

**Deloitte.**

Seeing the bigger picture  
Arts, Collectibles &  
Wealth Management



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Emotional and social value, potential to outperform equity markets and inflation hedge are the key drivers for HNWIs to invest in art and other collectibles.



## A rising market in Southeast Asia

Asia, as the fastest growing market by number of High Net Worth Individuals ("HNWIs") and total wealth, has been a key target market for wealth managers in recent years. However, intense competition, rising costs and a talent shortage in the wealth management space has led to market consolidation with the recent exits of Societe Generale, Bank of America and ING Groep from the wealth management business in Asia<sup>1</sup>. In order to survive and thrive in such market conditions, wealth managers need to either achieve economies of scale or specialize in a specific niche. While the majority of wealth managers are primarily focused on expansion of their footprint, digital transformation and profitability, this differentiation issue has still not been fully addressed.

In the current climate of economic uncertainty, the investment focus of HNWIs is shifting towards alternative investments, such as art and other collectibles. Besides emotional and social value unique to art and other collectibles, this asset class has shown low correlation with traditional asset classes, and hence is an ideal hedge against inflation and an important part of a HNWI's portfolio diversification strategy.

Art and other collectibles also have the potential to outperform equities over the long-term with The Economist Valuables Index of Art and Other Collectibles growing 64%<sup>2</sup> faster than the MSCI World index since 2003. Based on research conducted by Deloitte and ArtTactic, 83% of art collectors surveyed indicated the emotional value of buying art is the key motivation, followed next by the social value for 60% of respondents. Investment returns and inflation hedging were highlighted by art collectors as other important drivers to buying art and other collectibles with response rates of 40% and 25%<sup>3</sup> respectively.

Total investment in art and other collectibles (i.e. wine, classic cars, jewelry, gems and watches) reached USD 362 billion in 2012 and is expected to grow at a compound annual growth rate (CAGR) of 10.3% and reach USD 621 billion by 2017<sup>4</sup>. This expansion is largely driven by Asian markets, growing at a CAGR of 14-23%<sup>4</sup>. As a result of such significant growth, markets like Singapore will reach a similar size as France (USD 16 billion vs. 17 billion) and China will exceed the total size of the UK and Switzerland (USD 102 billion vs. 83 billion) by 2017<sup>4</sup>.

There is a strong trend amongst Chinese collectors to acquire works of national heritage and build collections of art with strong historical and monetary value. In Southeast Asia, on the other hand, collectors tend to want to support their local contemporary artists. The Singapore market is slowly flourishing and the government is putting considerable investment into the development of art and culture. For 25% of Asia collectors, the main motivation for collecting investments of passion is capital growth<sup>5</sup>. This trend is evident in the new highs of Asian art prices in recent auctions. A porcelain cup of the Chenghua-era, nicknamed the "Chicken Cup", was sold for USD 36 million in April 2014, setting a new auction record for a Chinese work of art. The previous record for a Chinese art piece was in 2013, when a bronze Buddha was sold for USD 30.3 million. