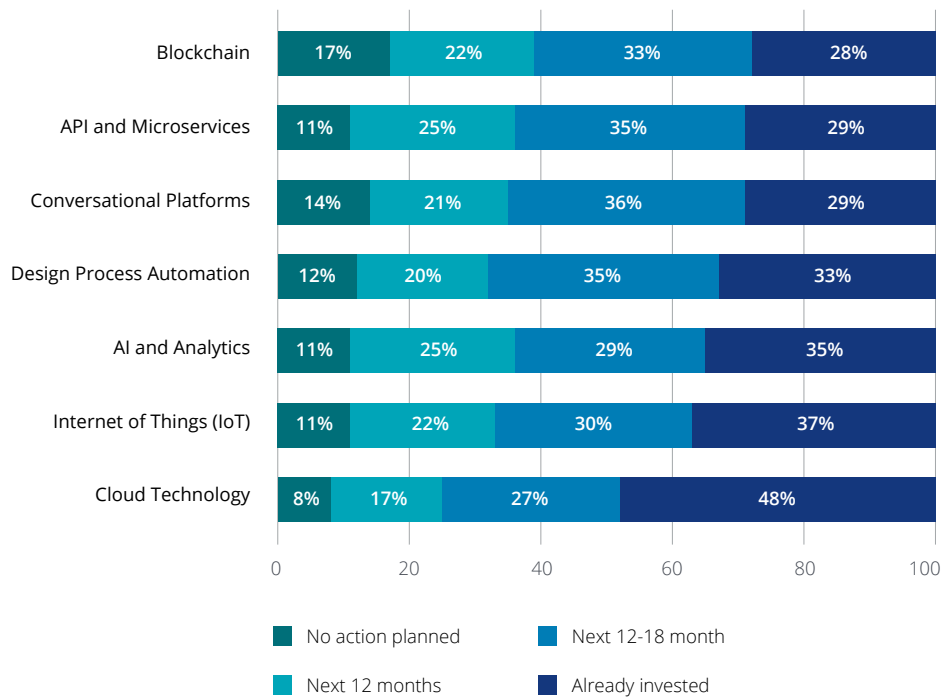
be the case traditionally), Arcual chose to establish a blockchain-based payment infrastructure system. The application includes features such as KYC and AML verification, smart contracts (so that royalties can be tracked and then paid to artists and galleries), as well as a digital dossier. A digital dossier allows collectors who are purchasing art to receive all provenance information (and any other relevant documents or contracts relating to their purchase) in a secure digital format.<sup>351</sup>

**Growing market for digital asset management solutions could also benefit the art market:**

Wealth management firms are increasingly upgrading their capabilities to address the demand for digital assets. According to recent research, digital asset management solutions are on track to reach 13.6% compound annual growth between 2022 and 2027, almost doubling in size from US\$4.2 billion to US\$8 billion.

**Figure 140: The current state of technology investments for FS (2021) (in percent)**

Source: Gartner 2021, Banking Dive news, Press releases



For this year's report, we have divided this section into the following three parts:

**Part 1\_**

**Survey findings 2023**

This section looks at how art and finance stakeholders (wealth managers, art professionals, and collectors) view the impact of technology on the art market and whether it can become a catalyst for further adoption and growth in art and wealth management services, with the following contributions:

**INDUSTRY INSIGHTS\_**

**The art of creating a legacy**

How technology takes family art collections to the next level

**by Cindy van de Luijngaarden-Braat**

Partner & Lead Private Client Services, Deloitte Netherlands

**by Frank de Vries**

Director Private Client Services, Deloitte Netherlands

**Part 2\_**

**Blockchain and tokenization**

Here we take a closer look at some of the new developments around blockchain and tokenization, with contributions from:

**INDUSTRY INSIGHTS\_**

**Arts & Culture on and off the blockchain history and use cases for collectors & family offices**

**by Valérie C. Whitacre**

Trilitech—a London adaption hub for the Tezos blockchain

**From storerooms to blockchains**

How Web3 and NFTs can unleash your art collection's untapped potential

**by Paul De Blasi**

Partner, Head of Deloitte Legal & Private Romandie, Fabien Lopez, Innovation Director, Deloitte Switzerland

**by Fabien Lopez**

Innovation Director, Deloitte Switzerland

**by Alberto Lenzi Cessel**

Innovation and Web3, Deloitte Switzerland

**Part 3\_**

**Data, AI & Metaverse**

As AI becomes more advanced, so too have companies' ambitions to embrace these innovative technologies—a trend we also see in the art market. This part of the report provides an overview of some of these new developments and applications of AI in the art market, and how technology can assist and address some of the challenges facing the market today. This part includes contributions from:

**INDUSTRY INSIGHTS\_**

**Visual art in the age of AI**

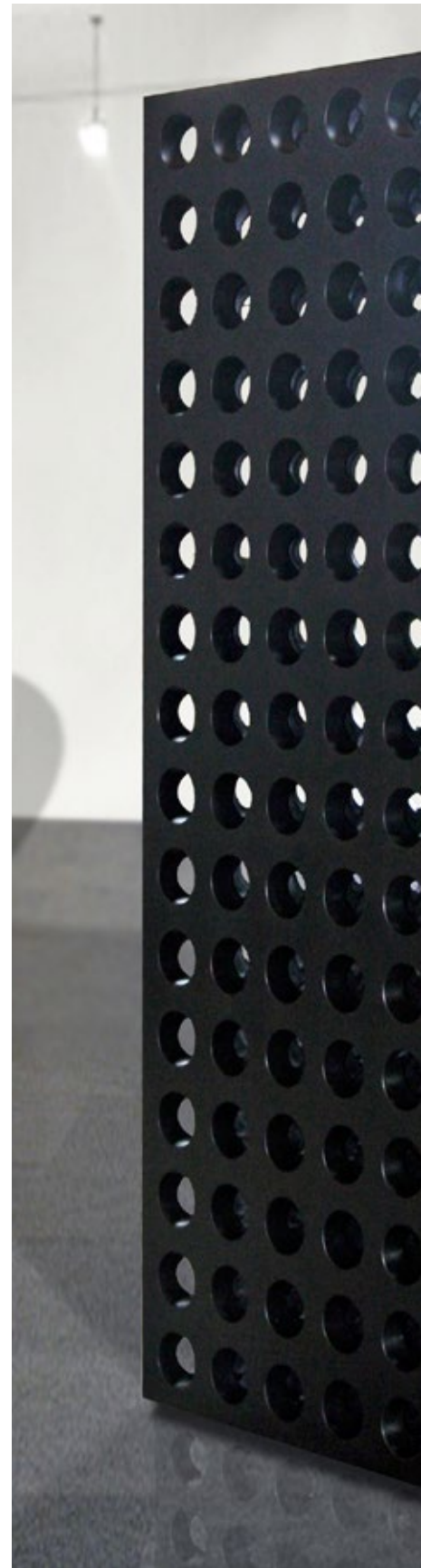
**by Igor Rodin**

AI Expert, Art collector, Ex-partner, Deloitte

**Navigating art investment: enhancing family offices' decision-making through risk analytics**

**by Chloris Yu**

Manager, Risk Advisory, Deloitte UK

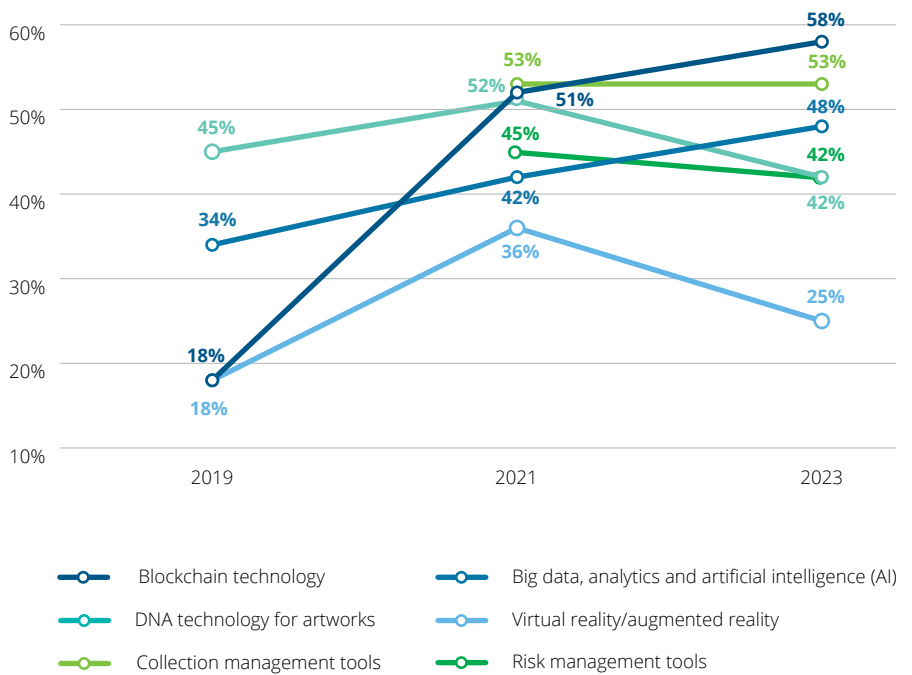


Part 1\_

# 2023 Survey findings\_

**Figure 141: Wealth managers: which of the following technologies could have the most impact on the development of art and wealth management services?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>358</sup>



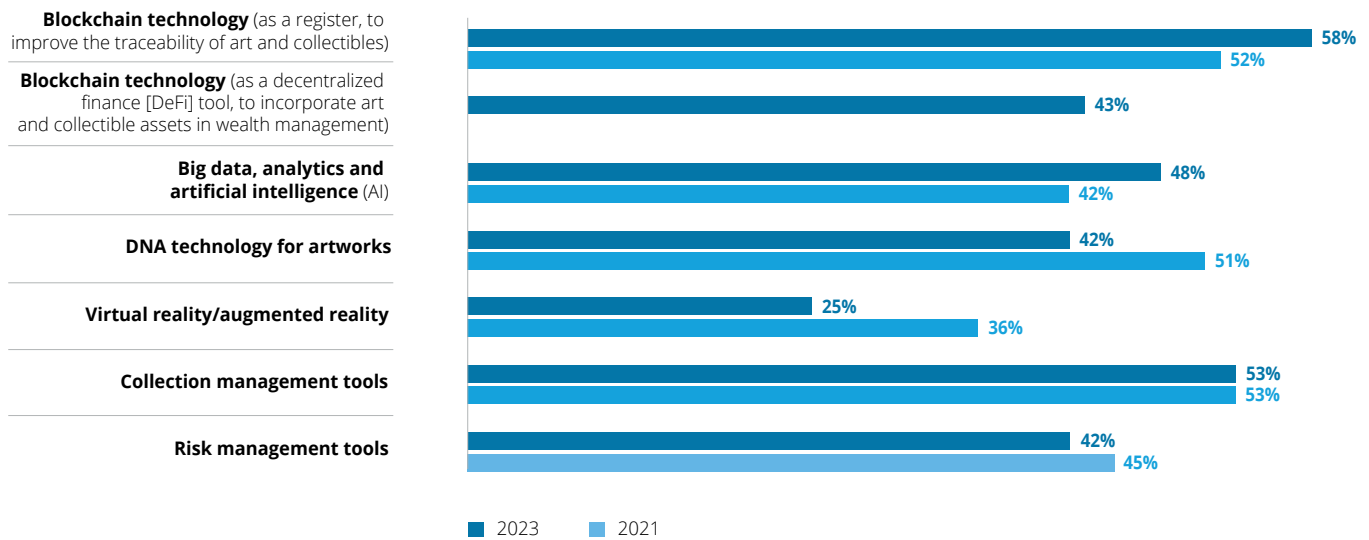
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**Technology is a potential game-changer:** While only 18% of wealth managers in 2019 said that blockchain technology could have a significant impact on the development of art and wealth management services, a significantly higher proportion (58%) of wealth managers said the same this year. The advent of big data,

machine learning and AI is also seen as a potential lever for change, with 48% of wealth managers saying this will drive new developments and have a strong impact on art and wealth management services in the future (up from 34% in 2019 and 42% in 2021).

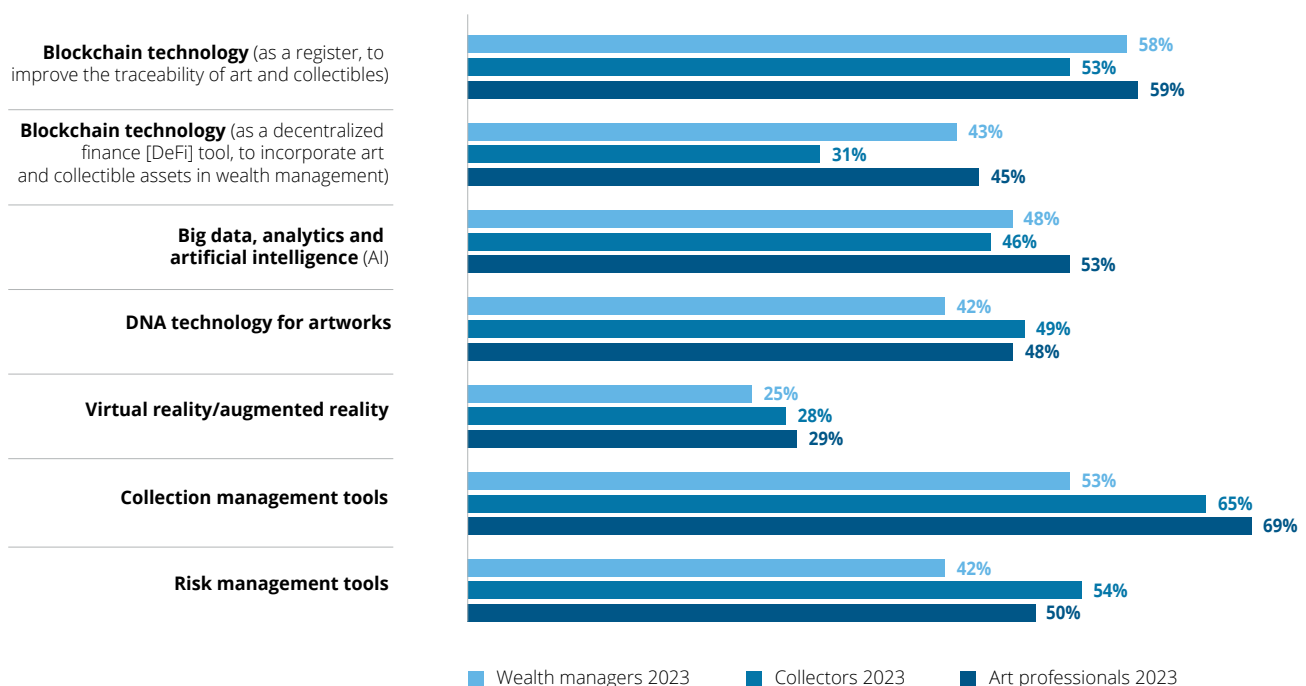
**Figure 142: Wealth managers: Which of the following technologies could have the most impact on the development of art and wealth management services?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>359</sup>



**Figure 143: Which of the following technologies could have the most impact on the development of art and wealth management services?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>360</sup>





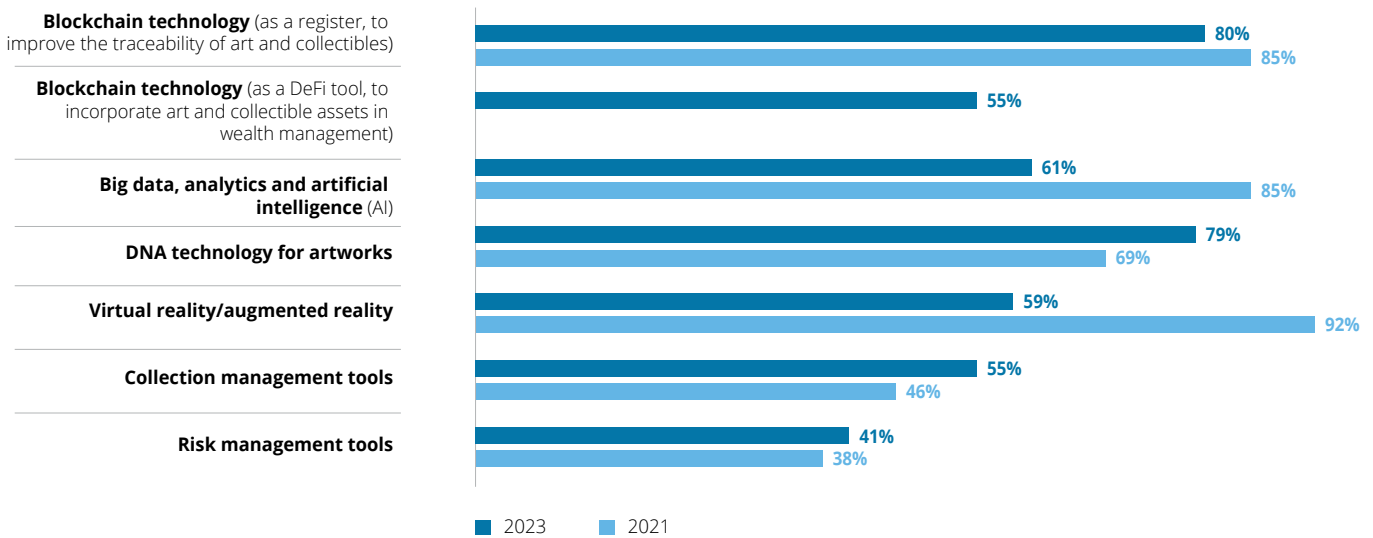
**NextGen collectors are a likely driver behind the digital transformation:**

Although there is a universal consensus among half of the stakeholders in this survey about the power of technology as a tool for change, it is particularly strong among NextGen collectors. 80% of younger collectors have confidence in

blockchain (as an asset register for art and collectibles) and a further 79% see the rapid developments around artwork identification technologies as essential to addressing many of the current inefficiencies in today's art market (see below).

**Figure 144: NextGen collectors: Which of the following technologies could have the most impact on the development of art and wealth management services?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>361</sup>



**Figure 145: NextGen collectors: In which key areas could online art businesses and new technology make an impact?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>362</sup>

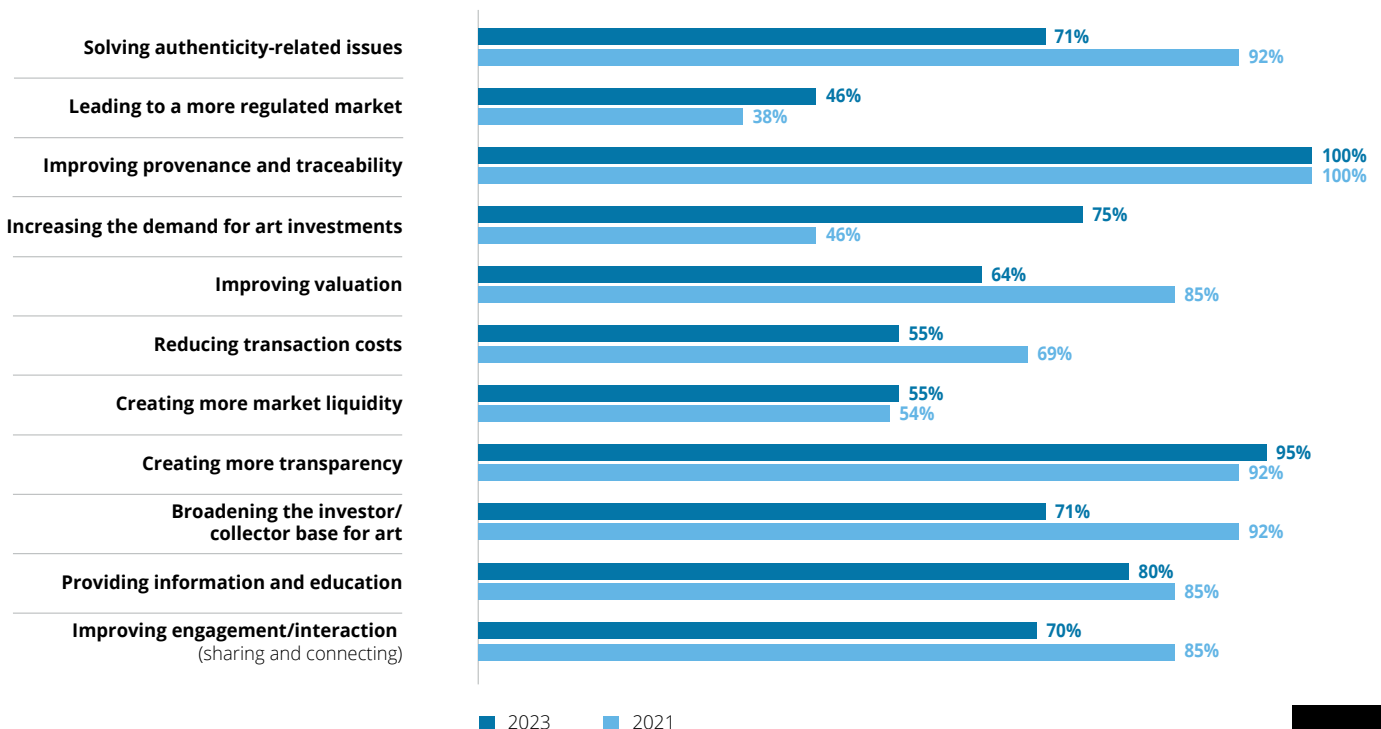
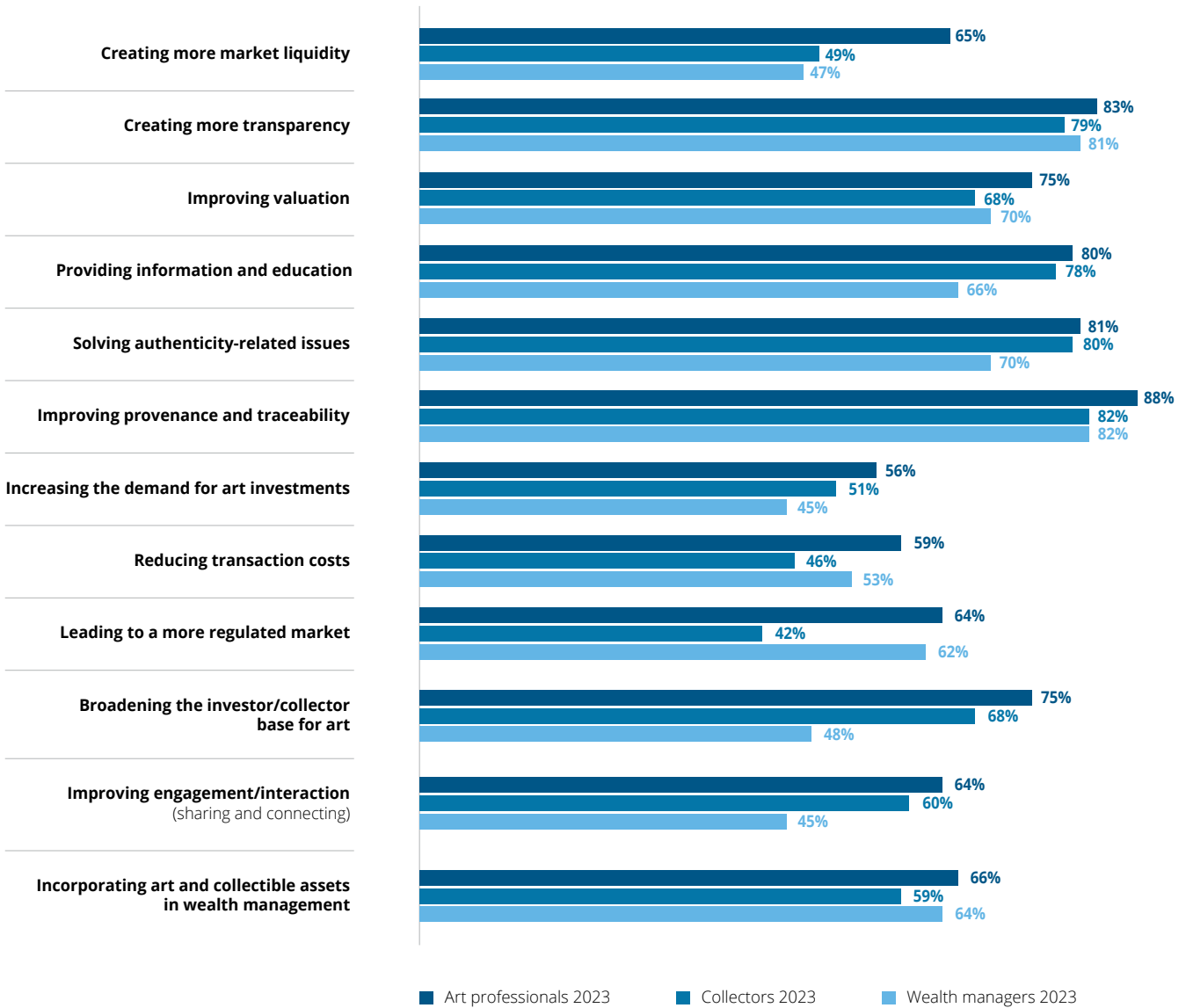


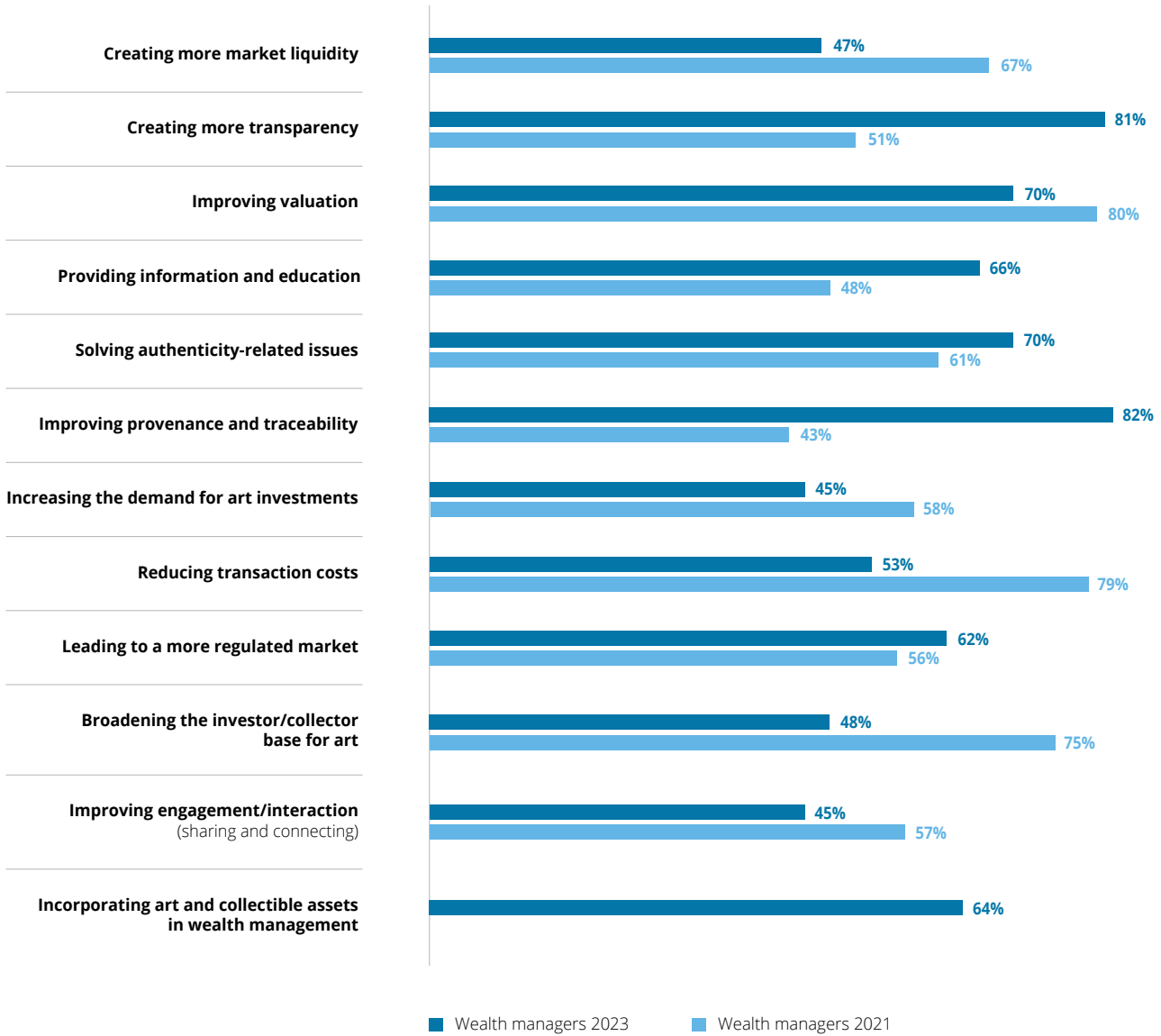
Figure 146: In which key areas could online art businesses and new technology make an impact?

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>363</sup>



**Figure 147: Wealth managers: key areas where online art businesses and new technology can make an impact**

Source: Deloitte Private & ArtTactic Art & Finance report 2023<sup>364</sup>



**Strong optimism for change arises from technological innovation:**

64% of wealth managers this year said that technology could be a catalyst for incorporating art and collectible assets into their existing wealth management services. More than 80% of art stakeholders believe technology can effectively tackle the lack of transparency, improve provenance and traceability, and help mitigate authenticity-related concerns. These threats ranked the highest among all the stakeholders surveyed.<sup>352</sup>

**Track and trace:** 82% of wealth managers, 88% of art professionals and 82% of art collectors believe that technology (e.g., blockchain) will improve the provenance tracking and traceability of art and collectibles.

**Authenticity concerns can be addressed through improved technology:**

70% of wealth managers, 81% of art professionals and 80% of art collectors believe that technology (such as AI and DNA technology) will help address authenticity issues related to art and collectibles.

**Access to more data could lead to improved valuation:**

70% of wealth managers, 75% of art professionals and 68% of collectors also believe that technology can improve the valuation process of art and collectibles. For a large section of the art and collectibles market (such as the primary market and private sales), one of the main roadblocks to improving valuations is the current lack of data transparency. However,

as more stakeholders place trust in blockchain technology as an ownership and provenance tracking register for art and collectibles, more data regarding private sales could become available and, as a result, improve the valuation of this alternative asset class.

**Information and education:** Over the last two decades, the internet has had an immense impact on the dissemination of information related to the art and collectibles market. The pandemic paved the way for further digital innovation and transformation of the global art market, as the art market finally took the decisive step to develop a digital offering and move toward a digital strategy. 66% of wealth managers (up from 48% in 2021), 80% of art professionals and 78% of art collectors believe that technology will have a strong positive impact on information and education going forward.

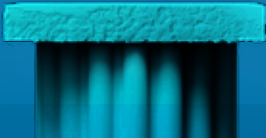
**Broadening the investor and collector base:**

75% of art professionals and 68% of collectors believe that technology will have a significant impact on widening the audience in the art and collectibles market. We have already seen how NFTs and blockchain technologies have opened up alternative collectible markets to new collectors and investors; the same can be said about the increasing interest in fractional ownership and tokenization of art and collectibles over the last two years. Wealth managers, however, are more skeptical, with only 48% saying they see technology having an impact on broadening the collector base (down from 75% in 2021).



**FIVE PIECE SPHERE CONCRETE**  
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**A more regulated market:** 62% of wealth managers believe that technological innovation will lead to a more regulated market (up from 56% in 2021). The increasing focus on art and collectibles as alternative investments—driven by the recent rise in tokenization and fractional art ownership businesses (many of which are already regulated)—could trigger broader regulation in the art and collectibles market beyond what already exists. 64% of art professionals and 42% of collectors also believe that technology could drive the art market toward more regulation.

INDUSTRY  
INSIGHTS\_

# The art of creating a legacy

## How technology takes family art collections to the next level



**Cindy van de Luitgaarden-Braat**  
Partner & Lead Private Client Services, Deloitte Netherlands



**Frank de Vries**  
Director Private Client Services, Deloitte Netherlands

### Introduction

More than other assets, art collections also serve collectors' personal desires, which can be at odds with their purely rational investment decisions regarding their other assets. We believe the current technological developments of blockchain, non-fungible tokens (NFTs), Web3 and artificial intelligence (AI) enable the art world to bridge the apparent contradiction of art as a collector's item versus art as an investment.

In this respect, art can now contribute—more than ever—to the financial objectives of single family offices (SFOs). Therefore, it is a must that family officers and other involved professionals who manage art collections explore the potential these innovations offer to take private art collections to the next level.

### Bridging the gap

Current technological developments allow tangible collections to be maintained and available for collectors' personal enjoyment, while also playing a relevant role in the broader asset allocation. For example, art can contribute to a family's key performance indicators (KPIs) for financial assets in terms of return and liquidity.

This does not mean that collectors lack financial motives when purchasing works of art, with most considering the art investment's defensive characteristics. However, other motivations often play a more significant role, such as social prestige and the pleasure of collecting art and sharing it with others, such as through private museums.<sup>365</sup>

### Connecting the dots: art management by SFOs

These additional and non-financial motives can make managing an art collection challenging. For SFOs to successfully manage a collection, they must understand its broader context: does it serve the family's personal purpose or should it also contribute to the legacy of the family and/or achieve their financial goals?

By keeping these objectives in mind, a long-term art management strategy can be designed and the proper milestones put in place. The SFO should create a specific framework of the necessary skills to responsibly manage the collection and achieve the desired result, whether financial or not.

### Impact of technology

The innovations of tokenization, fractional ownership and technologies supporting

transparency in the art market not only help preserve art, but can also add liquidity to a historically illiquid asset class, subsequently facilitating other investments.<sup>366</sup> The traditional art world's moral codes that help maintain the contradiction of art collectors versus art investors can also be broken down by these technologies. By making intermediaries obsolete and providing a permanent place in the digital world, these innovations allow art to make a broader impact than the traditional tangible artwork of physical collections.

Another example is the use of blockchain technology and smart contracts to secure a shared, fractional ownership of an artwork in a universal way. These tokens can be distributed or transferred within the family to achieve shared ownership. This in turn creates an increased sense of involvement across the family. When ownership of the underlying asset is shared across family members, it becomes easier to track ownership and provide a transparent framework to the family over generations.

marketplace's accessibility and providing more ways to fit collections into a broader wealth strategy.

### Conclusion

Technological developments allow art to become a less atypical asset and be managed like other asset classes. This does not have to infringe on the family's tangible collection. It also allows the family to add liquidity to the asset class, which opens up new possibilities to add a philanthropic purpose to the collection.

Deloitte Private Client Services provides advisory services centered around the continuity of ultra-high-net-worth (UHNW) families, their family offices and their assets. An essential part of our multi-disciplinary approach is to tailor the solutions to the family's purpose, their goals and the impact the family wants to make. This applies not only to financial assets but also art collections.

## Technological developments allow art to become a less atypical asset and be managed like other asset classes.

For example, collectors that mint NFTs from an artwork can award owners of the NFTs a certain degree of exclusivity, such as a private "meet and greet" with the artwork. This generates resources for the collector, which can be used to support the wider art sector or various forms of philanthropy.

Finally, emerging technologies offer increased transparency, making historical transactions easy to trace via the blockchain. This simplifies the pricing, supply and demand, and research into the authenticity of art, increasing the art



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## Part 2\_

# Blockchain and tokenization\_

As the need for transparency and veracity of information shared on the internet becomes more important to the general population, there is an increasing demand for independent and unbiased verification and proving of sources, facts, data, information and statements. Blockchain and Web3 have the potential to power “trustless” systems that decentralize data to rebuild trust and confidence.

There is also a demand to shift to a web environment where what is indisputably true (either for an individual or the majority of people) is not sidelined by individuals or companies with a bigger or more authoritative web presence, purely on the basis of these parties being able to disseminate information more broadly, regardless of its accuracy. Web3 supports this demand for transparency in the sense that the “truth” cannot be pushed to the sidelines or obscured using public blockchains. We believe there may be opportunities for organizations to showcase their commitment to transparency and build credibility with their key stakeholders by embracing Web3, thus supporting the transition toward a more decentralized internet. Indeed, we anticipate that tomorrow's leaders will assert “chain or it didn't happen.”<sup>353</sup>

**Web3 (also known as the decentralized web) has the potential to significantly impact the art market in the following ways:**

### **Decentralization of marketplaces:**

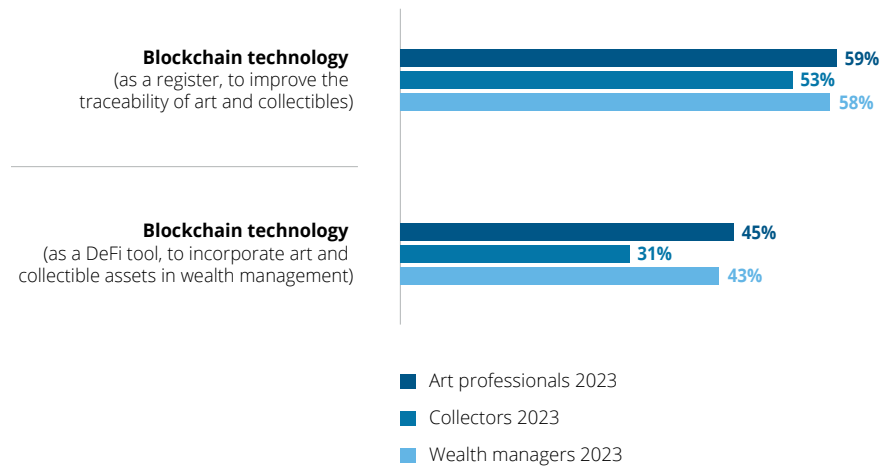
Web3 technologies, including blockchain, could enable decentralized marketplaces where buyers and sellers can transact directly with each other without the need for intermediaries. This could potentially reduce transaction costs and increase transparency in the market.

**Artist royalties:** Using Web3 technology may provide an opportunity for artists or relevant parties to ensure they receive the appropriate fee on the resale of artworks, on the basis that the provenance and future resales of an artwork will be public knowledge.<sup>354</sup> This could be enforced by smart contracts that automatically execute the terms of an agreement between buyers and sellers to address copyright and ownership issues in the industry. Moreover, this could potentially streamline the transaction process and reduce the risk of disputes.

**Increased security, provenance and authenticity:** Web3 technologies could be used to establish secure and transparent systems for verifying the provenance and authenticity of artworks and establishing ownership. This could help to reduce the risk of forgeries, provide a transparent and immutable history of ownership and transfer, and build trust in the market.

**Figure 148: Which of the following technologies could have the most impact on the development of art and wealth management services?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023



**Blockchain technology as a register for art and collectibles:** This year, 58% of wealth managers said that blockchain technology aimed at creating a registry and provenance tracking tool for art and collectibles could have the most impact on art and wealth management services in the future. The majority of art professionals (59%) and collectors (53%) said the same, which suggests that most stakeholders agree on the need and direction of travel when it comes to adopting blockchain technology. This sentiment was even stronger among the younger generation of collectors surveyed, with 80% saying that creating a registry and provenance tracking tool using blockchain would have a significant impact.

**Blockchain technology as a Decentralized Finance (DeFi) tool:** 43% of wealth managers believe that blockchain technology as a DeFi tool would allow better integration of art and collectibles into wealth management through tokenization. 45% of art professionals agreed, but fewer collectors (31%) saw this as the most important application. However, generational differences entered the equation again, with 55% of younger collectors (under the age of 35) saying they thought blockchain and DeFi were going to be among the most important technologies

for art and wealth management.

**Increased access:** Web3 technologies could enable tokenization and fractional ownership of artworks and collectible assets, allowing multiple investors to own a share of a single artwork. This can democratize the art market and allow a wider range of investors to participate in art investment.

**Risk reduction:** By sharing the ownership of an artwork, investors could reduce their risk exposure to a single asset. This could help to mitigate the risk of loss due to market fluctuations or damage to the artwork, for example.

**Increase liquidity:** Fractional ownership could potentially increase liquidity in the art market by allowing investors to buy and sell shares in an artwork more easily than they would be able to with a standalone artwork. This can increase the flexibility and efficiency of art investment.

**Expanded investor base:** Fractional ownership could attract new investors who may not have previously considered investing in art due to the high costs involved. This could, in turn, increase

demand for artworks.

**Enhanced market transparency:**

Fractional ownership could potentially increase transparency in the art market by providing more data on the ownership and transfer of artworks. This would help to reduce the risk of fraud and improve trust in the market.

**The growing interest in tokenizing**

**Real-World Assets (RWAs):** One of the key findings from Capgemini's report on wealth management trends in 2023<sup>355</sup> was the increasing client demand for digital assets, as HNWIs are seeking to diversify their investment portfolios. However, high volatility in the crypto asset market and the collapse of centralized DeFi exchanges in 2022 have shifted the focus in recent months toward the migration of RWAs onto the blockchain. The conclusions drawn in the report are often cited as one of the most exciting applications for the use of blockchain technology. A further report by Boston Consulting Group states that the on-chain RWA market is expected to reach between US\$4 trillion and US\$16 trillion by 2030<sup>356</sup>, potentially reflecting a trend toward increased utilization of on-chain databases. The inclusion of RWAs on on-chain databases provides a way to track the valuation and performance of these assets<sup>357</sup> (which include art and collectibles). Including RWAs on-chain also allows the general population and wealth managers to identify which of these assets people are currently comfortable investing in.

RWA tokens are representations of assets that are not necessarily blockchain-native,

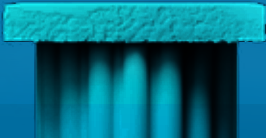
which avoids exposure to risk from current crypto volatility. This means that tokenized RWAs are a potential alternative avenue for wealth managers looking to approach the crypto sector while reducing the volatility risk. There is also an opportunity for the art and collectibles market to tap into new audiences and release liquidity from these assets.

In her article, **Valérie C. Whitacre, Trilitech**, shares with collectors and family offices an introductory view on the applications of the blockchain.

**Deloitte Switzerland** examines in its article how Web3 and NFTs can unleash the untapped potential of an art collection.



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INSIGHTS\_

# Arts and culture on and off the blockchain

## History and use cases for collectors and family offices



**Valérie C. Whitacre**  
Trilitech—a London adoption hub for the Tezos blockchain ecosystem

### Introduction

Since blockchain was introduced with Bitcoin in 2008, the technology has precipitated a profound transformation of the financial sector. Its underpinning principle of decentralization was a direct rebuttal to the centralized failures exposed by the 2008 financial crisis. Today, blockchain's ripple effect extends well beyond finance, reshaping many other adjacent sectors.

Blockchain technology has completely transformed how communities communicate, engage with and own assets. This movement, known as Web3,<sup>367</sup> relies on the transaction and data infrastructure provided by blockchains. It is decentralized, accessible to all, and open source. Catalyzed by this movement, the arts and culture sector has been transformed into a paradigm of new market structures, ownership models and innovative creation, empowering creators and collectors alike.

### Blockchain and a new art market

Blockchain technology was initially conceived as a mode of financial transaction in which all transactions are publicly stored within a decentralized distributed ledger. The senders' identity, and therefore their ownership, can be verified and validated using public key cryptography.<sup>368</sup>

The earliest blockchain protocols relied on "proof-of-work" to give underlying economic security by providing evidence that a certain amount of computational effort was expended. While this secures the chain, the large amount of energy used also comes at the cost of the environment. However, most major blockchains have transitioned to "Proof-of-Stake"<sup>369</sup> (PoS), pioneered by the Tezos blockchain in 2018, which uses significantly less energy.

Today, most blockchains provide not only the ability to store and transfer value, but also the ability to store and update data on the blockchain, known as "state." Through smart contracts,<sup>370</sup> blockchains allow users, in a decentralized manner, to update global "state" based on defined rules set by the smart contract code, allowing the flexible tokenization of digital assets. This development empowered a market for buying and selling digital art (and other assets) in the form of non-fungible tokens (NFTs).

NFTs distinguish individual digital assets and can also relate to real-world assets. The token's "non-fungibility" is essential, as even if two artworks appear identical, their respective tokens remain unique. Effectively, the NFT—distinct from the artwork itself—acts as a certificate of authenticity. However, unlike traditional certificates, NFTs remain linked to the artwork, and its provenance can always be traced back to the creator.

Blockchain technology continues to push the boundaries of what artists and aspiring collectors thought possible. Not only has it enabled a new art market of peer-to-peer trade, but it has also significantly impacted the legacy arts and culture industry and is key to optimizing many of the market's ingrained inefficiencies.

Designed with PoS from day one and with low transaction fees, Tezos has become the blockchain at the forefront of arts and culture in Web3 and legacy art communities. Tezos' governance model allows the protocol to upgrade regularly, making it agile and future-proof. These conditions created the perfect opportunity for artists from around the globe—of all creeds, ethnicities, cultures and backgrounds—to participate in a completely new type of art market.

In March 2021, the first-ever Tezos art marketplace<sup>371</sup>—*hic et nunc*—launched, becoming a hub for trading in digital art and NFTs almost overnight. Since then, despite the bear market, the creator and collector communities on Tezos have flourished and remain some of the most engaged across the Web3 landscape.

### Evolution of the legacy art market

Since the early 19th century, the art market has thrived on opacity, insular networks, and exclusivity. In 2008—incidentally, the same year blockchain was invented—

Damien Hirst broke down many of the traditional relationships around primary and secondary market sales with his two-day auction called “Beautiful Inside My Head Forever” at Sotheby's in London, bypassing galleries to sell directly to the public. The auction took place only hours after Lehman Brothers crashed.<sup>372</sup>

Nearly 10 years later, the market saw a second paradigm shift when young Japanese billionaire Yusaku Maezawa posted his acquisition of a record-breaking Basquiat on Instagram, sharing his victory with the wider world.<sup>373</sup> The collector shocked traditionalists by opening his collection to the public and dissolving dealers' and auction houses' power of keeping exclusive access to the new owner. This moment inspired increasing public displays of art from new and existing collectors across social media and the wider press.

**While blockchain technology has created a new art market for digital assets, its emergence was preceded by collectors and creators' increasing propensity to share their networks and even trade among themselves.**<sup>374</sup>

From a dealer's or auctioneer's perspective, this early change threatened the exclusivity that historically drove profit margins. To take it a step further, there is no need for intermediaries on the blockchain: the artwork is made, sold and traded with full transparency, peer-to-peer.

But alongside this disruptive paradigm shift, real-world solutions for traditional art market inefficiencies were also conceived.

### Digital actions for real-world change

**As well as the trade of digital art, the blockchain allows for immutable, verified proof of provenance, ownership and transaction history.**

The art market on the blockchain relies on transparent actions verified by decentralized consensus mechanisms, a complete reversal from the closed private gallery model most are used to.

First and foremost, the artwork is “minted”—or published—on the blockchain. The creator's digital signature verifies their digital account was the source of the published artwork, indicating its authenticity as well as the creation date and time. The minted work's metadata often includes royalties the artist may request, alongside licensing permissions or even factual information about the work, known in the traditional sphere as cataloging.

As soon as works are minted on the blockchain, collectors can make offers that are recorded, whether accepted or not. Collectors acquiring works pay from their cryptocurrency wallets, to which the digital assets are transferred in place of the funds—transforming collectors' wallets into vaults for their digital art collection.

This opportunity for collectors to have confidence in their artwork's provenance and to diversify is not the blockchain's only value proposition. The technology has also made many other tools possible for creators and collectors alike.

While most fine art or code-based artworks do not have a utility attached, Web3 creators can view their community of collectors and offer rewards or incentivize further collecting to owners of their NFTs at any time. **Organizations have also started to leverage this model, creating digital assets to transform fan engagement and museum patronage models, or to fundraise for charitable causes.** The Whitworth Museum in Manchester, England, was one of the first institutions to take part, choosing the Tezos blockchain to mint reproductions of its famous William Blake etching *The Ancient of Days* (1794) to fund a future exhibition.<sup>375</sup>

Since then, museums like the Uffizi, The British Museum and others have started using NFTs for collaborations, patronage programs, digital exhibitions, and even collecting crypto art. Further, Web3 communities frequently galvanize around fundraising initiatives, with artists often making artwork to sell at lower prices but in larger editions to raise money.

For example, in January 2023, the generative art platform fx(hash) chose five artists to donate NFTs of their works to Cure3—a unique selling exhibition devised with Bonhams and Artwise to raise awareness and funds for Parkinson's research. The artworks raised over US\$350,000 in primary market sales on the vernissage of the sale, and over US\$125,000 more in secondary sales as of summer

2023<sup>376</sup>. In February 2023, another group of Tezos creators launched the #tezquakeaid initiative to benefit the victims of the Turkey and Syria earthquake, raising nearly US\$100,000 in only a few days.<sup>377</sup>

The philanthropic opportunities for collectors, institutions and companies to use art as an incentive and as proof of participation in an initiative are crucial to the art market's evolution on the blockchain.

Cultural institutions, luxury brands and other institutions are also experimenting with tokenization.<sup>378</sup> This practice enables

Further, Web3 communities frequently galvanize around fundraising initiatives, with artists often making artwork to sell at lower prices but in larger editions to raise money.

dynamic ownership structures like fractionalized ownership or even licensing rights, which can be traded or owned according to a bespoke set of features. This relies on smart contracts that, in art, are most often used to automate or restrict sales, transfer ownership directly, and define the royalty distribution of digital assets.<sup>379</sup>

These features eliminate the need for intermediaries, providing investors with a transparent display of the asset's associated financial distribution and a clear understanding of the creator's intent for the future of their creative content.

#### New models for collecting and investing

In addition to the utility of art and tokens on the blockchain, the technology allows for new ownership models for collectors, investors and creators alike. For example, the emergence of collector communities as decentralized autonomous organizations

(DAOs) has opened the doors for vote-based decision-making and joint ownership across geographies.

Rather than fractionalized investment, DAOs propose a model of decentralized consensus and joint ownership of the asset. This has driven thought leaders of the legacy art world to question the

role of institutional ownership—normally governed by museum boards—versus collective ownership and curation, which may be patron-driven. A rising number of DAOs are building collections—just as legacy banks and commercial bodies have done since the 19th century—enabling collective ownership across the globe.

While co-ownership and fractionalized ownership are not the same, both structures enable different groups of individuals or entities to diversify and optimize their assets' potential future.

Furthermore, collectors can use the blockchain to take advantage of decentralized models for collecting, such as investing in portfolios governed by decentralized finance (DeFi) models. This is especially useful for collectors and financial managers to invest in diversified artworks and hedge against the risk of investing in blue-chip works, which rely on the liquidity of a single buyer and guaranteed appreciation.

Both creators and collectors can use new lending and borrowing platforms to collateralize their NFTs and borrow against them, providing liquidity without needing to sell. This can be helpful for users who need short-term funds while retaining ownership of their digital assets. As transparency on the blockchain increases creators' chances of exposure to a future collector or patron, this creates global opportunities and increases the ability to pool funds for risk-sharing via decentralized insurance models.

**Ease ≠ easy:  
Blockchain technology has empowered a new, global creator economy and allowed for tools and platforms to**

**optimize the traditional art market. But with great power comes great responsibility.** The vast amount of artwork and collectibles being minted on the blockchain enables bad actors to “copy mint” (fake) artwork that even experienced collectors could miss if false provenance is well executed. The number of actors also allows for short bursts of “hype” to attract collectors to intentionally inflated pieces, leaving them with poor long-term investments.

Further, safeguarding passwords or “keys” to cryptocurrency wallets is paramount, as losing these means losing access permanently to the account. It is not uncommon for wrongdoers to target collectors in the hope of encouraging actions on the blockchain that may lead to assets being appropriated without warning. Fortunately for ambitious collectors, several well-regarded custodial solutions mitigate this risk. And the rise in creator solutions is also raising awareness of ways to alleviate artists' risk.

### Conclusion

Two years on from the original NFT wave, the legacy art world has taken notice. From art fairs like Art Basel and Art Dubai to galleries and museums like The Museum of Modern Art in New York and the Serpentine in London, the traditional art landscape has started to experiment with NFTs as a form of digital art and for tokenization.

Additionally, start-ups have formed in the wave of blockchain-based innovation for the arts and culture space. Different chip-based and high-resolution scanning platforms harness the blockchain for

authenticity and provenance. Museums and cultural institutions use heritage and attendance tokens to trace engagements and devise mass market patronage-and-reward models for their loyal visitors. And institutions in Ukraine, Latin America and Africa are starting to explore blockchain to preserve the evidence of artwork being looted, stolen or destroyed.

**Traditional collectors around the globe are also beginning to recognize the opportunity of collecting blockchain-based or crypto art.** As the sharing of collections has become normalized, so has the idea that inclusion is not the enemy. In fact, inclusion allows all parties to tap into new wealth and new forms of art.

Mid-century media, like generative art,<sup>380</sup> has found new life on the blockchain, allowing its movement and evolution to be recorded and acquired. Ephemeral media that could not be acquired in the traditional sense—like poetry, dance, performance art and music—can now find authenticity and a platform for verified ownership.

The blockchain has also unleashed a wave of completely new media—using real-time interactive metrics, artificial intelligence (AI) and combining creative disciplines into unique, dynamic pieces—which was often previously unimaginable and untradable. And what's even more exciting is that this is just the beginning.

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Many thanks to Sasha Aldrick, Louis Chevalier, Whitney Hart and Vinciane Jones for their insight and contributions to this essay.

INDUSTRY  
INSIGHTS\_

## From storerooms to blockchains: How Web3 and NFTs can unleash your art collection's untapped potential

### Why are emerging technologies relevant for the art market and collectors?

The art market has traditionally been reluctant to adopt technological innovations, with its customary market practices resisting change. However, emerging technologies such as Web3 and NFTs could offer art collectors and family offices new ways to increase returns and optimize their art collection management.

**Web3**, also known as Web 3.0, is broadly seen as the **next iteration of the internet**. It uses blockchain to allow all parties involved, such as users, businesses and platforms, to truly "own" their digital identity and assets. In short, while our online presence today depends on intermediaries (e.g., the server hosting your website or the platform hosting your social media page), Web3 enables direct ownership and control of all your online interactions which cannot be influenced or changed by other parties.

**Non-fungible tokens (NFTs) are unique and inimitable assets that can be freely owned and controlled** in this new internet paradigm. They can be used to **certify the ownership and authenticity of real-world assets**, such as real estate, artworks, cars or watches, and can be sold, traded or exchanged via smart contracts, secure and immutable programs

that dictate these tokens' behavior. For example, the change of ownership of a physical artwork could automatically trigger an immediate update in its insurance coverage as well as other administrative tasks.

By harnessing the power of blockchain, tokenizing real-world assets can provide enhanced transparency, security and trust, unlocking valuable opportunities across the entire art market. In this article, we delve into the key use cases of NFTs and how they can help art collectors and family offices manage and capitalize on their art collections.

### Unlock more value from your masterpiece: Are you maximizing your art's investment potential?

#### I. Fractionalized ownership

By enabling fractionalized ownership, NFTs are revolutionizing how high-value artworks are shared and invested in. An artwork can be divided into tokens representing fractional shares, **allowing multiple investors to participate without physically transferring ownership**. This creates new possibilities for art collectors and family offices to diversify their portfolios, access liquidity, and unlock additional value from their art assets.

Fractionalized ownership can also distribute responsibilities (such as maintenance, storage and security) and administrative tasks among shareholders, as **NFTs could be programmed to govern voting rights, dividend payments and other decision-making processes**. The original collector can enjoy new revenue opportunities by charging fractional shareholders for taking care of all administrative tasks, while also automatically earning a fee every time one of the artwork's fractions is traded in the marketplace.

#### II. Leasing intellectual property (IP) rights

NFTs provide a secure and transparent framework for art collectors to lease out and **monetize the IP rights of passive assets which are often kept in storage or showcased in domestic spaces**. This technology provides a fully automated and self-service way for museums, companies, or individuals to acquire the rights to use the artwork for commercial purposes, such as marketing activities or other initiatives. The IP rights' terms, conditions and duration can be enforced directly through the smart contract, ensuring transparency and security during disputes. **This innovative approach can generate new revenue streams for collectors, enabling them to actively earn income and expand the reach of their artworks.**





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### III. Lending collateral

**Tokenized artworks can be used as collateral for loans**, providing a more secure and transparent way for collectors to quickly borrow money against their assets. Art collectors and family offices sometimes need short-term liquidity without wanting to sell their prized artworks. Furthermore, collectors often face a long wait before receiving a worthwhile and satisfactory price for their artwork, which would make it even more inconvenient to sell in a rush just to access short-term liquidity.

**By using NFTs, collectors can streamline the lending process and encode in smart contracts the loan's terms and conditions, such as the duration, insurance requirements and exhibition obligations.** These self-executing contracts lessen the administrative burden and ensure all parties involved adhere to the agreed-upon terms. Token-based lending offers collectors the flexibility to access capital while retaining physical ownership of their assets, providing greater visibility and control over their investments while unlocking additional liquidity.

### Simplifying your art management: are you embracing tokenization to make your operations more efficient?

#### I. Proof of authenticity and provenance

Tokens can be powerful tools for verifying an artwork's authenticity and establishing its provenance, significantly shrinking the administrative burden of proving ownership in legal disputes or insurance claims, for example. By leveraging blockchain technology, NFTs can create tamper-proof digital records that include the artwork's history, previous owners, transactions, exhibitions, publications, and restorations.

**This transparent and immutable ledger ensures the artwork's provenance and cultural significance are easily accessible to relevant stakeholders.** For example, the artwork could be removed from storage once a year for a scan, which is saved on a blockchain to create a secure and immutable record of how the artwork's condition has evolved over time. **This information's confidentiality can be protected**

**through permissions, which only allow authorized, qualified investors access to the artwork's more sensitive data, while general information is publicly available.** For art collectors, this can help boost trust in the market, simplify administrative tasks, and efficiently resolve legal disputes.

#### II. Smart insurance coverage

Associating an NFT with an artwork can help optimize and automate its insurance, so that the coverage is automatically updated during transportation or display. **Smart contracts governing the asset can specify the insurance coverage's terms, conditions, and duration, ensuring adequate protection throughout the artwork's journey.** For example, a smart contract update can be triggered whenever the artwork changes ownership or means of transport (e.g., from road to air freight).

These records can be easily accessed and verified, providing transparency and peace of mind for both the family office and the collector. In the event of a claim, these blockchain-based insurance records serve as irrefutable proof of coverage, streamlining the claims management and resolution process and mitigating potential disputes.

The luxury watchmaker H. Moser & Cie. recently created [an example of this application](#) in collaboration with Deloitte Switzerland, Zurich Insurance, Aura Blockchain Consortium, Salesforce and Crossmint.<sup>381</sup> Owners of the Moser Genesis watch could verify their ownership, and automatically receive a token that transparently and securely proves the insurance coverage of the physical watch — and the rare digital collectibles included as a gift with the purchase.

**“At Moser, we are convinced that combining the real, the digital, and the virtual worlds is the future of the consumer experience.”** says Edouard Meylan, CEO of H. Moser & Cie., which collaborated with Deloitte Switzerland in launching the successful Moser Genesis watch project, which leverages NFTs to enhance the value and augment the utility of physical timepieces for an improved customer experience

### III. Automation of the legal processes

As smart contracts are self-executing agreements containing predefined terms and conditions, they help ensure compliance, reduce the need for intermediaries, and **automate the legal processes associated with asset transfer**—helping art collectors and family offices streamline transactions, reduce administrative costs and save valuable time

Copyright is an important legal issue when using NFTs for art collections; artists and/or owners must ensure they have the required legal rights to create and sell an NFT.

in managing art collections. By automating processes for transfer of ownership, loan agreements, exhibition arrangements, and more, collectors can better focus on the art itself.

#### Securing legal foundations for art tokenization: are your contracts ready for the blockchain era?

In this brave new world of the art market, integrating NFTs and smart contracts into your business model requires navigating new regulatory and legal landscapes and anticipating potential issues.

##### I. Smart contract function

From a legal perspective, a smart contract, like any agreement, establishes the agreement’s terms. However, **it is also a self-executing program that automates the agreement’s conditions.** As it is based on blockchain technology, it is also immutable and can be difficult to update if issues arise after deployment.

Therefore, **to ensure a clear framework for resolving issues and minimizing potential damages**, a smart contract should specify the following points from the beginning:

- a) Provisions related to the governing law and the jurisdiction that will apply to any disputes arising from the contract;
- b) Provisions for dispute resolution, such as mediation or arbitration, to resolve any disputes that may arise between the parties;
- c) Warranties and representations made by the parties, such as warranties regarding the artwork’s authenticity and originality, as well as any representations regarding IP rights; and
- d) Provisions to address potential breaches or disputes, such as liquidated damages, termination clauses, or specific performance requirements.

In addition, **when considering the fractionalized ownership of artworks, it is crucial to clearly define each token holder’s rights and obligations.** For example, who has the right to possess, display or sell the physical artwork? How does the governance process work when assigning a sales mandate or accepting a purchase offer for the artwork? How will profits from any future sale of the artwork be distributed among token holders?

These elements **should be clearly stipulated in the terms of the smart contract associated with the NFT**, as well as the IP rights regulations and loan agreement, if any.

## II. Intellectual Property rights

Copyright is an important legal issue when using NFTs for art collections; artists and/or owners must ensure they have the required legal rights to create and sell an NFT. This includes obtaining permission from the copyright owner (if different) for any copyrighted material included in the digital artwork. Copyright infringement can lead to legal action, including claims for damages or injunctions.

An NFT's owner should also be aware of the artwork's moral rights, which may include the right to attribution and the right to protect the work's integrity. In addition, trademark issues could arise if the work incorporates logos, symbols or other elements that may be protected by trademark law.

Therefore, **it is essential to carefully examine the artwork's full legal rights before releasing an NFT artwork online to avoid potential litigation.**

Furthermore, when an artwork is tokenized as an NFT, its IP rights could potentially be leased to other parties. In this case, **the smart contract must define the conditions and terms of this lease, including how and where the artwork can be used, for how long, and what compensation could be given to the owner.**

For example, the lease agreement could authorize the artwork's use as part of an advertising campaign or for other purposes.

## III. Legal considerations in lending collateral

When tokenized artworks are used as loan collateral, **the loan terms must be clearly stipulated in the smart contract.** Key details to be defined in the contract include:

- Loan duration: the specific timeframe within which the loan must be repaid;
- Interest rate: the annual percentage rate (APR) applied to the loan;
- Consequences of non-payment: the legal protocol in case the loan is not repaid on time; and
- Insurance requirements: the main conditions of the insurance contract.

As such, implementing a clear agreement with specific provisions ensures that the tokenized art used as collateral remains legally compliant, thereby protecting the rights and interests of all parties involved.

### How to properly explore the potential of Web3 for your business

Leveraging NFTs for art collections offers unique opportunities for collectors as well as other actors in the art market,

including artists, family offices and auction houses. But to take advantage of these opportunities, it will be critical to get expert advice on the legal complexities of NFTs as well as the technical support required to implement tokenization and smart contracts.

Finding a firm with established experience in innovation, business transformation and human-centric design will be key to defining a strategy and value proposition that is tailored to your specific business objectives and challenges. More specifically, a multidisciplinary team of legal, financial and technology professionals can help ensure compliance with the relevant laws and regulations, in addition to anticipating and resolving any potential legal issues.

With this informed approach, art industry stakeholders can confidently explore the opportunities available when leveraging NFTs to manage art collections while also mitigating potential risks.

## Part 3\_

# Data and technology ecosystem – focus on AI\_

While there is little doubt about the value and power of AI, the question has become: How can we get the most out of it? As detailed in the Deloitte *Tech Trends Report 2023*, “even the most sophisticated AI applications today can’t match humans when it comes to purely creative tasks such as conceptualization, and we’re still a long way off from AI tools that can unseat humans in jobs in these areas. **A smart approach to bringing in new AI tools is to position them as assistants, not competitors.**”<sup>382</sup>

As the capabilities of AI become more advanced and sophisticated, companies across all industries have moved to utilize these innovative technologies; and the art market is no exception.<sup>383</sup> Here, we provide an overview of some of these new developments as well as applications of AI in the art market. We look at how technology can assist and address some of the challenges facing the market today.

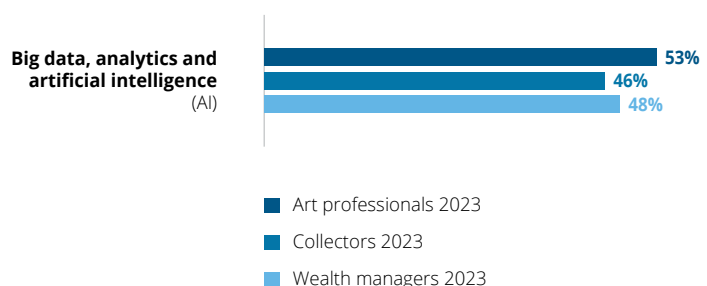
AI is already able to perform or support a variety of tasks and the benefits are becoming increasingly recognized, as is the everyday use of AI demonstrated by the launch and subsequent utilization of OpenAI’s GPT-4 and Alphabet Inc.’s Bard.<sup>384</sup> AI could also potentially have a

significant positive impact on wealth management by providing more personalized, data-driven advice in specific areas such as portfolio optimization, risk management, compliance, fraud detection and tax analysis. Deep-learning models are able to analyze millions of data streams simultaneously, providing wealth managers with up-to-the minute, consolidated market information. Wealth managers can use the deep-learning models provided to collate the data they need to improve decision-making,

with the aim of meeting specific investment goals or through the lens of investment returns. AI-based recommendation systems can also be utilized to deliver certain, pre-defined actions that are entirely personalized to the individual goals of every client. This may enable financial advisers to serve their clients in a more personalized and tailored way, regardless of the market conditions.<sup>385</sup> Today, we are moving toward hyper-personalized and client-centric AI models in the wealth management industry.

**Figure 149: Which of the following technologies could have the most impact on the development of art and wealth management services?**

Source: Deloitte Private & ArtTactic Art & Finance report 2023



**Almost half of wealth managers believe big data and AI will have a significant impact on art and wealth services in the future:** 48% of wealth managers, 53% of art professionals and 46% of collectors believe that big data and AI will have a significant impact on art and wealth management services in the future. The highest proportion, however, is the younger generation of collectors (under the age of 35), with 61% seeing big data and AI as major opportunities and catalysts for change.

AI has the potential to transform the way fine art professionals curate, conserve and exhibit their collections, as well as how they engage with visitors and stakeholders.

**Artwork creation:** AI technologies could be used to create artworks. For instance, The Next Rembrandt used a combination of technologies including facial recognition, AI and 3D printing.

**Enhanced artwork curation:** AI could be used to analyze and categorize artworks based on a range of factors, including style, medium and historical context. This could help fine art institutions to curate exhibitions and collections more efficiently and effectively.

**Improved artwork conservation:** AI could be used to analyze and identify areas of damage and degradation in artworks before recommending appropriate conservation treatments. This could help to preserve artworks for future generations.

**Artwork authentication:** AI could be used to authenticate artworks by analyzing their physical properties and identifying potential forgeries. This could help to reduce the risk of fraud in the art market and ensure the integrity of an institution's collection.

**Artwork recommendation:** AI could be used to recommend artworks to viewers based on their interests and preferences. This could help to increase viewers' engagement and satisfaction by providing personalized recommendations.

**Artwork valuation:** AI could be used to value artworks based on a range of factors, including the artist, style and historical context. This could help fine art institutions to provide more objective and data-driven valuations of their collections.

**Igor Rodin**, AI Expert, Art Collector, Ex-partner, Deloitte, shares his views on some concrete applications related to how AI can impact the visual art sector

**Chloris Yu** from Deloitte UK looks at how AI can help to develop a risk management framework to support decision-making when investing in art

As the capabilities of AI become more advanced and sophisticated, companies across all industries have moved to utilize these innovative technologies; and the art market is no exception.

## The metaverse

As cited in the Deloitte *Tech Trends Report 2023*, technologies “such as augmented and virtual reality are transforming the metaverse from specialized tech to enterprise tool—potentially paving the way for new business models. Whether through gaming or other means, 25% of consumers could be spending at least one hour in the metaverse each day by 2026, while 30% of businesses are estimated to have products and services ready. By the time the metaverse becomes a full-blown enterprise norm, a sound strategy could make the difference between winners and losers in the burgeoning market.”<sup>386</sup>

The metaverse has the potential to transform the way art market professionals (AMPs) engage with audiences, exhibit their collections and collaborate with artists and other stakeholders.

**Expanded audience reach:** The metaverse could provide AMPs with a platform to reach a global audience of art enthusiasts and collectors, regardless of their physical location or financial or physical limitations.

**Enhanced exhibition experiences:** The metaverse could offer immersive and interactive exhibition experiences that go beyond what is possible in physical spaces, such as virtual reality installations and 3D sculptures.

**New revenue streams:** AMPs could monetize their digital assets in the metaverse, with virtual exhibitions and digital replicas of physical artworks, creating new revenue streams for fine art institutions.

**Innovative collaborations:** The metaverse could facilitate collaborations between fine art institutions, artists, designers and technologists, to create new forms of art that combine physical and digital elements.

INDUSTRY  
INSIGHTS\_

## Visual art in the age of AI

**Igor Rodin**

AI Expert, Art collector  
Ex-partner, Deloitte

**Introduction**

There's a lot of hype and buzz about generative artificial intelligence (GenAI), large language models (LLMs), and OpenAI's series of generative pre-trained transformers (GPTs) and their potential to disrupt nearly all fields of human activity.

GenAI technologies can generate text, pictures or engineering designs. As a subpart of GenAI, LLMs can generate text, and advanced forms have recently demonstrated their ability to also create images. While OpenAI's GPT is a recently developed LLM, its architecture that has revolutionized the technology.

This article explores how these GenAI technologies may impact the visual arts business.

**Valuing paintings**

Two possible applications of AI in the art world are predicting the performance of an art investment and helping build a successful collection.

AI can often accurately predict future performance based on past performance, such as customer churn, loan collection, and identifying when wind turbines will fail and advantageous locations for retail stores. However, AI struggles to predict prices in heterogeneous asset classes like stocks, real estate or collectibles.

Predicting the future based on known examples from the past is called supervised learning. AIs are more successful in their predictions if there are plenty of past examples with relatively few characteristics. However, paintings are the opposite, having a multitude of characteristics with relatively fewer similar examples.

In addition, critical information for many financial assets is often structured, meaning it is readily available in a numerical format. In comparison, critical information about artworks is unstructured, and cannot adequately be described in numbers or simple categories that fit machine learning models.

GenAI is not designed to predict prices and would not outperform existing models for this purpose. However, it could help in an unexpected way—for art evaluation, for example.

Suppose an art investor wants to test a hypothesis that experts' poor eyesight influences their assessment of French impressionist art. After all, impressionism has been called "the triumphant exploitation of myopic vision."<sup>387</sup>

A good GPT model would correctly identify that Cézanne, Monet, Renoir, Pissarro, and Degas owed some of their eccentricities to myopia, cataracts or corneal ulcers. It

# A human undergoing an fMRI scan could be shown a series of GenAI-generated artwork, and have their responses measured and fed back into the GenAI model.

should also find a 1970s survey of students at the School of Fine Arts in Paris, which revealed that 48% were myopic compared to 15–20% of the national average.<sup>388</sup> Therefore, it could conclude that modern art experts share the same conditions as the great masters.

If supplied with a corpus of relevant documents, LLMs should not only be able to extract this information but also present it in a structured format, suitable for price regression models. Then, the influence of the “myopic factor” on art evaluation could be proved or disproved.

While GenAI will not be able to perform reliable valuations of collectible art and other investment assets soon, it may

improve the quality of existing models, albeit with significant human involvement.

## The perfect painting

Could GenAI create a perfect painting? Well, this depends on what is perfect. In “The Neuropsychology of Visual Art,” Anjan Chatterjee states, “We know virtually nothing about the neuropsychology of the perception of art.”<sup>389</sup> In other words, the brain is a black box.

While the aesthetics of art undoubtedly arouse emotions, not (fully) understanding this mechanism limits the ability of the creator—whether human or machine—to create an ideal work of visual art that maximizes an emotional response. But there is one way to tackle this black box.

In addition to supervised learning, AI also uses reinforcement learning, where the machine learns through feedback rather than from examples. This model improves itself through trial and error.

Feedback on the quality of visual art can only come from humans. Participants of experiments were asked to rate the beauty of paintings while undergoing functional magnetic resonance imaging (fMRI) scans. The study found that their medial orbitofrontal cortex activity correlated with their beauty scores. Another study has demonstrated the correlation of a painting’s aesthetic properties with activity in participants’ cingulate and occipital cortices.<sup>390</sup>

Therefore, building a perfect painting machine appears to be within the realm of existing technology. A human undergoing an fMRI scan could be shown a series of GenAI-generated artwork, and have their responses measured and fed back into the GenAI model. The model would learn to produce better visual art until the practical limit of neural response is reached.

While this type of experiment has seemingly not yet been attempted, it is technically possible; but it is unlikely that output of the method would ever produce collectible art.

### The age of AI art?

Artworks that have achieved record valuations at auction fall into one of three categories: Dutch Golden Age paintings, French impressionism/post-impressionism, and abstract art of the second part of the 20th century. It is no coincidence that these periods also redefined the aesthetics of visual art.

Could the current technological revolution of the image-generative AI also serve as a major watershed in the history of art? Could it similarly produce an artwork of immense value in the future? Or, to put it simply, is it the time to invest in AI-generated or AI-assisted work?

Economics is a game of supply and demand. The history of art is strongly skewed toward supply, focused on artists. What unites Dutch 17th-century and French late 19th-century paintings is not the presence of geniuses such as Rembrandt and Monet, but the unique mass demand for art and dense market infrastructure of intermediaries.

Johannes de Renialme, an Amsterdam-based art dealer, held at his death in 1657 some 586 pieces by Dutch masters in stock, including 40 paintings worth over 200 guilders. However, his inventory also listed 122 pieces by second- and third-tier masters worth between 1 and 8 guilders each. While a doctor's wage of some 4,000 guilders a year could bring a Rembrandt painting of 1,500 guilders within reach,

the cheaper pieces were aimed at people making 300 guilders a year, such as unskilled laborers.

There was a specific socio-economic impetus for the middle classes' voracious appetite for acquiring paintings during the Dutch Golden Age or the Belle Epoque. Demand drives supply. The flourishing mass art market was a precursor for innovation and talent growth, fostering geniuses.

Such conditions have rarely existed in Western societies since, and there is currently no mass demand for art and affordable modern masterpieces in today's market. Therefore, it is risky to make a living through AI art.

The scale of demand also matters for practical reasons. One of the great benefits and promises of GenAI is the personalization of creative works, and the ability to produce art-on-demand tailored to individual aesthetic tastes.

For many years, Netflix has used algorithms and machine learning to generate a massive number of thumbnails for movies and select the best ones to display to the individual user.<sup>391</sup> These algorithms know nothing about the film, the user or the artwork; instead, they benefit from a large volume of subscriber behavioral data. No player in the modern art world would have a comparable volume of data for personalization.

### Art and science: A search for meaning

Enjoying art is not a purely aesthetic experience; it also requires semantic knowledge, not only of the objects on the canvas but also of the broader context. This is the tragedy of 20th-century non-representational art, because its beauty was inaccessible to untrained viewers.

Kandinsky was once astonished to discover "an indescribably beautiful picture, pervaded by an inner glow," just to recognize it later as one of his own works turned on its side.<sup>392</sup> Research by the Max Planck Institute for Biological Cybernetics, which studied brain response to indeterminate, abstract and cubist art, found that the perceptual struggle to resolve indistinct objects has aesthetic value. In addition, subjects who were given an hour-long training on Cubism before viewing Picasso or Braque artworks were reported to have much broader brain responses as measured by an fMRI scan.<sup>393</sup>

The search for semantic meaning in non-figurative art enhances the aesthetic experience. Put simply, an abstract painting must be understood for viewers to enjoy it. LLMs are outstanding tools for semantic search; with access to and trained on a relevant corpus of information regarding the artwork, its artist and other data, they could become wonderful guides to art, performing individualized research and offering explanations of artistic effort.

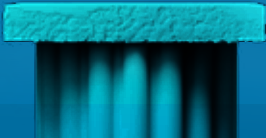


Machines also see better than people. The Swiss company Art Recognition uses AI to identify forgeries, where an algorithm analyzes the artist's style, such as their brush strokes, to attribute the painting.<sup>394</sup>

GenAI will likely soon find its way into art collecting—not as a major disruptor but as one of many enabling technologies. As painting as an art form did not disappear with the invention and popularity of photography, it will not disappear with the invention and proliferation of image GenAI.



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## Navigating art investment: Enhancing family offices' decision-making through risk analytics



**Chloris Yu**  
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### Why it's time to rethink financializing the art market

At Deloitte, we have long been fascinated by the dynamic relationship between art and finance. As we navigate the currents of the financialization of art, we recognize the need for a pragmatic approach to tackle asset management challenges and propose viable solutions

We have witnessed a growing affinity between the art market and the financial market, particularly the derivatives market, regarding value creation. Information-based value dynamics are on the rise, particularly in the contemporary and ultra-contemporary segments, where artworks' market values are increasingly influenced by the interpretation of associated information in the institutional and wider socio-cultural networks. This resembles how derivatives derive value from market perceptions of the underlying asset.

We have also observed notable shifts in the roles played by market participants within the art industry. Collectors and auction houses have assumed increasingly influential positions that affect art market trends and liquidity. Concurrently, galleries target audiences directly and establish

trendsetting positions. Auctions and fairs compete with galleries, shaping markets through analytics-driven campaigns, leading to a more volatile art market landscape.

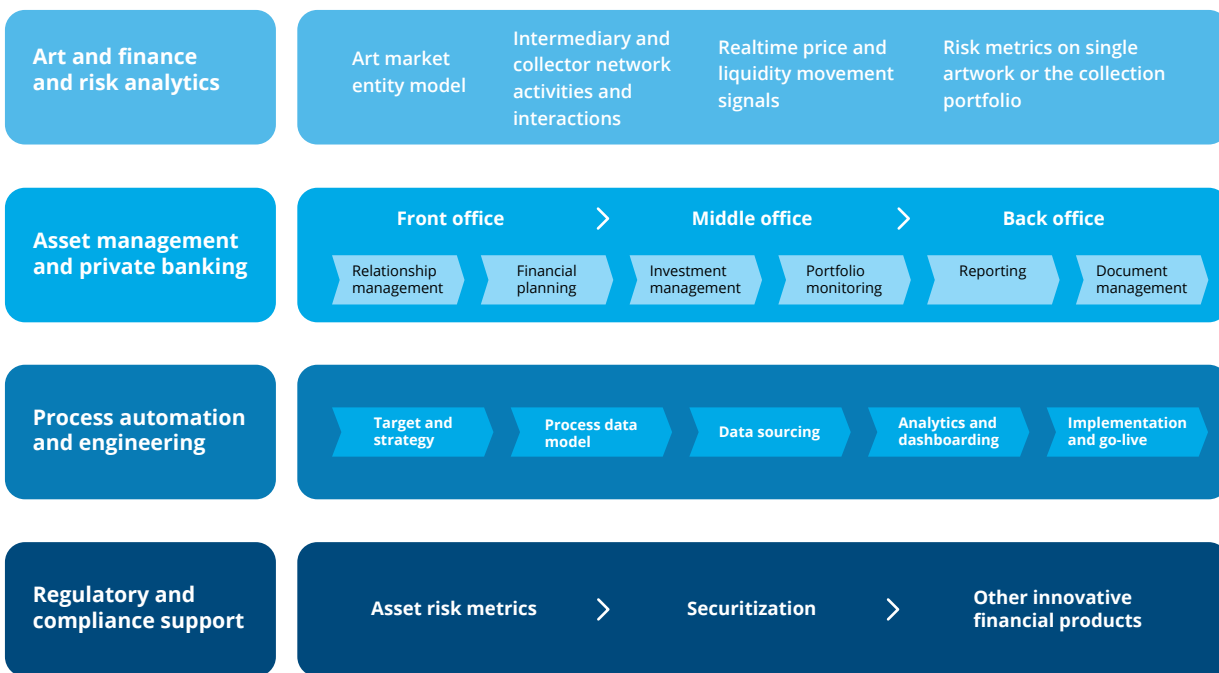
These changes introduce additional uncertainty in artworks' short-term performance and liquidity and their long-term potential. Luckily, the information-centric nature of value creation generates a wealth of data, especially unstructured alternative data. This can be harnessed to comprehend market dynamics with the help of data analytics and AI, therefore aiding in the management of associated risks.

#### Why risk management is the key

Effectively managing art collections as assets has proved challenging, especially in the domain of risk management. The objective is to devise optimal asset management strategies while family offices strive for efficient estate planning solutions. These pursuits demand a comprehensive understanding of the key risks entwined with art investments, including market, liquidity, concentration and correlation risks, as they significantly influence key stages of the entire decision-making process.

**Figure 150: Navigating art investment: enhancing family offices decision-making through risk analytics | Deloitte**

Source: Deloitte United Kingdom



**How risk management works**

The evolving nature of art market value creation, increasingly reliant on information, has shifted the predominant drivers of short-term art market liquidity movements. This transition is characterized by a mutual influence between the primary market and the auction house-collector ecosystem. In our analysis, we emphasize that liquidity risk is not solely a gauge of market popularity but hinges on its predictability, crucial for making rational investment and selling decisions.

While the long-term liquidity of the art market depends largely on sustained primary market recognition, short-term liquidity is increasingly influenced by an asset's response to market dynamics. These dynamics are driven by forthcoming exhibitions, secondary market sentiments, cultural trends, and economic conditions influenced by worldwide financial, social, political and cultural events. This article focuses exclusively on understanding how asset liquidity responds to art market scenarios, rather than delving into the origins of these scenarios influenced by

everyday global events. Our primary focus is identifying optimal investment strategies as art market scenarios constantly evolve.

To illustrate our approach, we analyze two real-world artists with different risk profiles, using monthly auction sales to indicate market performance. This approach enables us to identify patterns and trends in how sensitive the artist's performance is to primary market, secondary market and socio-cultural events.

**Use case 1: Exemplary risk profile for an established artist**

Established artists tend to sustain enduring interest from both the primary and secondary markets, leading to interdependent reactions. By identifying an artist's distinctive market reaction pattern and associated timeframes, we can make informed investment decisions at the right time. To illustrate this concept, we will delve into the case of Artist A, an example of an established artist.

**a) Interconnected primary-secondary market responses with time lags**

Artist A—an established, albeit controversial, figure in the art world—has gained recognition from major international galleries more recently than other prominent artists. To assess the artist's

liquidity risk profile, we compare their monthly exhibition popularity as measured by gallery Instagram followers (an indicator of primary market perception) to monthly auction sales in the secondary market. This reveals a dynamic of alternating popularity, sustaining a healthy, predictable long-term market.

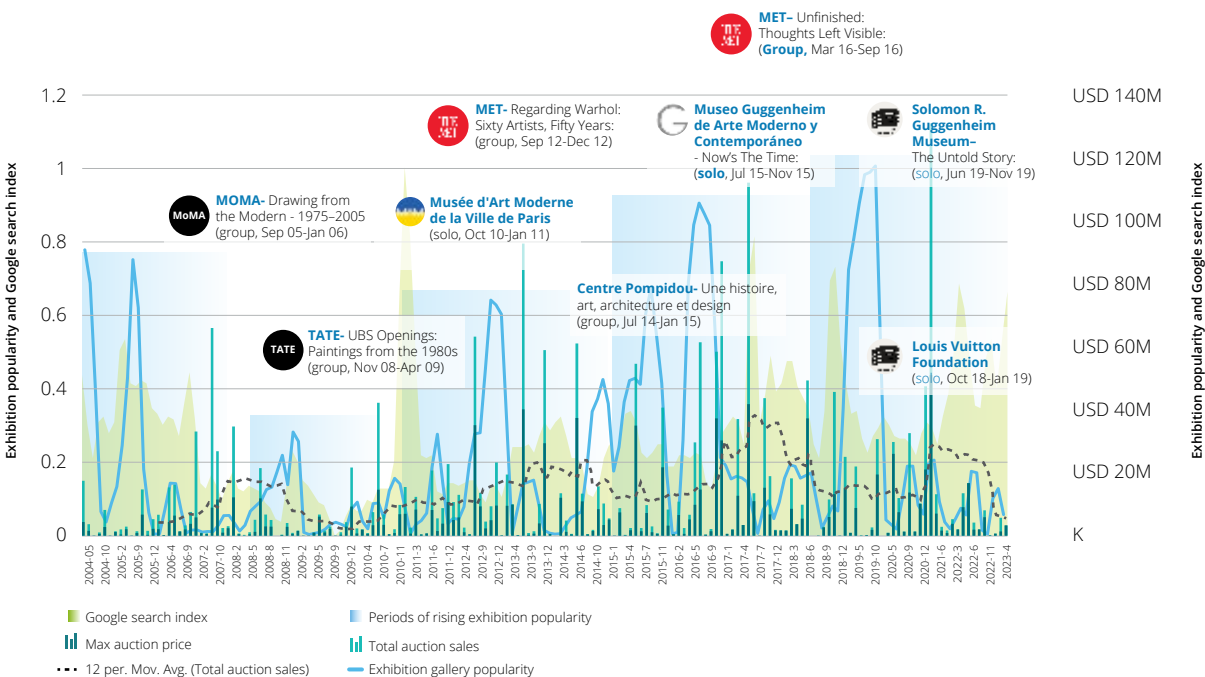
A surge in auction sales usually follows major exhibitions, typically with a time lag of less than a year. Public interest, measured by Google search indices, mirrors auction sales, creating a reinforcing force. Strong auction demand leads to galleries planning subsequent exhibitions about a year later, resulting in cyclic patterns. This analysis provides insights for predicting and timing secondary market liquidity when buying or selling the artist's artworks.

**b) Robust correlation with economic conditions**

Our examination of the artist's monthly auction sales and price-over-estimate volatility highlights a correlation with the average S&P 500 monthly adjusted close, a pattern shared by high-profile artists with significant price tags. However, despite occasional market downturns, the robust liquidity dynamic, as illustrated through our "primary versus secondary market popularity" approach, sustains the artist's enduring allure for provenance-driven collectors.

**Figure 151: Monthly auction sales and POE with S&P Index**

Source: See full list at the end of the article



### Use case 2: Exemplary risk profile for an emerging artist

Emerging artists, unlike their established peers, often have fewer gallery connections and smaller exhibitions with a lower impact on the auction market. To understand their risk profile and inform investment decisions, we delve into their personal narratives to examine their stylistic evolution, resulting market sentiment, and responses from the gallery network. We will look at Artist B, an emerging artist known for their popular collectibles, fashion collaborations, and strong online presence.

#### a) Limited correlation between primary and secondary markets

While analyzing Artist B's exhibition popularity, we found a weak correlation with their auction market performance, indicating a nascent but evolving primary market gallery network. This suggests that reacting solely to primary market activities may not be prudent when investing in or selling an emerging artist's work, prompting us to look for alternative auction market drivers.

#### b) Limited correlation between secondary market performance and global economic conditions

In evaluating the artist's market performance in relation to global economic conditions, we observed that the artist's monthly auction sales diverged from the S&P 500 index. Nonetheless, our examination of regional auction sales patterns highlighted a notable interest in the artist's work within the Hong Kong market, apart from a temporary decline in late 2021 coinciding with a local COVID-19 outbreak.

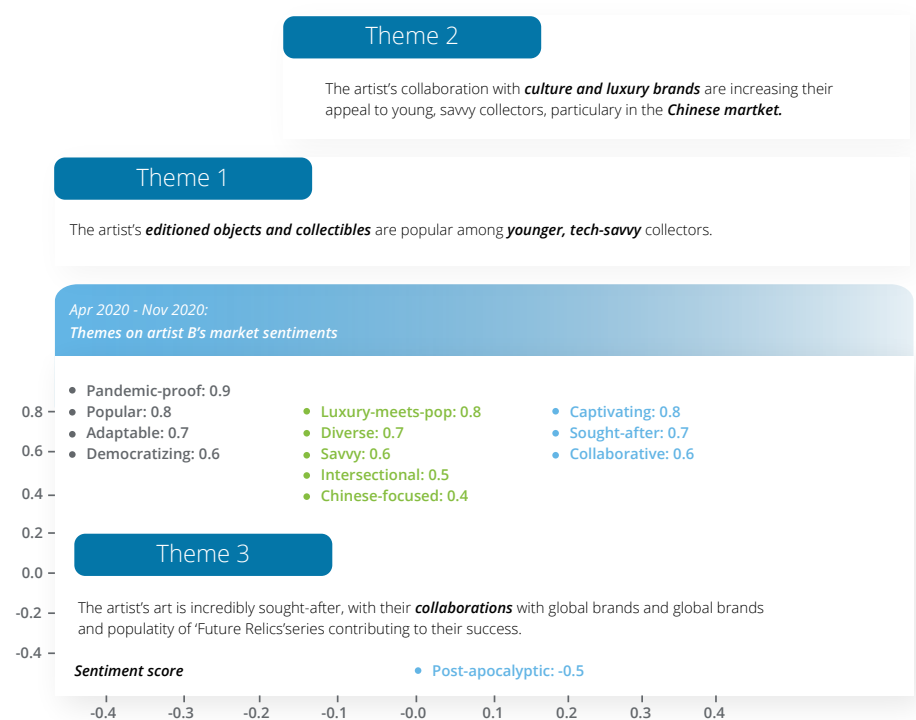
#### c) Region-specific market enthusiasm and prospects for prominent primary market connections

When analyzing art market news over time for Artist B, we uncovered a compelling link between the artist's fashion brand collaborations and noticeable spikes in public interest that, in turn, led to surges in their auction market performance. This underscores the importance of understanding the artist's market sentiment, which influences both short-term and long-term liquidity.

Dedicated secondary market interest also serves as a buffer against challenging economic conditions, such as the financial downturn during the global COVID-19 pandemic. This further prompted us to investigate factors that sustained interest in the artist's work in Hong Kong and the broader Asian markets, despite historically negative price-over-estimate ratios that contribute to uncertainties.

Figure 152: Artist B's market sentiment themes

Source: See full list at the end of the article



We examined online reviews of the artist's exhibitions to understand the market sentiments. Undeniably, the artist's unique, adaptable and inspiring artistic approach generates enduring excitement. Themes related to editioned collectibles and luxury fashion collaborations are pivotal in maintaining sentiment positivity. These would require further monitoring to assess their correlation with key market popularity trends to comprehend the ongoing impact on liquidity changes.

Acknowledging the artist's evolving style and dedicated collector communities, we attempted to uncover their potential for greater primary market recognition, by extrapolating potential connections with galleries that have exhibited similar artists. The presence of high-profile connections suggests the artist's potential for increased prominence. This would influence long-term market liquidity and alter investment strategies, particularly for adventurous collectors. Comprehensive analytics, including benchmarking against similar artists, are essential further steps for this assessment.

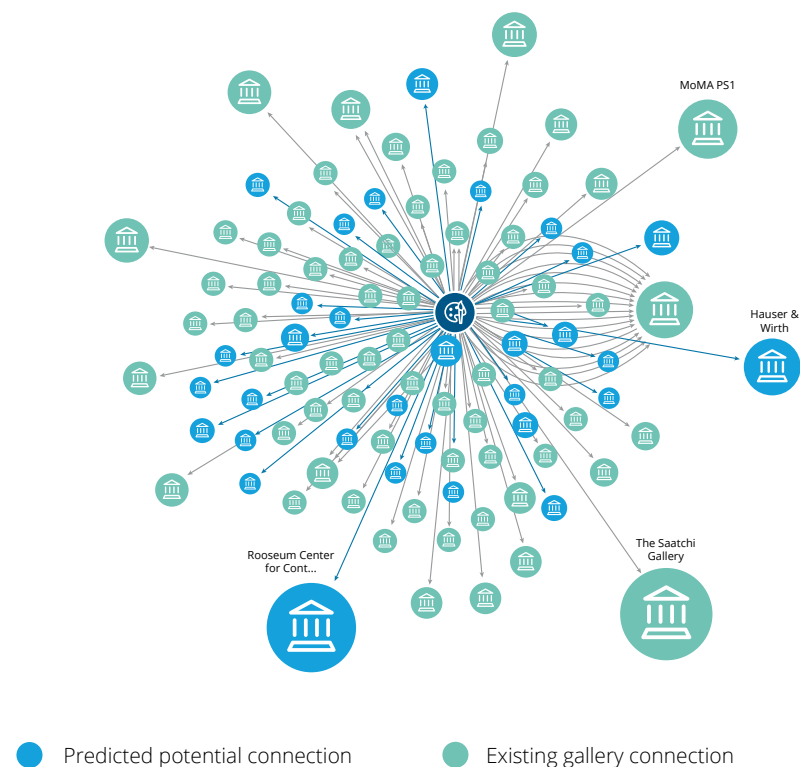
**Risk-focused investment and estate planning strategies**

Understanding artists' risk profiles informs effective investment and estate planning. Continuous monitoring of market events and ensuing changes in market scenarios, including upcoming exhibitions and changing market trends, is essential for artists with high liquidity risk—often emerging artists—to mitigate risks and capitalize on potential growth. Artists with high market risk require the monitoring of separate regional trends to highlight specific risks and opportunities.

Liquidity risk is vital in estate planning. For artists with uncertain long-term value

**Figure 153: Artist projected gallery connections in the primary market**

Source: See full list at the end of the article



appreciation due to high liquidity risk, exploring charitable donations for tax benefits is an option. Predictable liquidity and long-term potential for artists could suggest transferring assets through gifting or trusts for tax efficiency. Alternatively, private sales or auctions in active markets can be considered.

It is crucial to acknowledge the depth and complexity of each artist's unique narrative, which quantitative analysis should not undermine. We emphasize the need to provide an authentic and comprehensive portrayal of an artist's market dynamics, including their artistic journey, market perception and primary market

connections over time, to understand the necessary sensitivity to market scenarios.

Through accumulated experience, we can construct a precise taxonomy capturing an artist's market sensitivity dynamics—including sensitivity to scenarios of primary market, secondary market and economic activities—to classify artists into predefined risk categories with the help of AI for investment and estate planning strategies.



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### Use case 3: collection portfolio diversification

In addition to evaluating individual risk profiles, we want to assess concentration and correlation risks within a collection portfolio. We examine a hypothetical portfolio comprising artworks by Artist A and Artist B. Our initial analysis focuses on measuring connectivity between this pair of artists through their stylistically similar artist peers, which allows us to gauge correlation in market representation. The network diagram below highlights the associated peer artist connections between two artists at a given point in time, which can be extrapolated to observe changes in connections over time.

For a more in-depth analysis of the correlation risks, we delve into the connections arising from artistic styles as perceived by exhibition critics. By mining online reviews, we identify recurring themes and artistic languages, subsequently evaluating their semantic correlation. Encouragingly, the outcomes align with the former approach. The word cloud analysis below depicts correlations of artistic themes and styles between pairs of artists within a portfolio. High thematic correlation suggests the potential for diversification into dissimilar styles, offering a strategic avenue to mitigate portfolio risks.

In addition to the approaches above, we can also assess the collection portfolio's regional exposure through an analysis of recent regional auction transactions. This involves calculating the Herfindahl-Hirschman Index (HHI) to measure concentration risk within specific markets. If the HHI surpasses the global art market share by region, it indicates a high concentration risk and an opportunity to explore artists gaining traction in alternative markets.

**Figure 154: Collection portfolio correlation risk**

Source: See full list at the end of the article

**Correlation matrix**

Correlation matrix	Artist A	Artist B	
Artist A	1	0.35	Indicative portfolio risk
Artist B	0.35	1	
Volatility	1.35	0.98	

**Word clouds showing key themes for the two artists**



**Artist A—artist B peer artist connections**



The size and color intensity of nodes represent the popularity of the artist, exhibition or gallery as measured by their social media followers and interactions

**Extracted themes and artistic language**

**KEY THEMES**

- ▶ New Yorker's life
- ▶ Oppression
- ▶ Rebellion
- ▶ Cultural icon

**ARTISTIC LANGUAGE**

- ▶ Classical repose
- ▶ Abstract Expressionism
- ▶ Anti-materialism
- ▶ Cubism

**KEY THEMES**

- ▶ Collaboration with Dior
- ▶ Women's Wear
- ▶ MIUI 13 and Android 12
- ▶ Pikachu

**ARTISTIC LANGUAGE**

- ▶ Computer-generated
- ▶ Ruins and archaeology
- ▶ Signature "aging" technique
- ▶ Viewer interaction

**The risk management process and how Deloitte can help**

With effective management, it is possible to develop a robust risk management process that integrates with existing art and finance services and sets industry standards. This also facilitates innovative risk-hedging products through securitization, providing additional risk management and funding opportunities.

Our expertise in art and finance, data analytics, and asset management positions us as the ideal partner to support family offices and other service providers in effectively managing risks and maximizing investment potential in the art and passion asset market. Through responsible investment and risk management strategies, we aspire to create enduring value and positive impact in the art and passion asset world.

**Data sources**

- Auction history and price data: <https://www.artsy.net/>
- Exhibition history data: <https://artfacts.net/>
- Public search data: <https://trends.google.com/trends/>
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- 367 Web3 is a new iteration of the internet that fundamentally incorporates blockchain technology with an emphasis on decentralization and token-based economics.
- 368 Public key cryptography involves a pair of "keys" known as a public key and a private key, which are associated with an entity that needs to authenticate, sign or encrypt data. Therefore, data that is encrypted with the public key can be decrypted only with the corresponding private key.
- 369 Proof-of-Stake (PoS) is a consensus protocol that relies on utilizing financial incentives for validators when staking their tokens to provide the underlying economic security of the chain. If validators misbehave, their financial deposit, or stake, will be slashed. If they behave, they accrue rewards for their honesty.
- 370 A self-executing computer program that allows state to be stored and updated in a secure and decentralized way.
- 371 Marketplaces on the blockchain are similar to e-commerce platforms that trade in NFTs; they showcase creators' works and collectors' acquisitions and can be selectively curated like online galleries.
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# 08\_

## Risk management and regulation

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# Highlights


After 12 years of monitoring stakeholders in the art and finance industry, a large majority of wealth managers, collectors and art professionals still believe the art market's existing business practices are not fit for purpose.

 **Urgent need for modernization:** Over the last seven years, there has been a strong consensus among stakeholders that the art market needs to modernize its business practices, with 76% of the wealth managers surveyed this year agreeing with this (up from 69% in 2021). In addition, 82% of art professionals and 70% of collectors stated the same. The perception that the art market has failed to update and modernize its business practices is a clear challenge for the future growth and development of the market, as well as the evolution of art as an asset class.


 **Lack of international standards for professional qualifications in the art market:** This remains a key issue according to the majority (63%) of wealth managers this year (up from 62% in 2021). This is closely linked to the need to modernize business practices in the art market, and without international standards and requirements for professional qualifications, it will be no easy task.


 **Conflicts of interest and blurring of roles within the art market are still a problem:** 67% of wealth managers are worried about conflicts of interest in the art market (up from 63% in 2021). Both collectors (75% this year, down from 77% in 2021) and art professionals (79% this year, compared to 72% in 2021) also saw this as a major issue. The often-blurred lines between advisors, dealers, brokers and valuers mean a clearer division of roles may be required to address this issue.

 **Low transparency is still a major issue, but there are signs of improvement:** Although still a major concern for wealth managers, there are signs in this year's survey that they are less concerned about the lack of transparency. 74% said lack of transparency was a key factor that undermined trust in the art market (compared with 83% in 2021).

 **Price manipulation dents trust in the art market:** 69% of wealth managers expressed concern about

the threat of price manipulation in the art market (compared to 70% in 2021), with 84% of collectors (compared to 81% in 2021) and 82% of art professionals stating the same (compared to 70% in 2021). This sense of mistrust was even higher for younger collectors, with 95% of respondents saying price manipulation was one of the key factors undermining trust in the art market.


 **Are auction guarantees distorting the market?** 34% of wealth managers (up from 17% in 2021) believe that auction guarantees are threatening the art market's reputation, with 36% of art professionals and 35% of collectors agreeing. This was even higher among NextGen collectors (56%). This suggests that more than a third of stakeholders find that the existing practice of using auction guarantees to facilitate auction sales undermines transparency and trust in the art market.

 **Trust in art market data is increasing:** 38% of collectors this year said they had a high, or very high, level of trust in art market data, up from 27% in 2021. This was even higher among younger collectors (48%). For wealth managers, however, the level of trust in art market data remains low, with just 21% saying they have a high level of trust in art market data (up from 18% in 2021).

 **Self-governance vs. more regulation—opinions are divided:** 44% of wealth managers (same in 2021) believe government regulation is the appropriate response to establish trust and credibility in the art market. Of the family offices surveyed, 70% said they believed self-regulation would be the most appropriate way to tackle the issues facing the art market, with only 30% believing government regulation would be the appropriate answer.

With AML already in place in the EU and the United States, the scrutiny and regulatory pressure on art market participants is greater than ever and shows no signs of slowing down.

On the contrary, 50% of art professionals this year said they believe regulation could play an important role in restoring trust (up from 36% in 2021). This is the highest percentage ever recorded, which could suggest that stakeholders within the art industry are increasingly leaning toward more government intervention as a remedy for restoring trust and credibility.

 **A call for a hybrid approach:** It is evident across all stakeholder groups that certain standards or government regulation will be required to restore trust and credibility in the art market. This would also bring efficiency, especially in light of the economic and social benefits that could be generated.

 **Adoption of more transparency and regulation not happening fast enough:** Despite the emergence of improved technology, more data and increased regulation (AML), the general view across stakeholder groups is that the adoption of more transparency and regulation will take longer than what they envisaged in 2021. Only 13% of wealth managers said increasing transparency and regulation will take place within the next two years (down from 27% in 2021). 37% of wealth managers said it will take more than five years (up from 28%), and 8% said it will never happen (up from 5% in 2021).

 **Regulation is coming:** With AML already in place in the EU and the United States, the scrutiny and regulatory pressure on art market participants is greater than ever and shows no signs of slowing down. To address the significant cost associated with compliance (particularly for smaller players who may struggle to absorb such expenses), we believe the most efficient solution would involve public-private partnerships, mutualization of tools, and leveraging lessons learned from the financial sector. With new crypto asset regulations introduced in the EU (see Industrie Insight on page 416 – Arnaud Duchesne and Benoit Sauvage's article), fungible fractional ownership of artworks through crypto assets or security tokens is now regulated. Existing product and service providers must take notice and action to be compliant. The worlds of art and finance are getting closer, and regulations may bolster increased interaction between those two worlds.

# Introduction\_

Despite heightened regulation, as well as changes triggered by digital innovation (covered in Section 7 of this report), the large majority of wealth managers, collectors and art professionals still do not believe the art market's existing business practices are fit for purpose. After 12 years of analysis and monitoring stakeholder perceptions and attitudes, very little has changed. An inefficient art market only benefits a small number of players and fails to maximize the potential positive social and economic impact that the art market could provide<sup>396</sup>. Despite a strong and powerful incumbent art market, the incentives to change existing practices seem limited. Change might only happen gradually as new generations of art market stakeholders and a new generation of consumers (millennials and generation Z) start to make inroads into the art and collectibles market. We are already seeing signs of this in younger collectors' attitudes to new art investment models (see Section 6) and their interest in social impact investment products (see Section 4).

The topic of regulation in the art and collectibles market has grown in importance since our last survey in 2021. With AML regulations now in full force in the United Kingdom and EU (and the United States where regulations are limited to antiquities), transitioning to this new regulatory environment presents new challenges and opportunities for the art market and its stakeholders. The growing interest in art as an investment, and the emergence of regulated exchanges and marketplaces for tokenized and fractional ownership in art, means that financial regulation is now coming into the art market too. This could have a significant impact on existing business practices, not to mention compliance and risk management going forward. As we move into the initial stages of the great

wealth transfer, the question is: How can we continue to engage with the next generation with its different expectations, attitudes, preferences and purchasing habits?

**This section is divided into the following parts:**

**Part 1\_**  
**2023 Survey findings**

In this part, we look at what art and finance stakeholders (wealth managers, art professionals and collectors) see as the biggest threats to the art market's reputation and how regulation and risk management can mitigate these risks.

**Part 2\_**  
**Regulatory update on AML efforts**

This section will also cover regulation around tokenization and fractional ownership and features contributions from:

## INDUSTRY INSIGHTS\_

**Anti-money laundering regulations for art market participants:**

A state-of-the-art analysis

**by Nicolas Marinier**

*Partner, Forensic & Financial Crime,  
Deloitte Luxembourg*

**by Maxime Heckel**

*Partner, Forensic & Financial Crime,  
Deloitte Luxembourg*

**by Astrid Brandy**

*Senior Manager, Advisory & Consulting,  
Deloitte Luxembourg*

**by Andrea Marchetto**

*Manager, Forensic & Financial Crime, Deloitte  
Luxembourg*

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**Markets in Crypto-Assets Regulation (MiCA) and the art market as well**

**by Arnaud Duchesne**

*Managing Director, Risk Advisory, Deloitte Luxembourg*

**by Benoit Sauvage**

*Director, Risk Advisory, Deloitte Luxembourg*

**by Maria Josefin Johansson Juup**

*Senior Manager, Risk Advisory, Deloitte Luxembourg*

**by Érica Ventura**

*Senior Consultant, Risk Advisory, Deloitte Luxembourg*

**Part 3\_**

**Risk management, legal and regulatory developments**

Here, we explore best risk management practices and the evolving legal and regulatory environment around art and collectibles, including contributions from:

**INDUSTRY INSIGHTS\_**

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**The time to act is now: How to increase accountability in the art market: Redefining dispute resolution to grow customer confidence**

**by Ashley Gallant**

*Managing Director of the British Antique Dealers' Association (BADA)*

**by Fred Clark**

*Senior Associate at law firm Boodle Hatfield LLP*

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**Managing financial risk at public auctions from a seller's perspective**

**by Christine Bourron**

*CEO Pi-eX Ltd*







## Part 1\_

# 2023

# Survey findings\_

Lack of market transparency (defined below), fear of price manipulation, conflicts of interest and anti-competitive behavior still linger among wealth managers' biggest concerns, alongside specific risks associated with authenticity and lack of provenance. In this year's report, 76% of wealth managers said they believed the art market needs to modernize its business practices (up from 69% in 2021). 82% of art professionals also said the art market must continue modernizing its business practices (83% in 2021). Most collectors (70%) also believe there is room for further modernization. This implies that all stakeholders surveyed believe the art market still has some way to go before it can be deemed fit for purpose.

### Transparency defined

Transparency can have different meanings depending on the context. In this report, we mainly refer to transparency in terms of market transparency (e.g., to what extent details of market activity such as price information, access to market trends, transactional information and disclosure

of conflicts of interest are made public), as well as in terms of object-specific aspects (e.g., access to documentation of an artwork's provenance, ownership and condition). Market transparency is crucial for creating a well-functioning and efficient market and to ensure a level playing field for participants. That said, transparency can also have another meaning, which is outlined in the BADA article (page 426), where transparency refers to accountability or answerability for the duration of a business transaction.

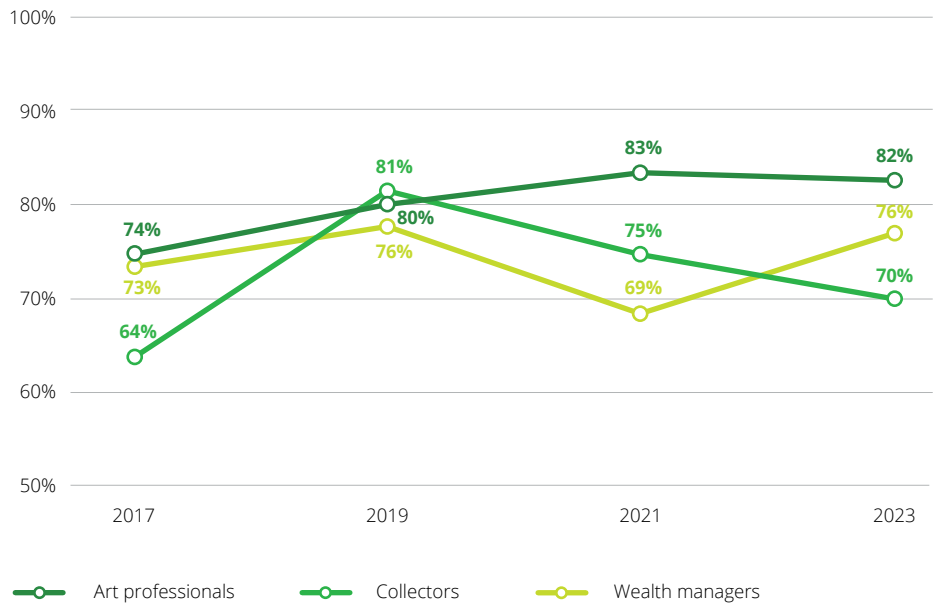
In this year's report, 76% of wealth managers said they believed the art market needs to modernize its business practices (up from 69% in 2021).

**The urgent need for modernization:**

Over the last seven years, there has been a strong consensus among stakeholders that the art market needs to modernize its business practices, with 76% of wealth managers this year agreeing (up from 69% in 2021). 82% of art professionals and 70% of collectors stated the same. The perception that the art market has failed to update and modernize its business practices is a clear challenge for its future growth and development as well as the evolution of art as an asset class. While the current situation favors a limited number of existing players in the market, it fails to provide a professional, trusted and business-friendly marketplace for new wealth entering the art and collectibles space. Unless the art market adapts, it is likely that other collectibles and luxury assets markets (with a more business-friendly and professional interface) will be in a stronger position to attract new wealth entering the alternative asset space.

**Figure 155: Does the art market/art industry need to modernize its business practice? (% saying yes)**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



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**Figure 156: Stakeholder comparison: which of the following issues do you feel are the most threatening/damaging to the reputation of the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023

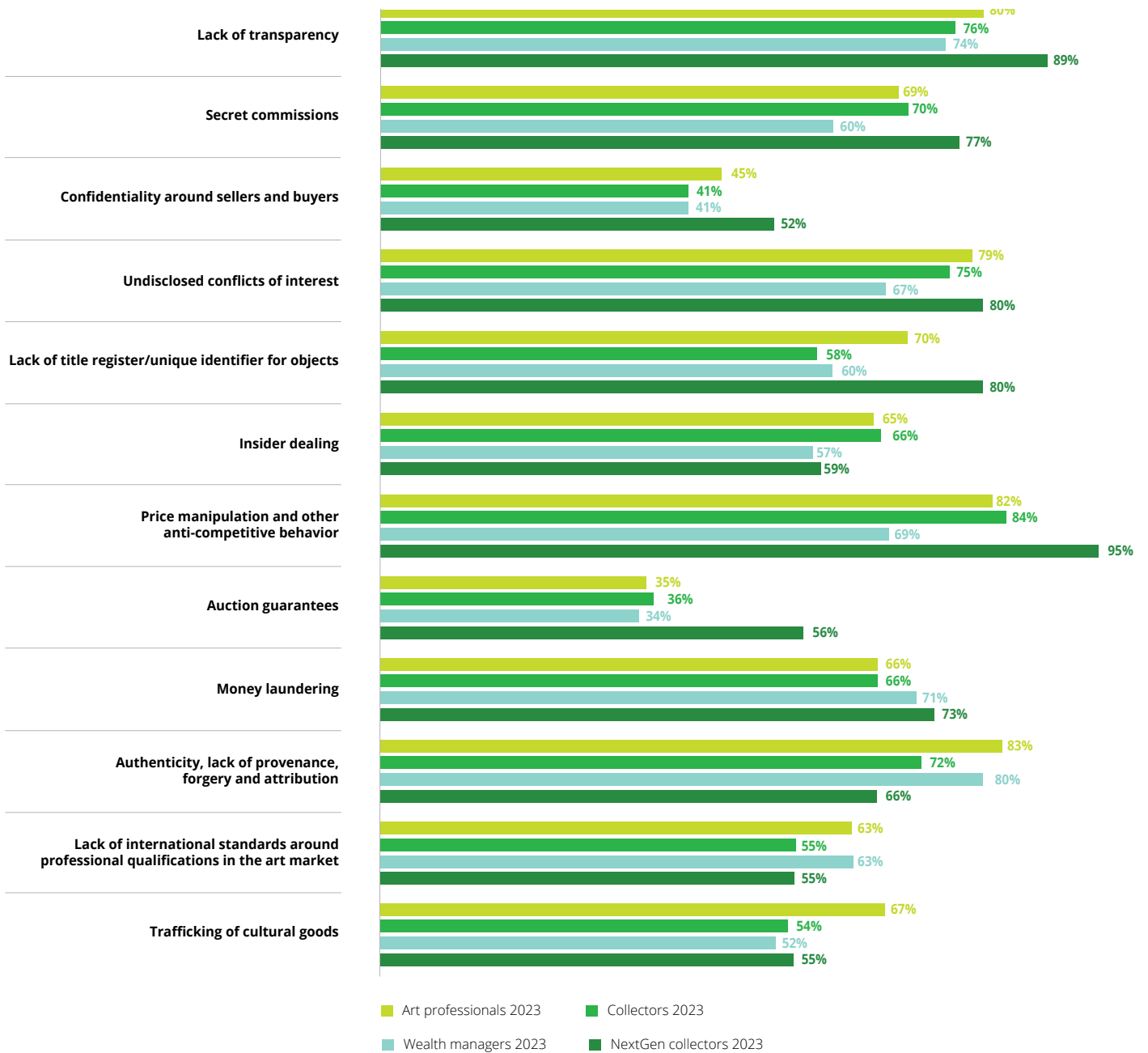
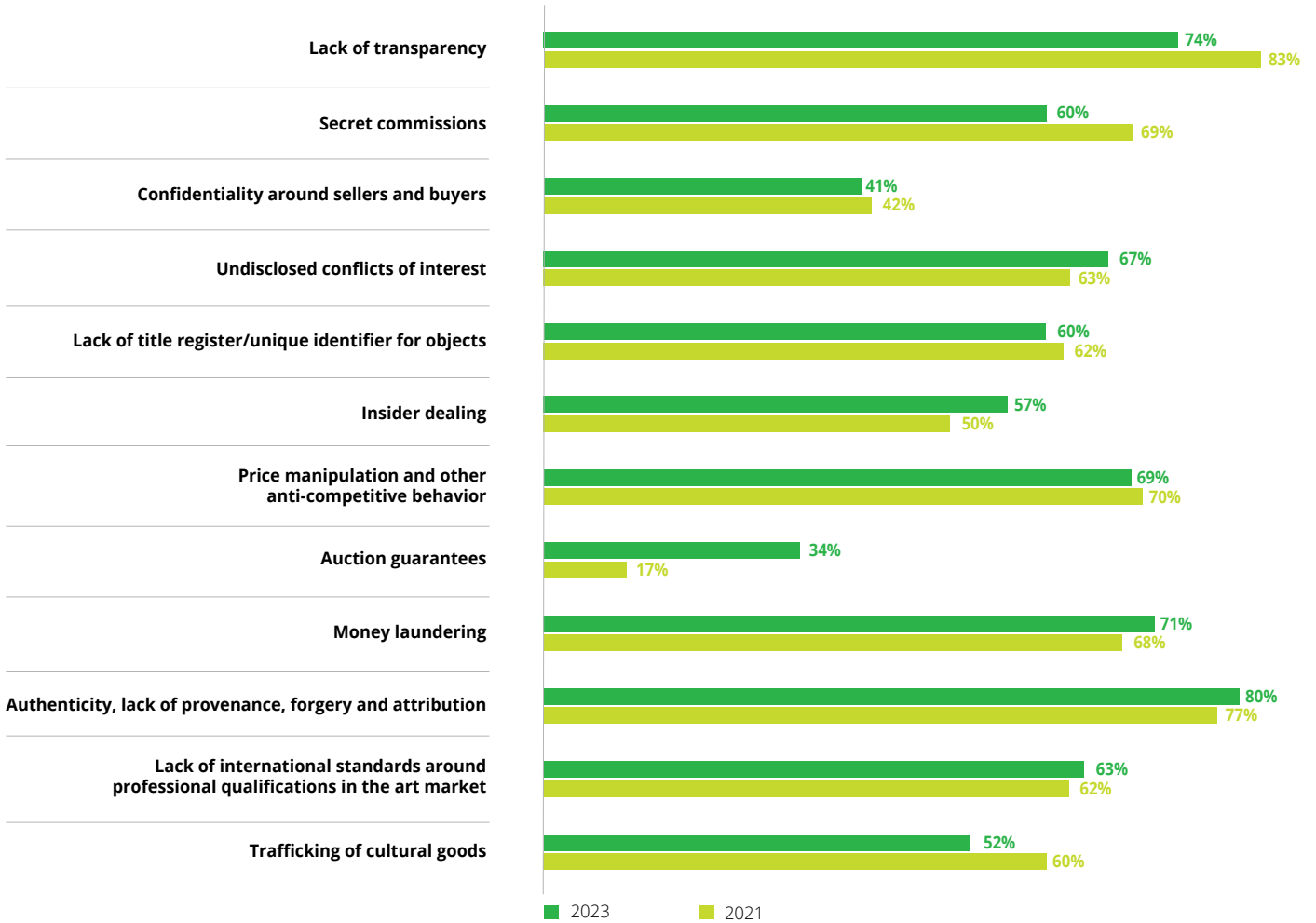


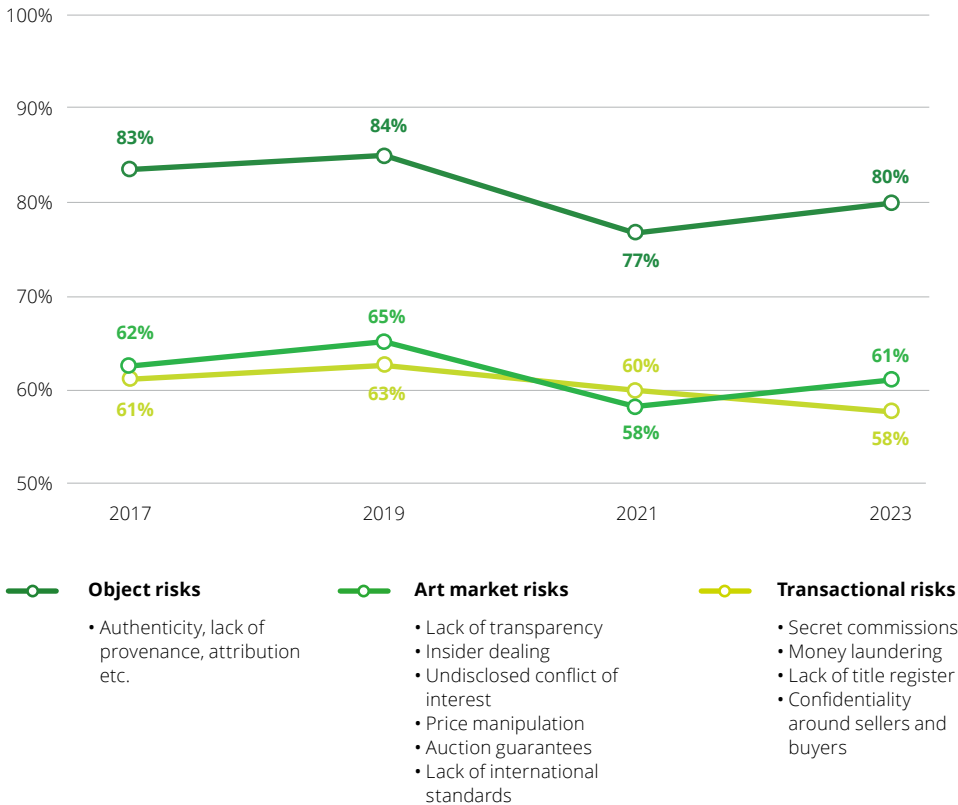
Figure 157: Wealth Managers: Which of the following issues do you feel are the most threatening/damaging to the reputation of the art market?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 158: Wealth Managers: Which of the following issues do you feel are the most threatening/damaging to the reputation of the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Lack of transparency still a major issue, but there are signs of improvement:** Although still a major consideration, there are signs that wealth managers are slightly less concerned about lack of transparency in this year's survey. 74% of wealth managers said lack of transparency was a key factor that undermined trust in the art market (compared with 83% in 2021). However, both art collectors (76%) and art professionals (80%) still identified this as a key challenge (higher than in 2021). Lack of transparency ranked even higher among younger collectors, with 89% identifying it as a major challenge in today's art market (up from 86% in 2021). It is possible that we might move toward more price transparency in the coming decade with the rise of fractional ownership, NFTs, tokenization and the use of blockchain as a title and ownership register. These could all signal the beginning of a more open and transparent marketplace.

**Authenticity and provenance risks remain a key issue:** 80% of wealth managers believe authenticity, lack of provenance and the risk of forgery and misattribution were the greatest threats to the art market's reputation this year (up from 78% in 2021), with 72% of art collectors (down from 78% in 2021) and 83% of art professionals (up from 80% in 2021) agreeing. With art values at a historic high, so is the perceived risk of offering art-related wealth management services in a market fraught with authenticity issues. However, there have been significant technological advances in this area (e.g., forensic science, DNA technology and the use of AI to identify fakes and forgeries). See Section 7 for more information on these developments.

**Price manipulation dents trust in the**

**art market:** 69% of wealth managers expressed concern about the threat of price manipulation in the art market (compared to 70% in 2021), with 84% of collectors (compared to 81% in 2021) and 82% of art professionals saying the same (compared with 70% in 2021). This sense of mistrust was even higher among younger collectors, with 95% of respondents saying price manipulation was one of the key factors undermining trust in the art market. This perception could contribute to the high levels of mistrust in art market data discussed later in this section. Another factor is the fear of insider dealing, with 57% of wealth managers (up from 50% in 2021) saying this is a major threat to reputation and trust in the art market. 65% of art professionals and 66% of collectors agreed with wealth managers on this.

**Conflicts of interest and blurring of roles within the art market are still a**

**problem:** 67% of wealth managers were worried about conflicts of interest in the art market (up from 63% in 2021). Both collectors (75%, down from 77% in 2021) and art professionals (79%, compared with 72% in 2021) also saw this as a major issue. The often-blurred lines between advisors, dealers, brokers and valuers mean a clearer division of roles may be required to address this issue. Of the wealth managers surveyed, 60% identified secret commissions as a major threat to the art market (compared to 69% in 2021), and 69% of art collectors and 70% of art professionals expressed the same concern this year.

**Money laundering still a concern**

**despite new regulations:** The recent implementation of AML regulations has failed to diminish wealth managers' concerns about money laundering in the art market, with 71% of wealth managers still concerned about it (up from 68% in 2021). Both art collectors (66%) and art professionals (66%) continue to see money laundering as a substantial threat to the art market's reputation going forward (compared with 65% and 63% respectively in 2021).

**Lack of international standards for professional qualifications in the**

**art market:** This remains a key issue for 63% of wealth managers this year (up from 62% in 2021). It is closely linked to the need to modernize business practices in the art market, and without international standards and requirements for professional qualifications, it will be no easy task. 63% of art professionals this year agreed that a lack of international standards was a major impediment to the professionalization of the art market (compared to 62% in 2021).

**Are auction guarantees distorting**

**the market?** 34% of wealth managers (up from 17% in 2021) believe that auction guarantees are threatening the art market's reputation, with 36% of art professionals and 35% of collectors agreeing. This was even higher among NextGen collectors (56%). This suggests that more than a third of stakeholders find the existing practice of using auction guarantees to facilitate auction sales undermines transparency and trust in the art market.

67% of wealth managers were worried about conflicts of interest in the art market (up from 63% in 2021).

**Figure 159: What level of trust do you have in the art market data (qualitative & quantitative) currently available? % of respondents saying high/very high**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Trust in art market data is increasing:**

38% of collectors this year said they had a high, or very high, level of trust in art market data, up from 27% in 2021. This was even higher among younger collectors (48%). For wealth managers, however, the level of trust in art market data remains low, with just 21% saying they have a high level of trust in art market data (up from 18% in 2021). Lack of transparency is clearly a major contributing factor to this, with 74% of wealth managers saying it is a key threat to the art market's reputation. The future growth of the art market and the integration of art-related services in wealth management are dependent on raising the level of trust by increasing the level of transparency and reducing the current level of friction associated with actual and perceived practices in the art market.



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**Self-governance vs. more regulation—opinions are divided:**

44% of wealth managers (same in 2021) believe government regulation is needed to establish trust and credibility in the art market. Of family offices surveyed, 70% said they believe self-regulation is the best way to tackle the issues facing the art market, with only 30% believing government regulation would be the appropriate remedy. The number of family offices preferring a more regulatory approach has been in decline since 2019 when 48% said they believed more government regulation was needed.

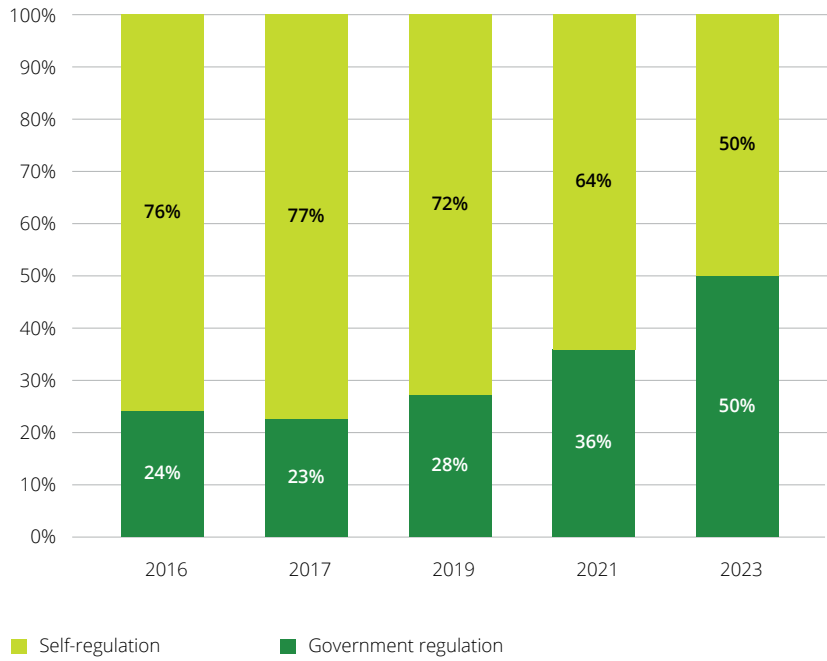
**On the contrary, 50% of the art professionals surveyed this year said they believe regulation could play an important role in restoring trust (up from 36% in 2021). Such a high percentage could suggest that stakeholders within the art industry are increasingly leaning toward more government intervention as a remedy for restoring trust and credibility.**

It is interesting to note that collectors themselves prefer a less interventionist approach, with only 28% of collectors saying they saw government regulation as the best solution (down from 47% in 2021). 72% would prefer that the art market sort out these issues themselves (through self-regulation). This sentiment was even higher among younger collectors, with 80% saying they preferred a self-regulatory approach.

**A call for a hybrid approach:** It is evident across all stakeholder groups that certain standards or government regulations will be required to restore trust and credibility in the art market as well as bring efficiency. The question is how to strike the right balance. In what specific areas would regulation be most effective? How could this be implemented to ensure a fair and level playing field in an increasingly competitive global art market? And who will enforce it?

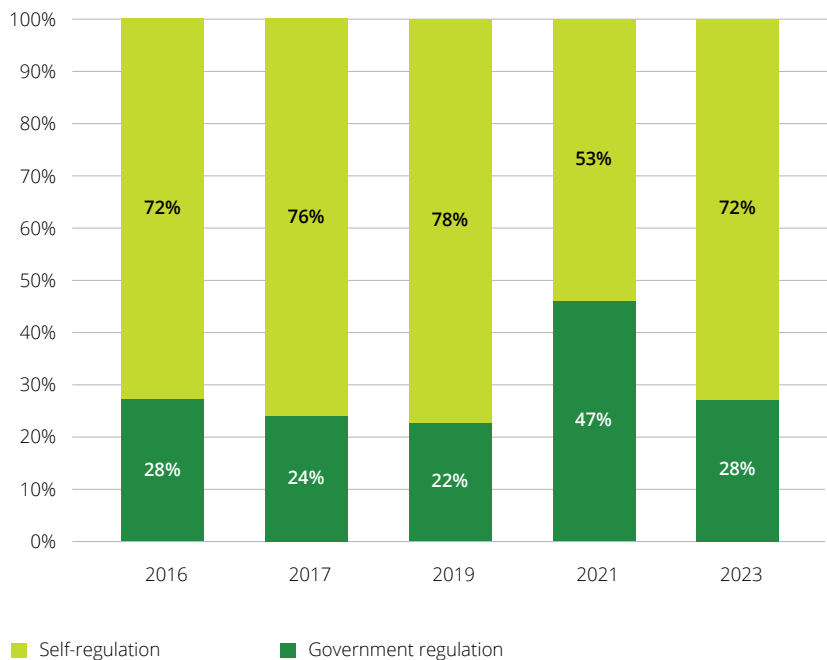
**Figure 160: Art professionals: Which regulatory approach do you favour when it comes to establish trust and credibility in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 161: Collectors: Which regulatory approach do you favour when it comes to establish trust and credibility in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023





In terms of self-regulation, it goes without saying that there is a need for development, implementation and supervision of standards and best practices aimed at increasing trust in the art market. For example, 63% of wealth managers surveyed this year said that the lack of international standards for professional qualifications in the art market was a major contributor to the lack of trust in the market. As the art market continues to expand globally, it is important that these standards are implemented on an international level. This will require cooperation and coordination between regional and national initiatives. A possible model would be the Responsible Art Market Initiative (RAM), a cross-industry initiative established in Geneva in 2015. RAM's members span the entire spectrum of the art market—from galleries, dealers, auction houses, advisors and service providers, to lawyers, academics and public prosecutors specializing in art-related matters.

**Figure 162: Wealth managers: Which regulatory approach do you favour when it comes to establish trust and credibility in the art market?**

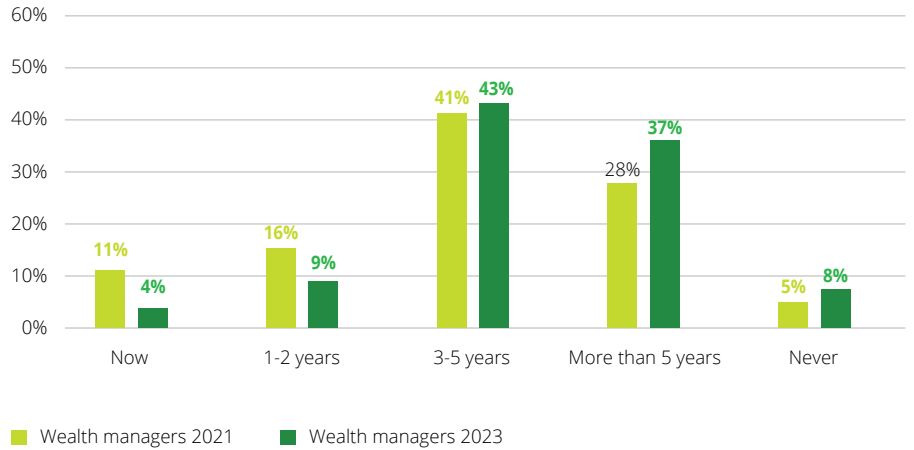
Source: Deloitte Private & ArtTactic Art & Finance Report 2023



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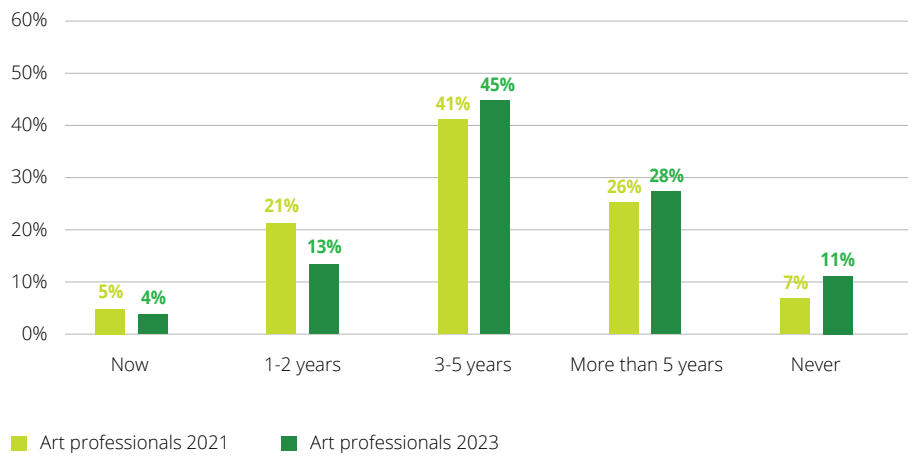
**Figure 163: Wealth managers: In your view, when do you think we can see an acceleration in adoption of more transparency and regulation in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



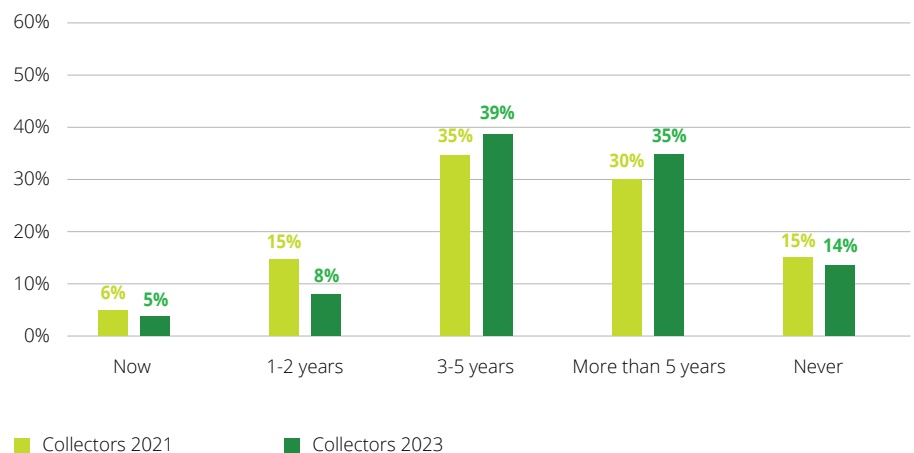
**Figure 164: Art professionals: In your view, when do you think we can see an acceleration in adoption of more transparency and regulation in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 165: Collectors: In your view, when do you think we can see an acceleration in adoption of more transparency and regulation in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**The road to more transparency and regulation will be long:** Despite improved technology, more data and increased AML regulation, the general view held across stakeholder groups is that the adoption of more transparency and regulation will take longer than envisaged in 2021.

**Wealth managers:** Only 13% of wealth managers say increased transparency and regulation will take place within two years (down from 27% in 2021). 37% of wealth managers say it will take more than five years (up from 28%), with 8% believing it will never happen (up from 5% in 2021).

**Art professionals:** A similar picture emerges with art professionals, with only 17% saying increased transparency and regulation will happen within two years (down from 26% in 2021). 28% of art professionals say it will take more than five years (up from 26%), and 11% say it will never happen (up from 7% in 2021).

**Art collectors:** Fewer art collectors today believe in imminent change, with only 13% saying increased transparency and regulation will happen within two years (down from 26% in 2021). 35% of collectors say it will take more than five years (up from 30% in 2021), and 14% say it will never happen (down from 15% in 2021). NextGen collectors remain less optimistic about the speed of adoption of more transparency and regulation in the art market, with 50% saying they expect it to take more than five years (same as in 2021), and 11% believing it will never happen.

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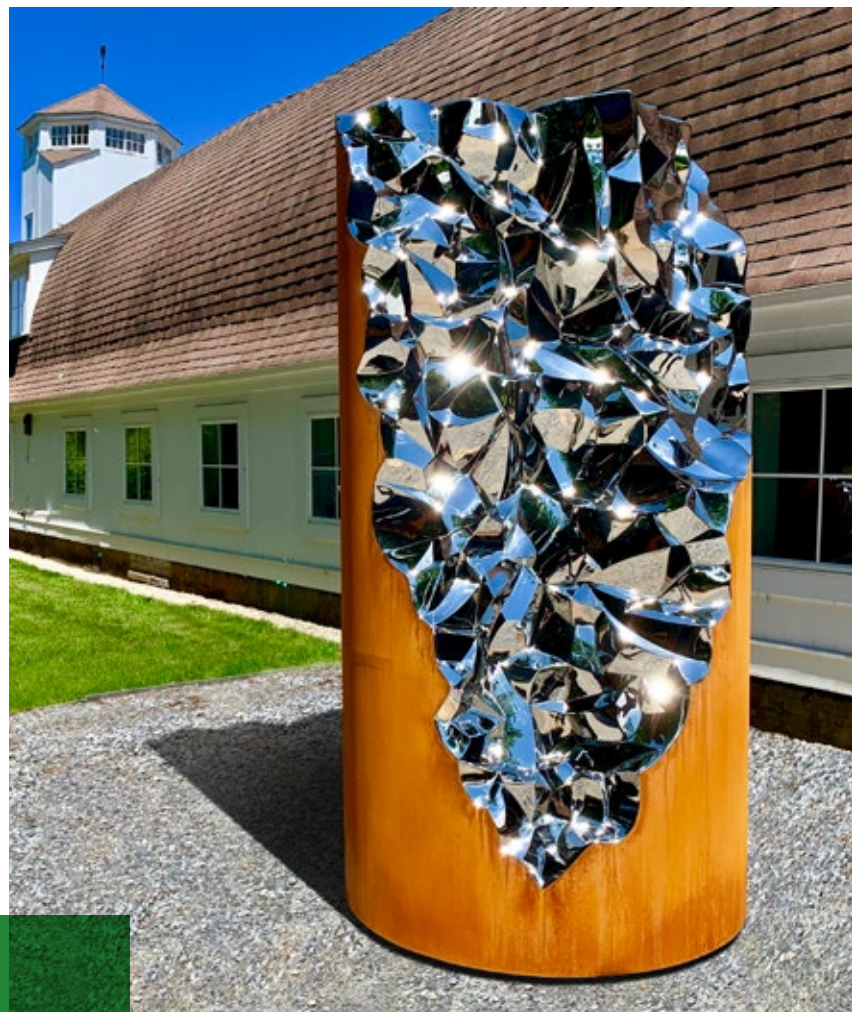
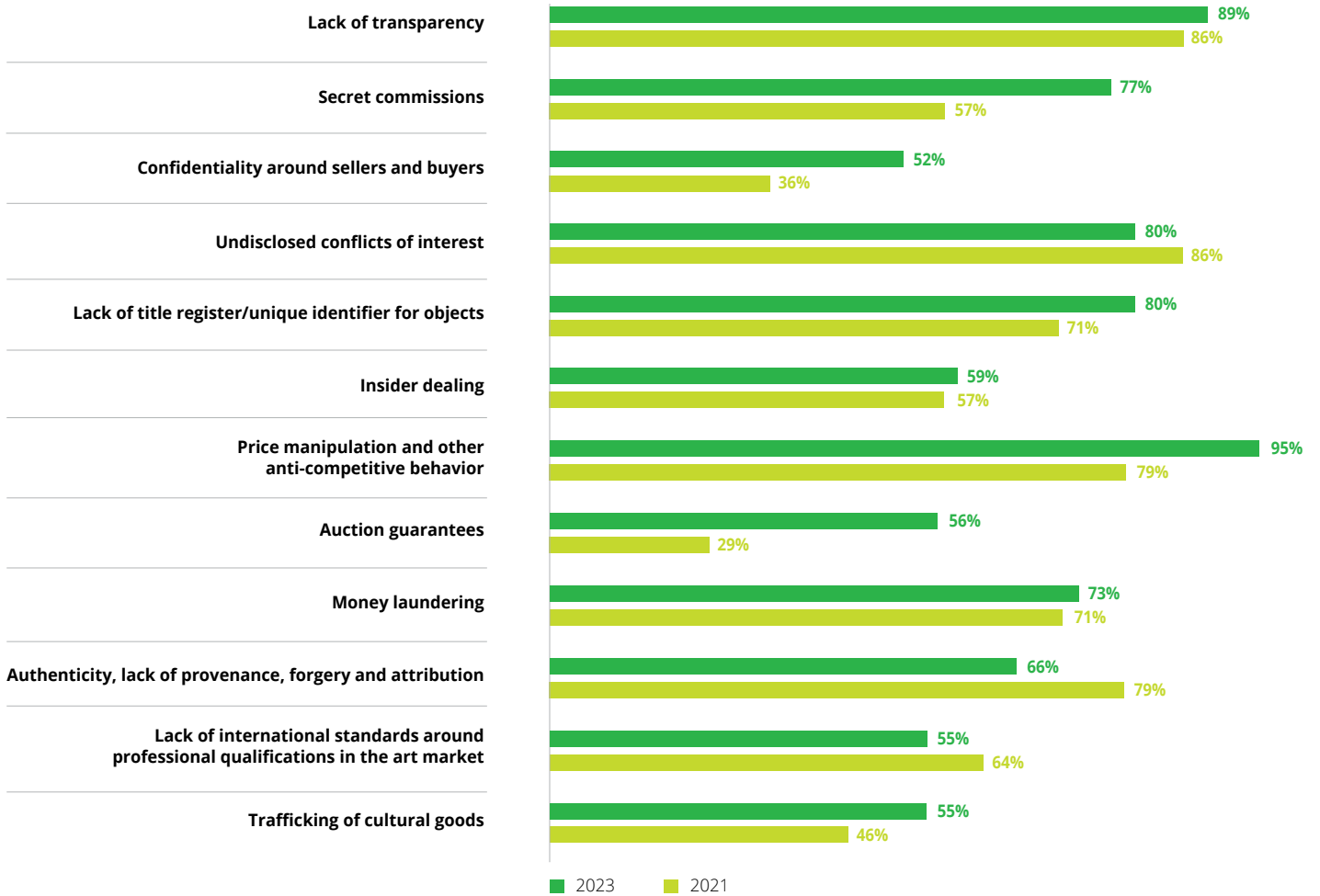


Figure 166: NextGen Collectors: Which of the following issues do you feel are the most threatening/damaging to the reputation of the art market?

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Younger collectors express concerns about price manipulation and lack of market transparency:** 95% of younger collectors say that price manipulation and other anti-competitive behavior are the main threats to the reputation of the art market (up from 79% in 2021). 89% say lack of market transparency (up from 86% in 2021) is a major reputational threat. Linked to this finding was also a significant jump in younger collectors (56%) expressing skepticism toward auction guarantees (up from 29% in 2021).

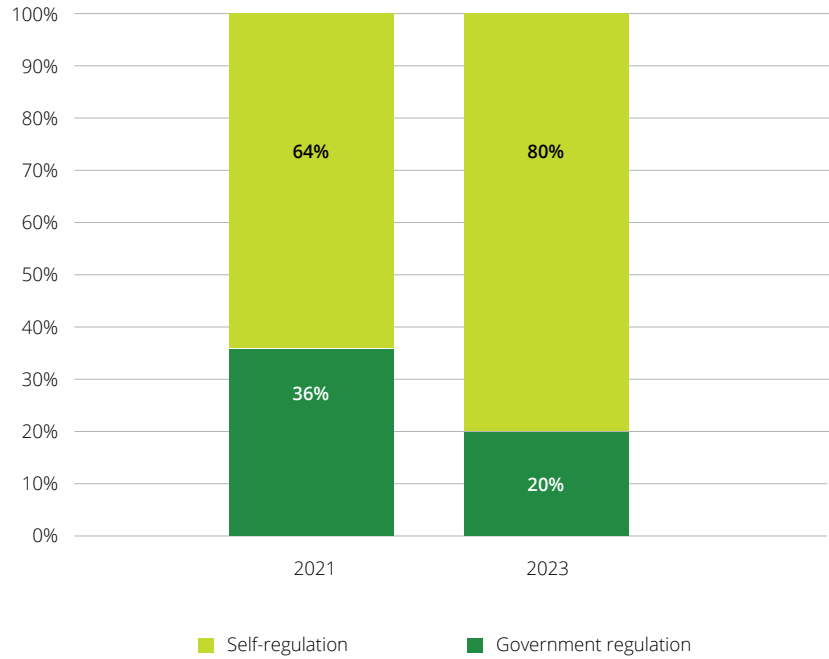
**Conflicts of interest and secret commissions:** 80% of younger collectors also expressed concern about undisclosed conflicts of interest (down from 86% in 2021), and 77% said secret commissions were a major issue damaging trust and credibility in the marketplace (up from 57% in 2021).

**Lack of title register:** 80% of younger collectors said that the lack of a title register and unique artwork identification are major challenges in today's art market (up from 71% in 2021).

**Large majority of younger collectors lean toward self-regulation:** 80% of younger collectors believe the best way to tackle the above challenges is through self-regulation (up from 64% in 2021). 61% believe it will take more than five years before we see an acceleration in the adoption of more transparency and regulation in the art market.

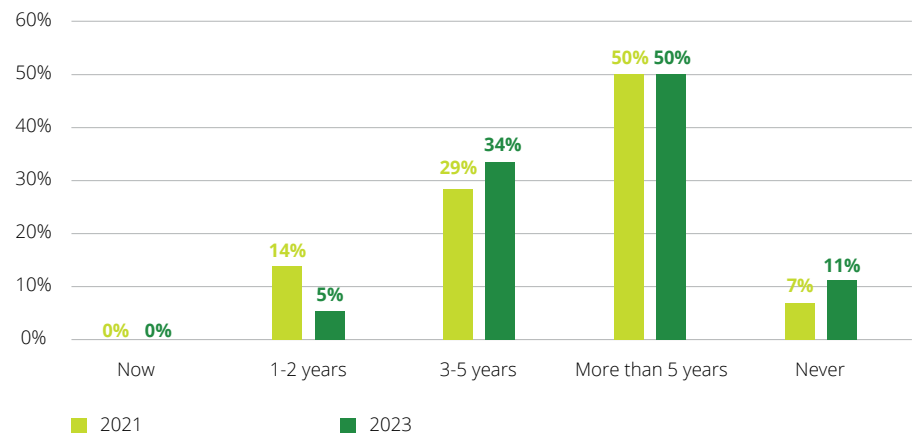
**Figure 167: NextGen Collectors: Which regulatory approach do you favour when it comes to establish trust and credibility in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



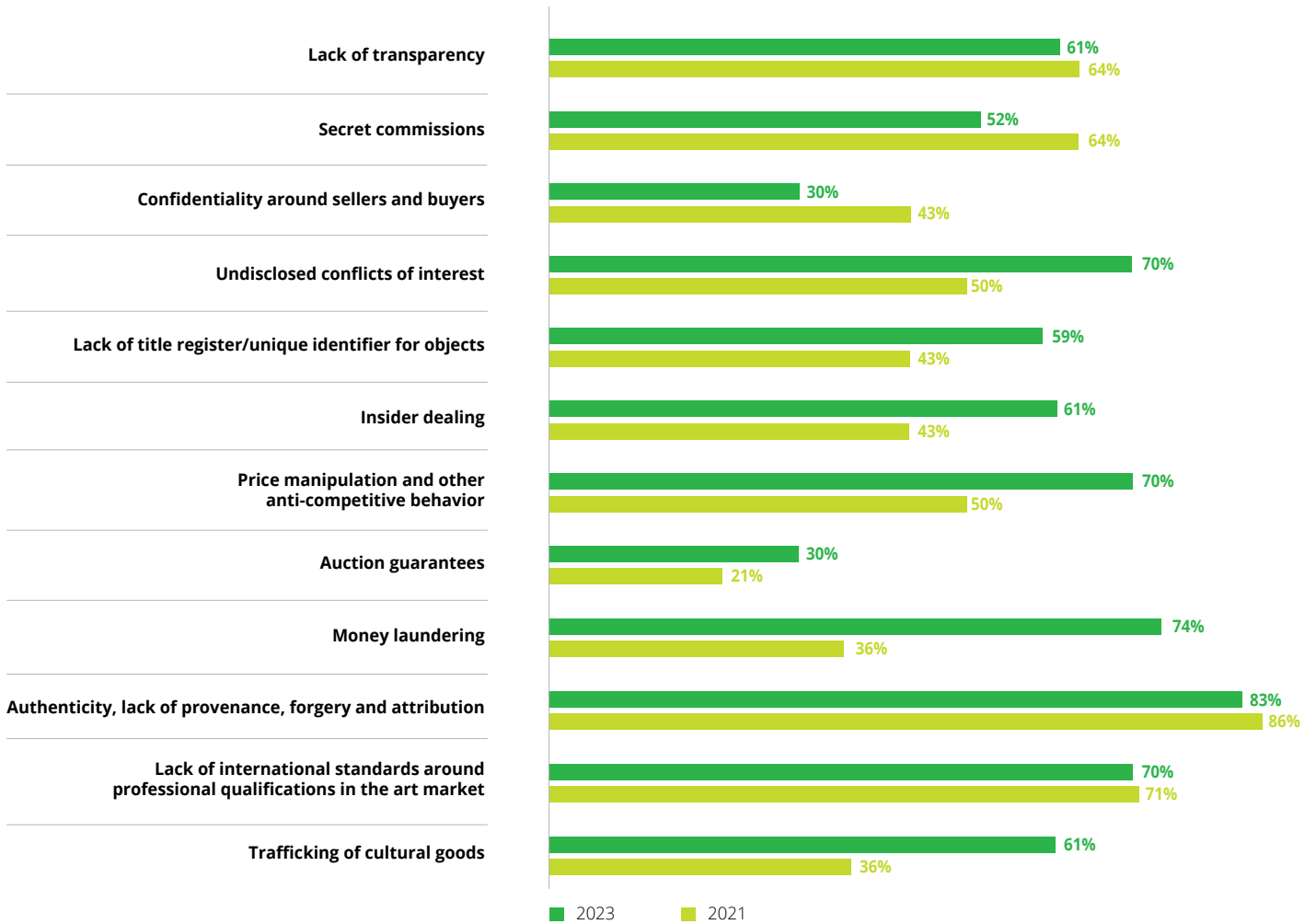
**Figure 168: NextGen Collectors: In your view, when do you think we can see an acceleration in adoption of more transparency and regulation in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 169: Family offices: Which of the following issues do you feel are the most threatening/damaging to the reputation of the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Family offices express more concern about conflicts of interest, insider dealing and price manipulation in the art market:**

This year, family offices have expressed stronger concerns about business practices in the art market. 70% of family offices said undisclosed conflicts of interest were a major problem (up from 50% in 2021). A further 70% said that price manipulation posed a significant threat to the art market’s reputation (also up from 50% in 2021). 61% of family offices said that insider dealing practices were damaging, up from 43% in 2021.

**Money laundering issues remain a key threat:**

74% of family offices said that money laundering risks were a key threat to reputation and trust-building in the art market (up from 36% in 2021). This significantly higher result could be due to a larger sample size of family offices this year; 61% of family offices said that insider dealing and potential access to privileged opportunities were damaging.

**Majority of family offices favor a self-regulation approach:**

When it comes to establishing trust and credibility in the art market, 70% this year (up from 64% in 2021 and 52% in 2019) favor self-regulation.

**Large majority of family offices believe we will see change in the next three to five years:**

This year, 61% of family offices (compared to 50% in 2021) believe there will be an acceleration in the adoption of more transparency and regulation in the art market within the next three to five years.

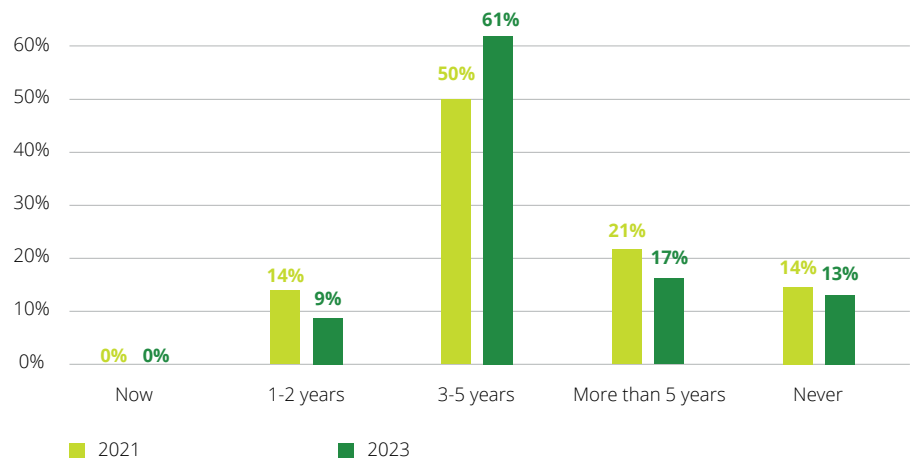
**Figure 170: Family offices: Which regulatory approach do you favor to establish trust and credibility in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023



**Figure 171: Family offices: In your view, when will we see an acceleration in the adoption of more transparency and regulation in the art market?**

Source: Deloitte Private & ArtTactic Art & Finance Report 2023





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## Part 2\_

# Regulation – an update on AML efforts\_

The scrutiny and regulatory pressure on art market participants is greater than ever and shows no signs of slowing down. To address the significant cost associated with compliance—particularly for smaller players who may struggle to absorb such expenses—we believe the most efficient solution consists of public-private partnerships, the mutualization of tools, and leveraging lessons learned from the financial sector.

INDUSTRY  
INSIGHTS\_

# Anti-money laundering regulations for art market participants:

## A state-of-the-art analysis

In our previous *Art & Finance Report 2021*,<sup>397</sup> we predicted that anti-money laundering (AML) regulation was not only here to stay but will likely continue to expand and develop. Since then, the HM Revenue & Customs (HMRC) and the British Art Market Federation (BAMF) have updated their guidelines to art market participants (AMP) three times since they were first published in 2020.<sup>398</sup> In the US, the Financial Crimes Enforcement Network (FinCEN) included antiquities dealers in the scope of the 2020 Anti Money Laundering Act (AMLA).<sup>399</sup> And in 2023, the Financial Action Task Force (FATF) published a report on money laundering in the art market.<sup>400</sup>

AMPs' regulatory scrutiny and burden are greater than ever and show no sign of lessening; therefore, this year's analysis focuses on the real-life impact and application of these AML guidelines. We examined how regulators enforce compliance of AMPs' two main AML obligations: reporting suspicious transactions and activity, and understanding the provenance of artworks.

In our analysis, we concentrated on the four largest art markets per share value according to The Art Basel and UBS Global Art Market Report 2023—the US, the UK, France and Switzerland.<sup>401</sup> While China is a significant player in the global art market (only second to the US), it is subject to ongoing analysis and research and will be included in a future Art & Finance Report.

### Strategies for effective compliance enforcement

#### Building a strong foundation: Education initiatives for AMPs

As an illustrative example, Deloitte Italy's art and finance report 2022 included an AML benchmark study of 38 Italian galleries.<sup>402</sup> Overall, only a minority had started the necessary adaptations to meet AML regulatory developments, which require AMP to perform due diligence on their clients, and in all cases, there was limited awareness of the issues and related obligations.<sup>403</sup>

This begs the question: how are regulators ensuring compliance with these new standards? The answer is a two-sided coin: education and retribution.

Given the novelty of this new regulatory landscape, regulators globally are focused on educating and raising awareness of the legislation's requirements and implications among individuals and organizations. By promoting understanding and voluntary compliance, regulators aim to facilitate a smoother transition and foster a culture of adherence to the new rules. While penalties may still be applied at this stage, the emphasis is mainly on guidance.

In the UK, the HMRC and the BAMF's updated guidelines ensure not only best practice but also best comprehension from AMPs, and they have hosted several free webinars explaining AMPs' AML duties and obligations. In 2022, the National

Crime Agency (NCA) founded an inaugural working group of representatives from prominent auction houses in the UK to promote and exchange best practices concerning suspicious activity reports (SARs).<sup>404</sup>

In 2020, France's Direction Générale des Douanes et Droits Indirects (DGDDI), the appointed regulator for the sector, and the French Financial Intelligence Unit (TRACFIN) published AML guidelines for AMP.<sup>405</sup> Unfortunately, our research did not uncover any additional guidance or initiatives, such as forums, webinars or FAQ, to help AMPs implement these guidelines or foster public-private partnerships in this regard.

While the public sector in Switzerland has not yet issued any regulatory guidelines, the Anti-Money Laundering Act of 10 October 1997 (revised in January 2023) requires AMPs to undertake measures to prevent money laundering for cash transactions above CHF100,000.<sup>406</sup> However, despite Switzerland's higher threshold compared to €/\$10,000 for all transaction types in the EU, UK and US, conscientious Swiss AMPs that promote best practice have emerged in recent years.

One notable example is Art Basel, the world's largest art fair, which introduced its *Art Market Principles and Best Practices* in 2017.<sup>407</sup> These guidelines require exhibitors to comply with applicable laws, including those regarding forgery, provenance, stolen artwork and, notably, money laundering. While these rules do not fully align with



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the Fifth AML Directive in Switzerland, Art Basel has demonstrated its commitment by incorporating AML considerations into its policies. Another significant example is the Responsible Art Market Initiative (RAM), founded in Geneva in 2015,<sup>408</sup> which aims to enhance transparency in the Swiss art market and provides additional practical guidance.

In the US, the Senate, on 29 July 2020,<sup>409</sup> and the Treasury Department, on 4 February 2022,<sup>410</sup> published reports that were wake-up calls to the art industry and policymakers alike. They present a comprehensive examination of the art market and its potential role in undermining sanctions and facilitating money laundering, highlighting loopholes in the current regulatory framework, and raising concerns about the limited AML requirements imposed on AMPs, such as dealers, auction houses, and galleries. In 2021, FinCEN expanded its AML and counter-terrorist financing (CTF) obligations to any “person engaged in the trade of antiquities, including an advisor, consultant, or any other person who engages as a business in the solicitation or the sale of antiquities.”<sup>411</sup>

While the US Treasury Department recommended both regulatory and nonregulatory action to improve private sector information-sharing programs, our findings indicate that it is advisable to include specific AMPs under the AML/CFT legal framework. This would require them to create and maintain AML/CFT programs and controls, while AMPs at large remain outside regulatory supervision.<sup>412</sup> Moreover, our research found no evidence of guidelines published by either the public or private sector. Considering the US’ leading role in the global art market and the awareness of these issues, we expect the absence of guidelines to be addressed in the near future. The lack of practical “how to” guidelines, despite the proliferation of new legal requirements, highlights an increasing scrutiny of the art market as a whole that will undoubtedly lead to increased regulation and supervision.

The art industry and relevant authorities must recognize the importance of providing clear AML guidance and support to AMPs and antiquities dealers to ensure the market’s integrity and combat financial crime effectively. Some countries are leading the way by already publishing guidance, which other jurisdictions could use as a benchmark.

## Punitive actions for non-compliance: A lack of hindsight

The second way regulators can enforce compliance with the new regulations is through sanctions and penalties; however, there is limited evidence of this happening. In February 2023, the French Cours des Comptes went as far as saying that the DGDDI’s inspections were still “sparse or almost non-existent.”<sup>413</sup>

In the UK, according to the HMRC’s register, 20 AMP businesses were issued penalty notices in 2022.<sup>414</sup> The breaches were related to failing to apply for registration within the required time limit, resulting in diverse fines.<sup>415</sup>

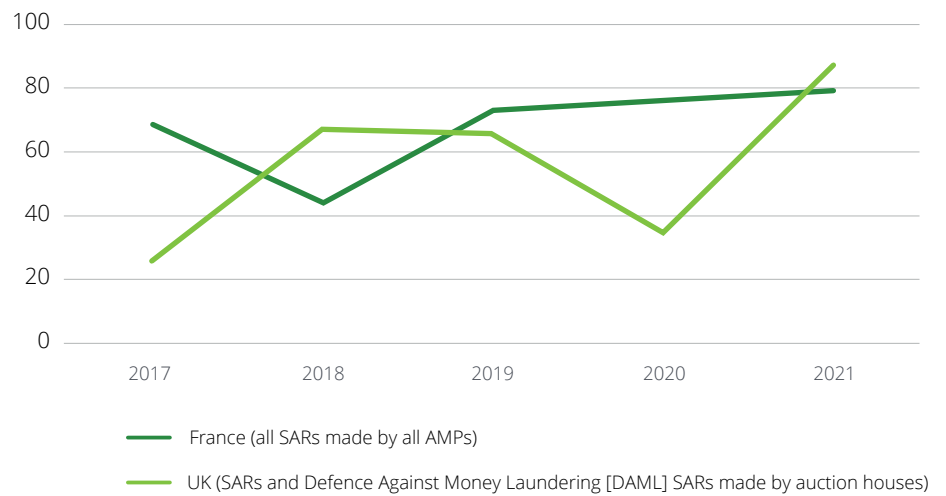
However, registration is just the tip of the iceberg regarding AMP obligations. The lack of information and feedback on the regulator’s potential audits, on-site inspections and other control measures hinders our understanding of how AMPs actively address fraud prevention and detection and whether their current measures are sufficient. We expect all regulators’, from the 4 assessed countries, next step to be an in-depth review of the controls implemented by registered AMPs.

## Focus on selected AMP obligations

### Unveiling suspicious transactions: AMPs' responsibilities

Further compliance with AML obligations and enhancing your client due diligence most likely would trigger new red flags will emerge, ultimately resulting in an increase of number of SARs made to financial intelligence units (FIUs). The more advanced and enhanced your client due diligence is, the greater the chance an AMP would identify red flags and allow a SARs to be filed on time and with sufficient details. We have examined SARs made by AMPs to track cases of money laundering and sanction evasion. However, only two countries provide sufficiently detailed information for our analysis.<sup>416</sup>

Figure 172: Number of SARs submitted in France and the UK (2017–2021)



The data (Figure 172) indicates a modest rise in SARs made by AMPs. However, and despite the relatively lower transaction volumes of UK auction houses and French AMPs compared to banks, the number of reported SARs is disproportionately low given these art markets' inherent money laundering risks and respective sizes (UK at US\$11.9 billion and France at US\$4.8 billion in 2022).<sup>417</sup> This observation aligns with the FATF's perspective that AMPs may be under-reporting suspicious transactions.

This begs the following unanswered questions:

- Were the SARs submitted by AMPs or financial sector professionals?
- If AMPs had submitted the SARs before financial sector professionals, would the cases have come to light earlier?
- How would increased SAR reporting by AMPs impact the detection of additional cases?

As AMPs are at the forefront of the fight against money laundering and sanctions evasion in the singular art market, their role as the first line of defense should be recognized and encouraged.

## The art market's unique challenge: provenance control

One of the art market's particular aspects is the significance placed on verifying and tracing the provenance of artworks. An ongoing dispute between Artcurial, a major French auction house, and Patrick Matthiesen, a British antiquarian, highlights a key issue that can arise when art dealers try to comply with their AML obligations by verifying the provenance of artwork.<sup>418</sup>

In November 2022, the antiquarian purchased the rediscovered painting *Narcisse* by Laurent de La Hyre for €930,000. The painting, missing since a sale in 1929, was once considered a work of Robert Lefèvre. The gallery traced the painting's origins to a potential collection by Horace Walpole; however, the painting's whereabouts in the past century are still unknown.

The crux of the issue lies in the gallery's inability to gain valid information about the painter's seller, as the auction house states that trade secret laws prevent them from sharing the identity of a seller unknown to the buyer. This lack of information has raised concerns that the antiquarian would not be able to comply with AML regulations when reselling the artwork in the UK and potentially the US.

According to the antiquarian, the auction house initially stated that the painting came from a family in Brussels but did not provide any specifics. Later, they shared that an English company supposedly purchased it. However, information about this company and its beneficiaries remains undisclosed, making it challenging to ensure the legitimacy of the painting's provenance when complying with European AML regulations of 2018.<sup>419</sup>



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The antiquarian also expressed concerns about the lack of information on the painting's whereabouts during the 1930s and 1940s, in particular.

This incident serves as a case study highlighting one of the many difficulties art dealers can face in tracing the provenance of artworks and how this ties into their obligations regarding AML controls. It also underscores the global art market's cross-border challenges arising from the different cultural norms and legal regulations.

## Conclusion

To prevent illicit finance from thriving in the art market and protect it from reputational and economic damage, the gap must be bridged between the varying risk perceptions of AMPs, regulators, and law enforcement.

To address the significant cost of AML compliance, particularly for smaller players who may struggle to absorb these expenses, we believe the most efficient solution involves public-private partnerships, the mutualization of tools, and leveraging lessons learned from the financial sector. For example, the art market would benefit from the lessons learned by private banks' AML efforts.

Our financial industry experience means we understand the challenges smaller players face in meeting stringent compliance requirements. We strongly believe that fostering collaboration and knowledge sharing between regulators, government agencies and the private sector will reduce AMPs' financial burdens while accelerating their compliance efforts. This approach can provide AMPs access to shared resources, such as screening tools and other compliance technologies, which can be utilized at a fraction of the cost.

By pooling expertise, leveraging lessons learned, and adopting proven methodologies, AMPs can streamline their compliance processes, enhance effectiveness, and ensure regulatory

adherence without incurring exorbitant expenses. This collaborative approach could create a more sustainable and cost-efficient compliance framework for the art market, benefiting industry participants and the sector's overall integrity. The key success factor will be how to combine these approaches with the necessary confidentiality and business protection.

While compliance may seem an unattractive process in a world of beautiful things, it is nonetheless essential.

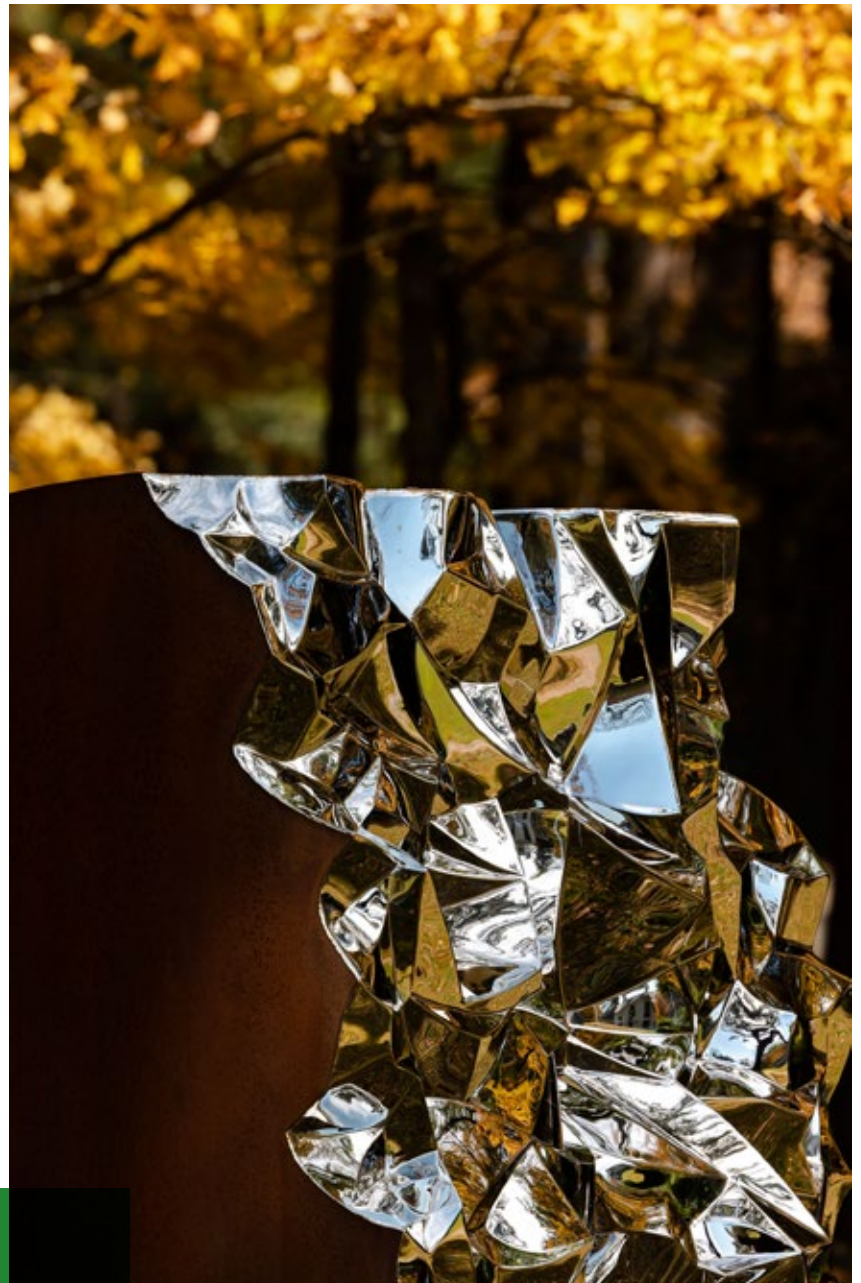
	AMP type	National risk assessment: risk associated with money laundering and terrorist financing (ML/TF)	Threshold to implement measures to prevent money laundering	Is data on SARs made by AMPs available?	Are AMPs supervised by a regulator?
France	Art and antiquity dealers	High for ML <sup>420</sup> Medium for TF	EUR10,000	Yes	Yes
	Auction houses	Medium for ML Low for TF			
Switzerland	Art and antiquity dealers	Medium <sup>421</sup>	CHF100,000 for cash transactions	No	No
	Auction houses				
United Kingdom	Art and antiquity dealers	High for ML <sup>422</sup> Low for TF	GBP10,000	No	Yes
	Auction houses			Yes <sup>423</sup>	
United State	Art and antiquity dealers	Available but without rating <sup>424 425 426</sup>	N/A, however USD10,000 threshold applies for currency transaction reports (CTR)	No	Only antiquitarians
	Auction houses				

## The Markets in Crypto-Assets regulation in art markets

The Markets in Crypto-Assets (MiCA) regulation provides a regulatory framework for digital assets that use decentralized ledger technology (DLT). “The regulation covers crypto-assets that are not currently regulated by existing financial services legislation. Key provisions for those issuing and trading crypto-assets (including asset-reference tokens and e-money tokens) cover transparency, disclosure, authorization and supervision of transactions. The new legal framework will support market integrity and financial stability by regulating public offers of crypto-assets and by ensuring consumers are better informed about their associated risks.”<sup>427</sup> MiCA excludes NFTs.

With MiCA, fungible fractional ownership of artworks through crypto assets or security tokens are now regulated. Existing product and service providers must take notice and action to be compliant. The worlds of art and finance are getting closer, and regulation may bolster increased interaction between those two worlds.

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INDUSTRY  
INSIGHTS\_Markets in Crypto-Assets  
Regulation (MiCA) and the  
art market as well

In the world of high-net-worth individuals and art connoisseurs, the intersection of wealth and passion for art often leads to the acquisition of valuable work pieces and collectibles. These tangible assets not only hold immense cultural and aesthetic value, but also serve as an increasingly popular investment avenue. As a result, the demand for specialized wealth management services tailored to the unique dynamics of the art and collectibles market has surged.

Wealth management services around art and collectibles cover four pillars: **wealth protection** (collection management, valuation, insurance, wealth reporting), **monetization** (art secured lending), **wealth transfer** (estate planning, philanthropy), and **investment** (portfolio diversification, social impact investment).

**MiCA in art markets**

- EU's MiCA framework will create a target of convergence for digital assets/token regulations;
- Art market could be attracted in MiCA and benefits from rules of the game that are known and robust;
- MiCA could then be a challenge for many not yet regulated entities;
- MiCA and digitalization of art markets should offer a boon of liquidity for stakeholders
- The choice of digitalization route will have a profound bearing on the individual regulatory route pursued.

**Tokenization of the art market**

The Blockchain technology has revolutionized our view on transactions, and the art world is no exception. The rise of digital art brought a wave of change, primarily driven by the introduction of a revolutionary concept in the art market: tokenization. By taking a physical art piece and breaking it down into numerous digital tokens, each representing a fraction

of the original work, illiquid assets can be converted into liquid digital tokens, making them available to a wider range of individuals.

In fact, tokenization, powered by Blockchain technology, has brought multiple advantages to businesses providing wealth management services around art and collectibles, such as:

- **Enhanced liquidity:** Tokenization allows art assets to be divided into tradable tokens, making it easier for investors to buy and sell fractions of artworks on blockchain-based marketplaces. This increased liquidity can attract more investors and facilitate quicker transactions. Additionally, it can help museums, galleries and others to access new markets by sharing the artwork's cost. For example, a museum buys a painting from a famous artist. To recover part of the cost, they share the painting (or its digital representation) with thousands of owners through digitalized tokens. Users of these tokens may receive certain rights in return, such as a certified copy, tickets for annual visits, or even nothing, depending on market demand;





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- **Fractional ownership:** Through the tokenization of art assets, investors can own a portion of a valuable artwork, reducing the barrier to entry for individuals with limited capital. This broadens the investor base and potentially increases demand for high-value art pieces.
- **Diversification:** Investors can diversify their investment portfolios by including art-backed tokens. This can help spread risk and reduce exposure to traditional financial markets, enhancing portfolio stability.
- **Global access:** Tokenization enables access to a global pool of investors. Art finance businesses can tap into a broader market of art enthusiasts and investors from around the world, potentially attracting more capital and interest in their offerings.
- **Proper ownership representation, transparency and trust:** Blockchain technology, often used for tokenization, provides a transparent and immutable ledger of ownership and provenance. This transparency can increase confidence in investors regarding the authenticity and history of the artworks, reducing concerns about forgery.

The rise of digital art brought a wave of change, primarily driven by the introduction of a revolutionary concept in the art market: tokenization.

- **Lower transaction costs and faster settlement:** Tokenization can streamline the buying and selling process, reducing the need for intermediaries and potentially lowering transaction fees. This can make art finance more cost-effective for both businesses and investors.
- **Royalties:** By tokenizing their art pieces, artists and other stakeholders may ensure that they receive royalties in case pieces are sold or traded in the secondary market through establishing smart contracts.
- **Market data:** Tokenization can provide real-time data on the performance of art-backed tokens, helping businesses and investors make informed decisions about buying, selling, or holding their investments.
- **Democratization:** Tokenization allows for a wider range of individuals to invest in art assets, making art finance more inclusive and not reserved for wealthy individuals. In the future, there may be two categories of buyers—the ones who can disburse millions of EUR or USD to buy a physical or Non-fungible token (NFT) artwork, i.e. digital assets representing real (digital) objects of art and those that can buy an artwork by sharing the costs through digitalizing the property, thereby creating a market for it.

### Tokenization of the art market and MiCA

#### Background and context

Technology is constantly evolving, forcing regulators to catch up with stakeholders particularly when digital technologies introduce additional complexity through their unique features and cross-border nature.

The first European large-scale regulatory plan, the European Commission's digital finance package, was initiated in 2020—in this context, the European Commission embarked on its digital journey by implementing three key regulations:

01. The DLT Pilot Regime for digital securities (financial instruments);
02. The Digital Operational Resilience Act (DORA)<sup>428</sup> to address cyber resilience and ensure the robustness of the digital environment; and
03. The Markets in Crypto-Assets (MiCA)<sup>429</sup> Regulation, which will create a framework around digital assets other than financial securities, recognizing the multifaceted aspect of this universe.

After several delays and revisions, **the official version of MiCA was finally released on 9 June 2023 and will apply from the beginning of 2025.**

**The aim of MiCA is to create a harmonised regulatory framework for crypto assets and related services within the EU to enhance consumer protection, market integrity, and legal clarity in a rapidly evolving digital environment.**

This required the creation of a model where the digital assets or tokens, the underlying assets (such as art or property) and the operators (intermediaries, platforms, issuers and the entire ecosystem) are subject to common pan-EU rules and a large, integrated market.

### Are digital art tokens in the scope of MiCA?

The biggest operational challenge is to understand which digital assets are covered by MiCA.

MiCA applies to crypto assets, which are defined very broadly as “a digital representation of a value or of a right that is able to be transferred and stored electronically, using distributed ledger technology or similar technology.” This definition aims to capture not only cryptocurrencies, such as Bitcoin and Ethereum, but also stablecoins used mainly for payments on the blockchain and utility tokens.

There are three categories of crypto assets defined by MiCA:

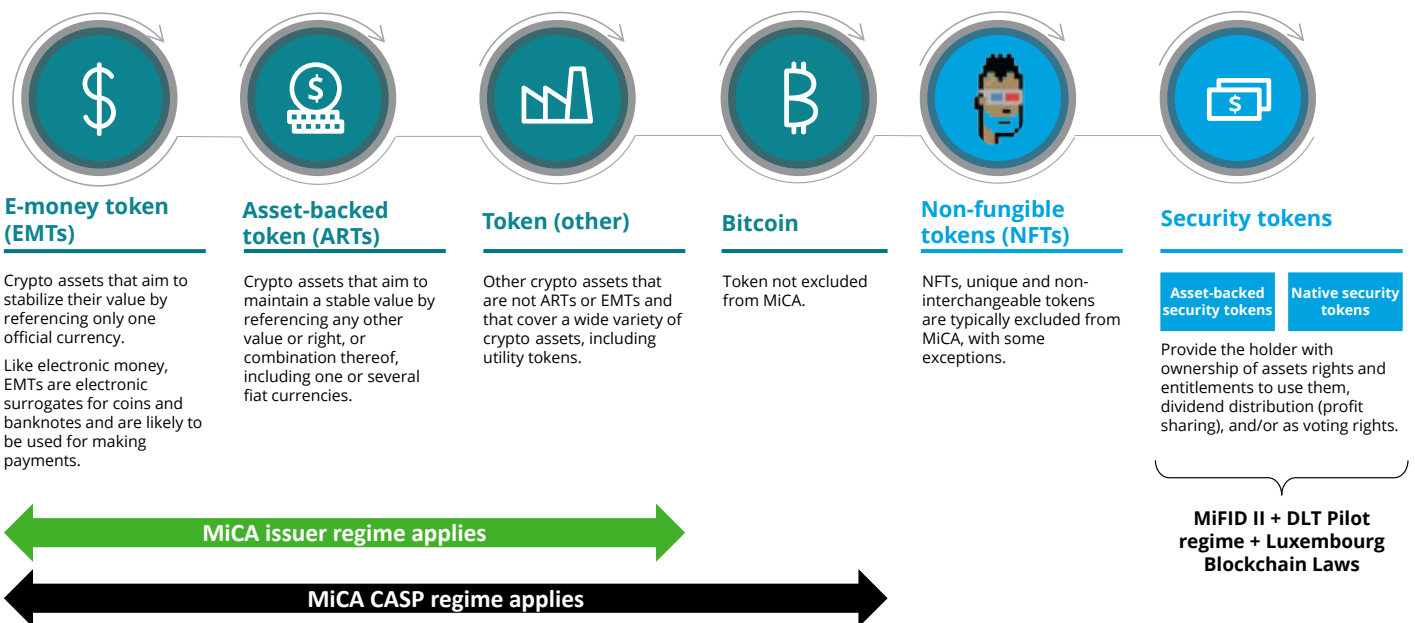
- **Asset-referenced tokens (ARTs)** defined as a type of crypto-asset that is not an electronic money token and that purports to maintain a stable value by referencing to any other value or right or a combination thereof, including one or more official currencies;
- **Electronic money tokens (EMTs)** defined as a type of crypto-asset that purports to maintain a stable value by referencing the value of one official currency;
- **Crypto-assets other than ARTs and EMTs**, which can be utility tokens, for example. MiCA does not apply to security tokens which would qualify as transferable securities, nor does it cover other

crypto assets that would qualify as financial instruments under existing financial regulations, such as MiFID II. The European Securities and Markets Authority (ESMA) is mandated to further clarify by December 2024 the conditions for which crypto assets are considered financial instruments (i.e., are in the scope of existing financial service regulations). If a token would be classified as a security token and falls under MiFID II, the regulatory requirements differ and are also more restrictive, as these are designed for the financial services industry. The following figure illustrates the different types of tokens and applicable regulations.

Technology is constantly evolving, forcing regulators to catch up with stakeholders particularly when digital technologies introduce additional complexity through their unique features and cross-border nature.

**Figure 173: Crypto assets classification under MiCA**

Source: Deloitte Luxembourg



Non-fungible tokens (NFTs), which refer to digital assets representing real objects like art, music and videos, will be excluded from the scope except if they fall under existing crypto asset categories. For example, **fractional NFTs (F-NFTs) can be considered within the scope of MiCA if they are fungible, aligning with the ART category.** Fungible F-NFTs are interchangeable, meaning each tokenized asset unit holds the same market value and validity.

To illustrate fungibility, imagine a painting divided into small 1cm<sup>2</sup> boxes, starting from the top left-hand corner. If a buyer and the token issuer both agree that squares one, two and three must be purchased, and they can't be substituted with squares four, five and six, then these

squares are considered non-fungible and aren't subject to MiCA rules. However, if there is no preference and the squares are substitutional, they are deemed fungible, and the tokenized F-NFT comes under MiCA's scope. Issuing crypto assets as NFTs in a large series is also indicative of fungibility and thus subject to MiCA.

The stakeholders will also be under MiCA's scope if, for example the means of payment requires/accepts a cryptocurrency that falls under MiCA. Therefore, even if the F-NFT or NFT is non-fungible, paying with another cryptocurrency which falls under the scope of MiCA, for example ether (ETH), will bring the transaction under MiCA. Given this, it might be advisable to follow MiCA's standards as best practice, even if they are not obligatory.



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## Requirements for issuers

Specifically regarding ARTs, issuers must fulfill certain criteria, including:

- Being a **legal person established in the EU**—this means that the issuer must have its headquarters and a registered office in an EU Member State;
- Being **authorized by a national competent authority** of an EU Member State;
- Drafting a **white paper** with fair, clear and not misleading information about, among others, costs, charges, fees, business plans, to allow third parties to understand the digital asset and its features. While this concept is already common in the market, MiCA has formalized its content, and its legal value may differ slightly from a traditional issuance prospectus. Additionally, changes that are likely to have a significant influence on the purchase decision of any holders or prospective holders of ARTs, which occur after the approval of the white paper, must be **notified** to the competent authority;
- Ensuring **transparency** by publishing regular reports on the ART, covering information on the reserve assets, number of tokens in circulation and fees;
- Having **robust governance arrangements**.

Crypto-asset service providers (CASP) are subject to an authorization regime involving prudential and organizational requirements. Consequently, they will be supervised by the relevant national competent authority.

With the introduction of MiCA's requirements, users, whether intermediaries or investors, will have access to ongoing information related to the EU-regulated tokens. Issuers of ART tokens must act honestly, fairly and professionally in best interest of asset-referenced token holders. Investors have the right to file complaints. These **enhanced investor protection benefits** will contribute to bringing legal clarity and trust within the market of crypto-asset issuers and NFTs.

## Global landscape for crypto-assets regulation outside the EU

On a global scale, countries are implementing various approaches to address the rise of crypto-assets, with at least 19 sovereign jurisdictions having taken action in this regard.

In the US, discussions are ongoing around whether to consider cryptocurrencies as securities like bonds and shares, thus placing them within the scope of existing regulations. In this context, the Securities and Exchange Commission (SEC) has emerged as the key regulator, introducing a framework for "investment contract" analysis of digital assets in 2019 to help classify which digital assets are considered securities.

Nevertheless, regulatory and supervisory ambiguities prevail in the US, as the lack of a federal-level crypto-asset regime has allowed substantial divergence among states, creating a highly fragmented market. For instance, while there is common agreement among regulators that Bitcoin should not be considered a security,



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no consensus has been reached regarding ether, the second most used token. Ether was first regulated as a security, but later considered as a commodity due to its decentralized nature. Recently, SEC chair Gary Gensler brought back the possibility of revisiting its classification under SEC regulations, given the possibility to earn interest on these tokens.

In the UK, the Bank of England is working on setting up the Future of Finance project to keep track of the surfacing and evolution of new financial services technologies.

In June 2023, the Financial Services and Markets Act (FSMA) was enacted to amend the previous version from 2000. It will give greater responsibilities to regulators and also introduces new chapters on crypto-assets.

The token and digital asset space in Asia is marked by substantial activity. While China has banned cryptocurrencies, Japan adopted a new regulatory framework on crypto assets that has been in force since June 2023. Similarly to the UK, the Japanese framework relies on existing legislation to ensure investor rights by holding

intermediaries of stablecoins responsible for promising redemption at par and complying with anti-money-laundering (AML) and user data protection laws.

In the Middle East, digital assets also appear to be at the forefront of regulatory developments. For example, Dubai has launched its own Virtual Asset Authority (VARA) which has issued its Virtual Assets and Related Activities Regulations in 2023, setting out a comprehensive virtual assets framework built on principles of economic sustainability and cross-border financial security.

## Conclusion

While regulations introduce compliance requirements, they can also lead to a market's development. Art owners and creators may find it easier to access capital by tokenizing their assets and offering fractional ownership to a broader investment base. MiCA can facilitate this process, potentially benefiting both artists and collectors. With regulatory oversight, the art and finance market can expand its offerings and appeal to a wider audience, including institutional investors who may have been cautious about entering an unregulated market.

The regulation can promote standardization in the tokenization process, making it easier for different platforms and marketplaces to operate cohesively and efficiently. In fact, large auction houses could consider MiCA as a way to open art markets to new investors, owners and sellers. By adapting their business models to becoming F-NFT operators, they could release added value by broadening the pool of potential owners and rendering their artworks or their representation more liquid.

MiCA entered into force on 29 June 2023 and it will apply on 30 June 2024 relating to the authorization and supervision of ART/EMT. For the remaining provisions in the text, including those concerning CASPs, will apply 18 months after entry into force.

MiCA is a EU Regulation, meaning it will directly apply in each Member State without the need for national transposition. Existing players that would fall in scope of MiCA are encouraged to ensure readiness. For others who have not yet been able to bridge their artwork with investors or collectors due to the absence of a trusted tool, we expect MiCA to be a gamechanger, serving as a facilitative instrument for positive development of the art market.

Whatever lies ahead, MiCA is set to grab the market's attention in the coming years, from licensing to distribution—a market of half a billion consumers awaits those willing to take the plunge.

Part 3\_

# Risk management, legal and regulatory developments \_

In this part, we have purposely included two articles covering specific topics related to recent risk management, legal and regulatory developments that complement points covered in previous sections of the report.

**Ashley Gallant** from BADA and **Fred Clark** from law firm Boodle Hatfield LLP discuss one specific threat highlighted in our survey: lack of transparency. They detail the very innovative step they have taken to tackle it and improve the accountability of art market participants.

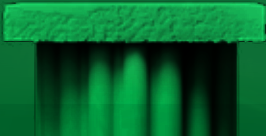
In her article, **Christine Bourron** discusses the financial risk faced by sellers at public auction sales and suggests some mitigating actions.

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INDUSTRY  
INSIGHTS\_

# The time to act is now: How to increase accountability in the art market: Redefining dispute resolution to grow customer confidence



## Ashley Gallant

Managing Director of the British Antique Dealers' Association (BADA)



## Fred Clark

Senior Associate at law firm Boodle Hatfield LLP

### Background

#### To paraphrase Chaucer: one rotten apple can spoil the barrel.

While Timothy Sammons and Inigo Philbrick will go down in the art market annals for their Madoff-esque scandals, most art dealers do not operate in this way. But can these individuals' behavior be isolated from the system in which they operate?

Frequently labeled "opaque" or "unregulated," art dealing remains plagued by the claim that a systemic lack of transparency lies at the heart of these issues. The Deloitte Art & Finance 2021 Report revealed that over 80% of wealth managers and other ancillary art professionals regard lack of transparency as the most damaging issue to the art market's reputation.<sup>430</sup> For collectors, however, transparency came **fourth**, behind anti-competitive behavior, authenticity/lack of provenance, and undisclosed conflicts of interest.

This disparity in views between various market stakeholders calls into question whether there really is a lack of transparency. Or has it become de rigueur to bandy around this term as a catch-all for issues not so easily distilled into questions of transparency, such as authenticity or provenance issues?

To us, transparency refers to accountability or answerability during a business transaction. Therefore, the speculation that the art market lacks transparency discredits the many existing mechanisms

that regulate the market and its participants' conduct. Accountability already exists in legislation to some extent, such as consumer rights laws and anti-money laundering resolutions that safeguard both the collector and dealer.

However, it would be reckless to conclude there is no need for improvement in accountability.

Boodle Hatfield has found its clients are increasingly worried about falling foul while navigating the art market, including:


- Being effectively conned into overpaying for artwork or for selling for too low a price;
- Paying for artwork that does not exist or is not owned by the seller; and
- Acquiring art that is counterfeit or has unresolvable provenance meaning it cannot be sold in the future.

When these issues occur, they can be difficult to unravel.

To this end, how can accountability in art dealing be increased? While there are many facets to this debate and other ways that the market continues to regulate itself or is regulated by others, such as legislators, we believe one angle that should be explored further is the role of trade associations.

### Increasing transparency

Founded in 1918, the British Antique Dealers' Association's (BADA) principal tenet has been to protect the profession and its patrons from unscrupulous



operators. By 1922, the association's "objects" included implementing arbitration procedures for disputes "between members or members and client." The clauses were sympathetic toward the collector, stating that any complaint lodged will "be fully investigated and if the member was found to be in the wrong, would be struck off the roll." This structure has remained central to BADA.

BADA has been an example of best practice since its foundation because its members are required to adhere to its bylaws, including the "Principles of Conduct of the UK Art Market." However, as the art market modernizes, so too should its trade bodies. Combined with the ever-increasing demand for transparency, this motivated BADA to partner with leading art law specialist Boodle Hatfield to develop a more robust and dynamic Dispute Resolution Service (DRS). The first of its kind to be offered by a trade association, it not only upholds professional codes of practice set by BADA but offers an optional framework for increased accountability through impartial mediation.

Central to this approach is BADA's membership agreeing to work with the association to pursue a fair outcome using a transparent process. Rather than just representing its members, this requires BADA to actively encourage parties to take positive steps toward resolving disputes as they arise instead of leaping toward litigation. Members are encouraged to follow a simple three-step process to try to resolve a dispute before pursuing other avenues, such as litigation.

**1. BADA's initial assessment:** As the majority of disputes are more of a misunderstanding of how art market transactions work, it is helpful to have a third party assist in either clarifying technicalities or finding an acceptable outcome for both parties. In the first instance, BADA offers a conciliation service whereby the association can intervene, assess and, if acceptable, facilitate a resolution. The process is voluntary (non-binding) and free of charge.

**2. Expert opinion arbitration:** In the event of an authenticity, provenance or condition dispute, BADA offers an arbitration service. This involves a panel of at least three experts in the appropriate field who will independently judge whether the object was correctly described at the time of sale. Not only does this service provide a rapid judgment to enable a swift resolution, but it is, again, free of charge.

In the event an acceptable outcome cannot be achieved through conciliation or arbitration, BADA now offers a third option before litigation with the assistance of Boodle Hatfield: an independent law firm mediation.

**3. Boodle Hatfield opinion:** If both parties agree and subject to both parties paying a fee and signing an agreement to govern the process, and assuming there are no conflicts identified, Boodle Hatfield can be appointed to review the information and provide a written

opinion to BADA that can be shared with the relevant parties. This would not constitute legal advice but would include recommendations on resolving the dispute. While the parties will not be obliged to follow the recommendations, the hope is that an independent opinion may encourage a settlement.

The intention is to provide an avenue to resolve the dispute, which can help both parties avoid engaging in legal correspondence that may be inappropriate and fruitless. This is only appropriate for disputes with a quantum between £15,000 and £75,000. An authenticity dispute may not be appropriate unless written expert evidence has been provided.

Should litigation be necessary, BADA will pass on a list of recommended law firms for art disputes to members and other parties as appropriate. It is BADA's steadfast view that law firms with art law expertise are best placed to act on art sector disputes as they understand the intricacies of the market.

### Final comments

This process intends to assist BADA members by providing a transparent approach to try and resolve disputes. BADA is well placed to intervene impartially and assist parties in a potential dispute and wants to use its unique position to increase market confidence for both its members and other art market participants.

INDUSTRY  
INSIGHTS\_Managing financial risk  
at public auctions from  
a seller's perspective

**Christine Bourron**  
CEO Pi-eX Ltd

Collecting art can be a risky endeavor, with numerous pitfalls for art collectors to navigate. One significant risk sellers face at public auctions is financial risk, which this article aims to define and quantify. Additionally, it provides a list of options for collectors to manage and minimize their financial risk during the sale process.

#### Defining financial risk at public auctions

For sellers, financial risk at a public auction refers to the potential negative outcomes and uncertainties regarding achieving their desired financial goals—primarily the possibility of not obtaining liquidity from the artwork's sale. The main sources of financial risk for a seller in a public auction include:

- **Unsold or "bought-in" lots:** If the seller's lot fails to attract bids that meet or exceed the reserve price (RP), the lot remains unsold or "bought-in" (BI). This means the seller retains ownership of the artwork without generating any immediate liquidity. A BI lot is often called a "burnt lot," reflecting the negative impact on its value after it fails to sell at public auction.
- **Withdrawal of lots:** To avoid a burnt lot scenario, sellers may withdraw their artwork from the auction before the bidding process begins if they anticipate a lack of interest or potentially unfavorable outcome.

Therefore, the financial risk for a seller who consigns a lot at a public auction is determined by the potential lack of liquidity, either through a BI or by withdrawing the lot to avoid a burnt lot.

#### Quantifying financial risk at public auctions

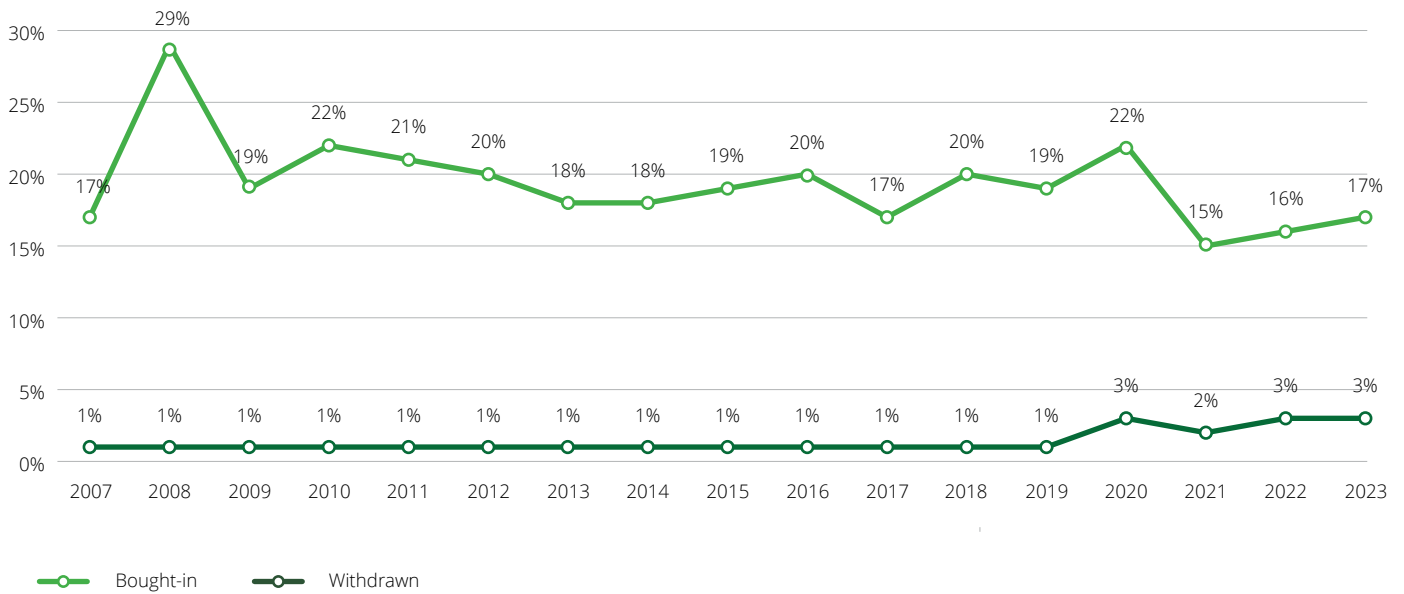
Pi-eX's analysis of public auction sales from 2007 to 2023 at Christie's, Sotheby's and Phillips reveals that, on average, 22% of cataloged lots ended up unsold. The risk of a BI at public auctions fluctuated during this period, reaching almost 30% during the 2008–2009 financial crisis. At the onset of the COVID-19 pandemic, the BI rate rose to 22%, but reached its lowest point in 2022 at 15% before slightly increasing at the beginning of 2023.

Although the current risk of not selling an artwork (17%) remains below the historical average, the number of lots withdrawn before public auctions has risen significantly, from 1% to 3% in the past 2 years (Figure 174). While withdrawing lots prevents them from being classified as "burnt lots," it also restricts sellers from obtaining liquidity, contributing to the financial risk.

Therefore, to better gauge the true financial risk, it is necessary to consider the cumulative rate of BI lots and withdrawn lots, which Pi-eX refers to as the BIW rate.

**Figure 174: Percentage of lots bought-in and withdrawn:**  
**Cataloged lot worldwide at Sotheby's, Christie's, and Phillips: 2007 - 2023**  
**Percentage of lots bought-in and withdrawn (as of end of May 2023)**

Source: Pi-eX Ltd proprietary database of auction results



The level of financial risk varies depending on the artwork's style. The "old masters" category consistently exhibits a higher BIW rate than other categories, averaging 32% from 2007 to 2023. On the other hand, contemporary art has one of the lowest BIW rates, at 21% over the same period. The auction's location also affects the financial risk. While New York, London and

Paris tend to exhibit high average BIW rates (23%, 26% and 21%, respectively), Hong Kong's lower risk stands out—with an average of 10% from 2007 to 2023, although its BIW rate rose to 16% in 2008 and 19% in 2016. However, with Hong Kong auctions increasing in frequency, the BIW rate may approach levels observed in other locations.

Different auction formats also present varying levels of risk. Evening sales carry the lowest risk, with an average BIW rate of 19% from 2007 to 2023. These have seen a consistent decline in financial risk since 2016 due to the wide adoption of third-party guarantees.

Day sales used to have a similar risk level to evening sales, but this changed significantly after 2016 when evening sales' risk decreased while day sales' risk slightly increased. This is because day sales did not benefit from the same level of coverage by third-party guarantees.

Finally, online sales show the highest financial risk among the three formats, with a BIW rate of 23%. The embrace of online sales during and after the COVID-19 pandemic has seemingly shifted some of the financial risk of day sales to the online format.

When consigning artwork at public auctions, sellers must make several decisions that can impact the auction's outcome and financial risk. Factors such as the auction format, location, and category can influence the level of risk a seller faces.

While certain risks cannot be avoided, sellers can take steps to mitigate potential risks and optimize their chances of a successful auction.

**Proactive strategies to manage financial risk**

**1. Tracking the public auction market:**

Sellers should monitor the fluctuations of the public auction market in parallel with the financial markets and the global economy. By understanding market trends and timings, sellers can gauge the risk of not selling their artwork. The BI rate is inversely correlated with the Pi-eX Auction Market Index (AMI)<sup>431</sup>, indicating the risk of unsold artwork increases when the AMI decreases (Figure 175).

**2. Understanding historical performance:**

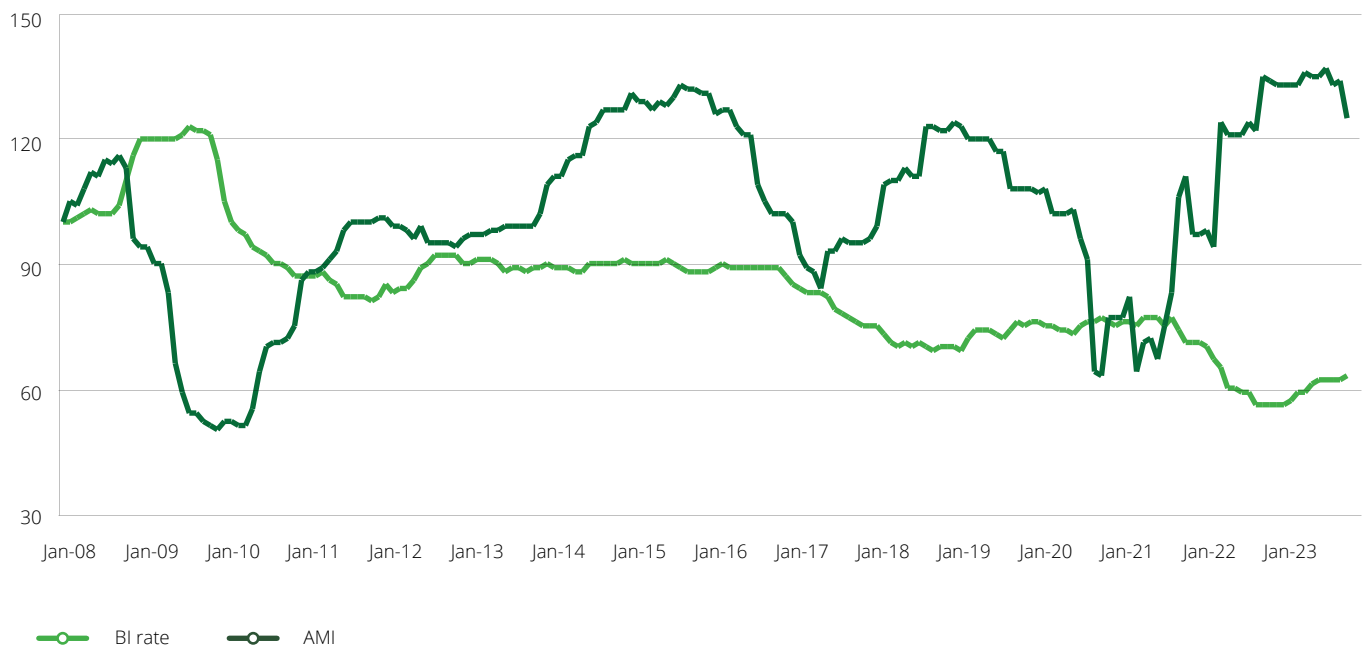
Public auctions encompass various sub-markets, each with its own trends. Different item categories (such as luxury items, wine, fine art and decorative art) or even art segments exhibit varying growth rates and risks. Sellers must track and comprehend the relevant segments' performance to assess their financial risk.

**3. Choosing the right auction category:**

Sellers should select the auction category that best suits their artworks. Single-owner private collection auctions, curated sales, repeating calendar sales, and one-off online sales offer different advantages and attract distinct buyers. Analyzing the past performances of specific auction categories can help sellers make optimal choices.

**Figure 175: Indexed bought-in rate (BI) versus Pi-eX Auction Market Index (AMI) 12-month rolling indexes comparison at Sotheby's, Christie's, and Phillips: 2007 - 2023 Indexed public auction revenue (AMI) versus indexed bought-in rate (BI)**

Source: Pi-eX Ltd proprietary database of auction results



**4. Selecting the right timing and format:**

The auction's timing and format are also important. Live evening sales typically feature high-end lots with the lowest BIW rates. Live day auctions cater to middle to lower-end lots, while online-only sales have higher volumes and a higher risk of unsold lots. Monitoring each auction format's performance helps sellers assess the financial risk involved.

**5. Optimizing the auction's location:**

Each segment of the art market thrives in different locations, influenced by collectors' preferences and regional economic conditions. Sellers should identify their artwork's optimized location, leveraging location insights from the Pi-eX AMI. By recognizing regional discrepancies and

opportunities, sellers can reduce their financial risk (Figure 176).

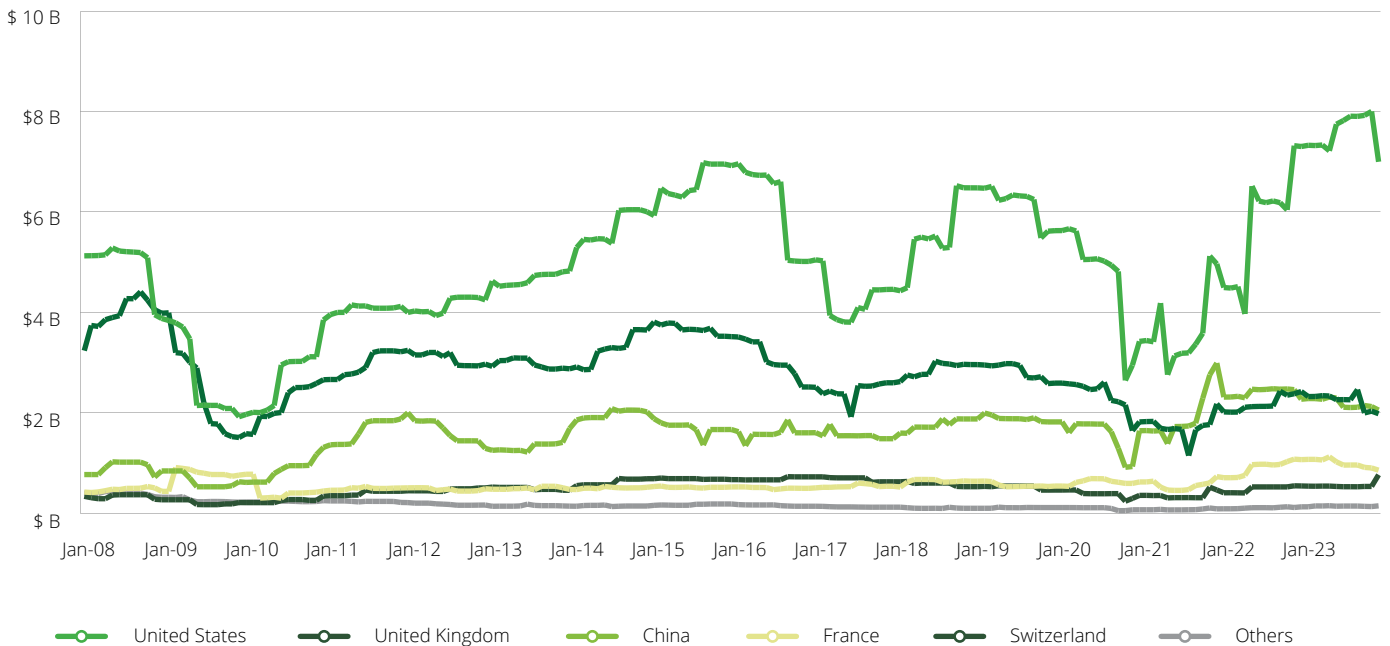
**6. Negotiating with the auction house:**

Sellers can actively mitigate financial risk by negotiating parameters with the auction house. Discussing estimates, reserve prices, and resorting to auction house guarantees can significantly impact the sale's outcome. Seeking advice from independent third parties can complement the auction house's insights.

By employing these proactive strategies, sellers can better navigate the public auction market, reduce their financial risk and maximize their chances of a successful sale.

**Figure 176: Pi-eX AMI by location 12 month rolling revenue at Sotheby's, Christie's, and Phillips: 2007 - 2023**  
**Revenue (in US\$) from auctions by location at Christie's, Sotheby's & Phillips**

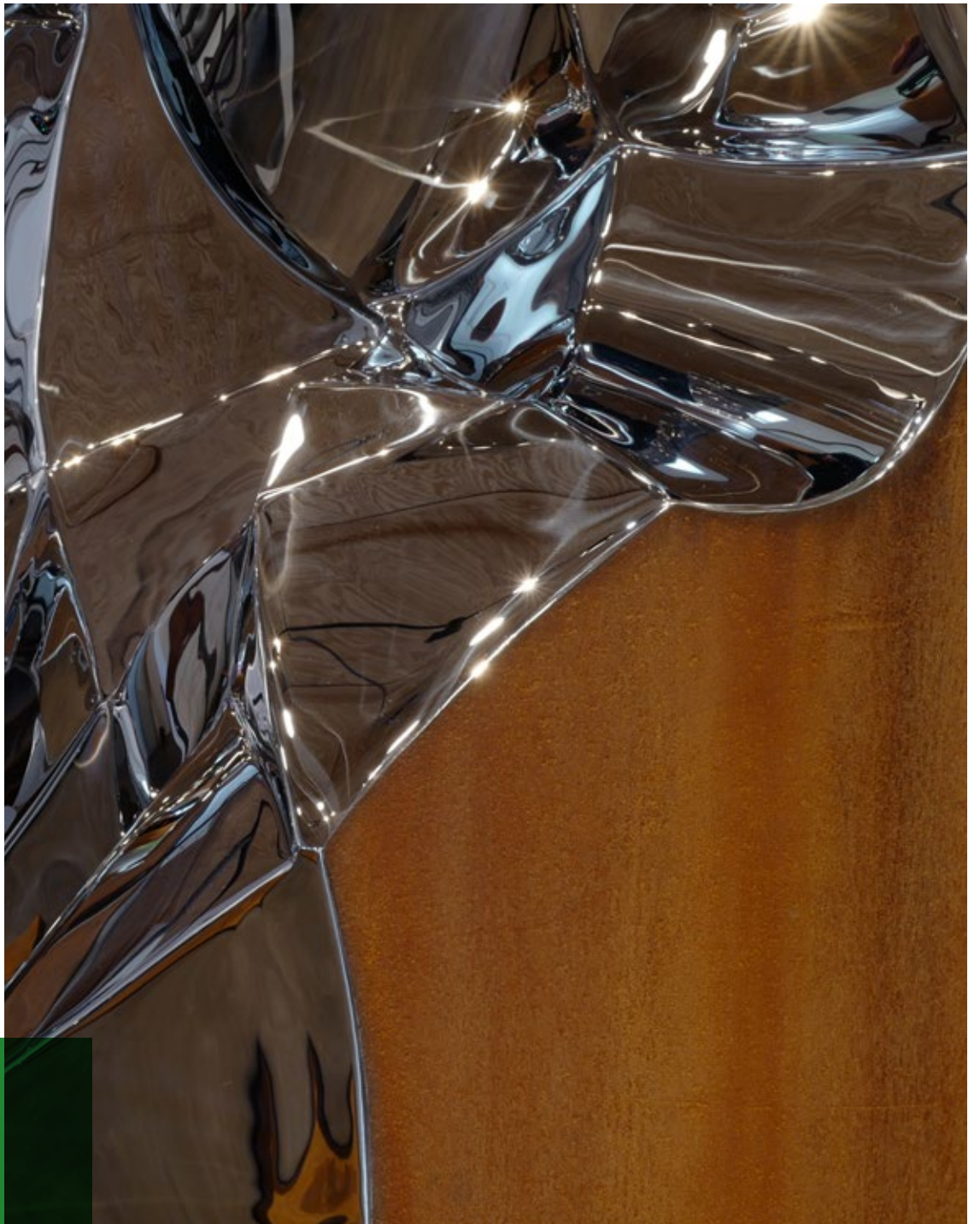
Source: Pi-eX Ltd proprietary database of auction results



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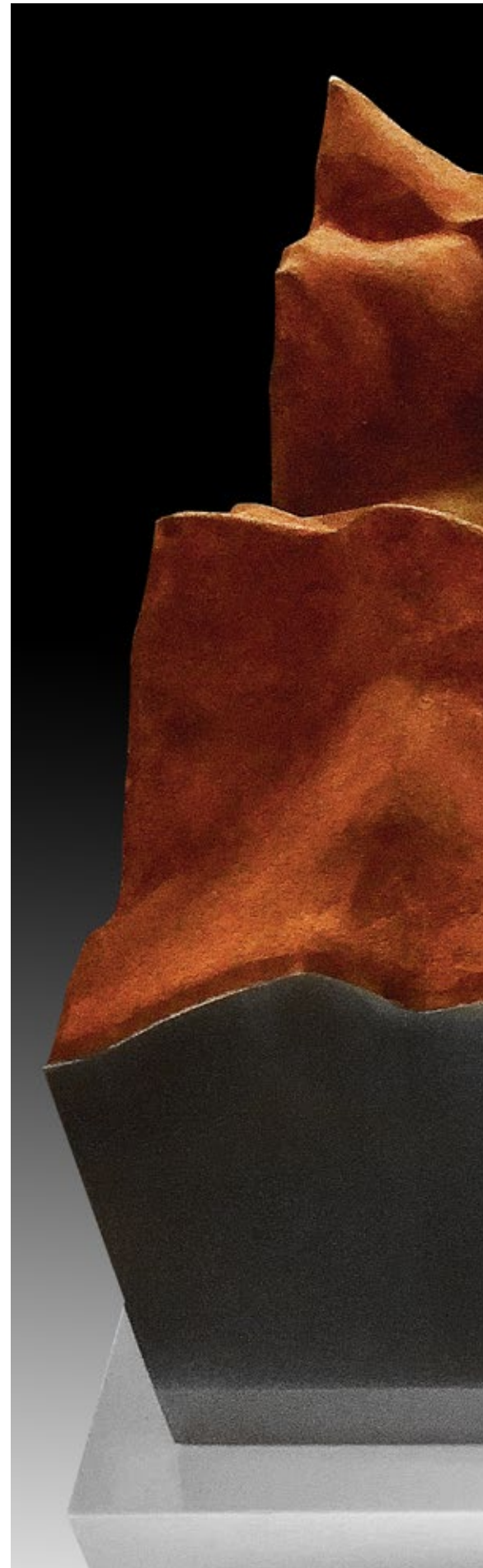
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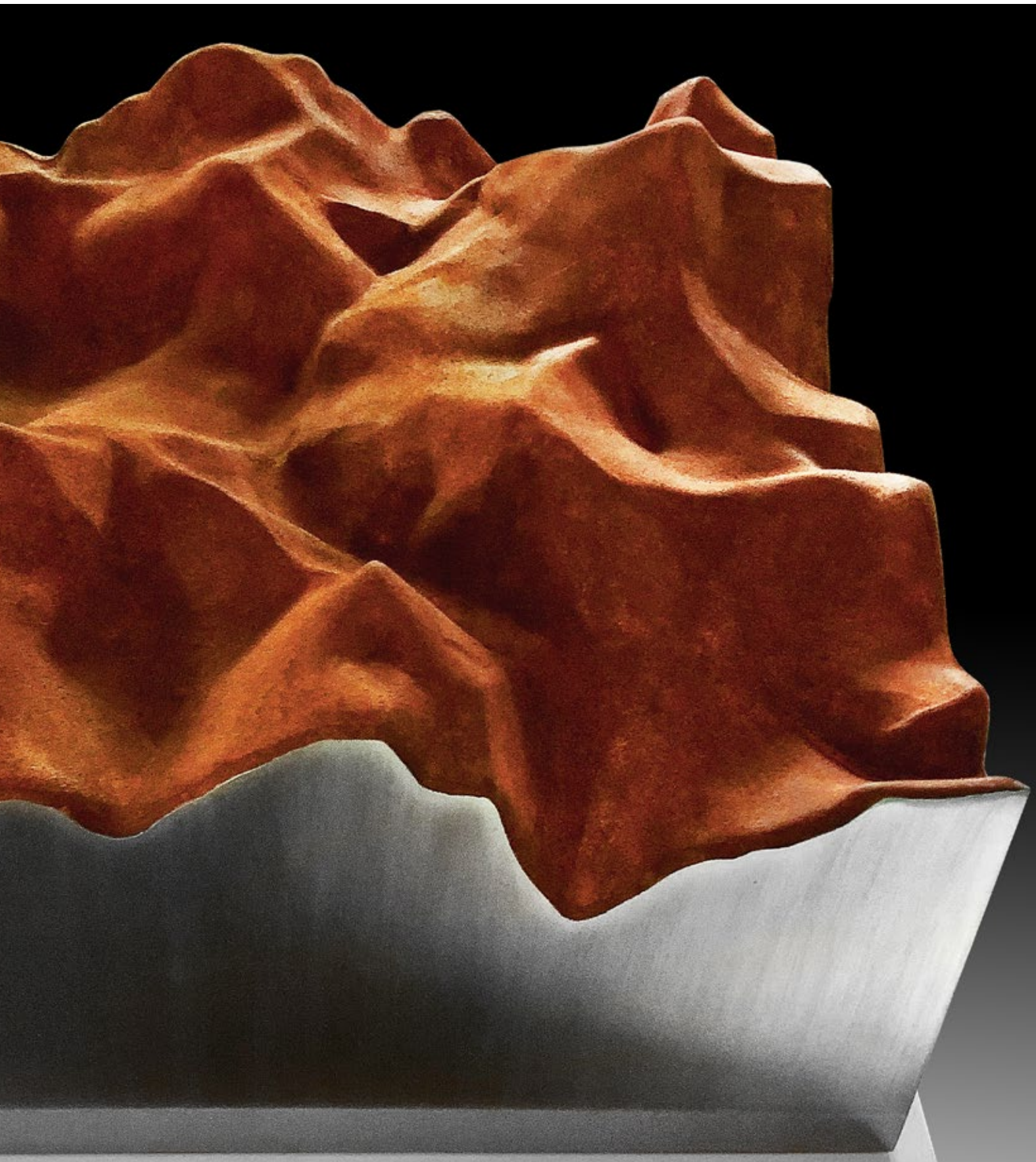
## Conclusion

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AXIS MUNDI IN GALLERY  
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# Conclusion\_



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Since the first Art & Finance Report, issued in December 2011, we have gradually developed our understanding of the role that art and collectibles can play in the wealth management sector. After 12 years and 8 reports, we can conclude that:

**01. Fine art and collectibles are unique assets with specific attributes that elicit and cover a range of motivations.** This special asset class offers great opportunities for wealth managers to connect with their clients and create a unique relationship based on emotion and purpose, but also on financial considerations.

**02. Fine art and collectibles assets are normally poorly addressed, despite representing a sizeable portion of HNWI's, and in particular HNWI collectors' wealth.** However, in a holistic wealth management service offering, there is a fiduciary responsibility to address this through services that cover wealth protection, monetization, wealth transfer and also investment.

**03. It is challenging to incorporate fine art and collectible assets in a wealth management service offering.** This is because the benefit of these services often indirect and hard to measure. Other factors, such as low levels of market transparency and lack of standards and regulation in the art market, are hurdles that need to be overcome.

**04. Several trends are slowly, but surely, driving family offices and wealth managers servicing UHNWIs to consider how to incorporate clients' collections and passions into their service offerings for UHNWIs.** These include technological developments, increased awareness of the role of art and collectibles in wealth management, increasing competition in the wealth management sector —coupled with client demand and increasing interest for alternative investments.

**05. We see positive signs for the future potential of the art and finance industry.** The need to modernize existing business practices to increase trust and transparency in the art market is recognized. Adaptations needed to respond to the expectations of a new generation of collectors are visible to wealth managers. Increased emphasis on purpose and social impact investment and growing recognition of the role that culture plays in society could create new opportunities. And the expansion of art and finance to include luxury assets, and even the development of fractional ownership, may evolve how we conceive of this dynamic industry.

Thank you for your interest in this publication.

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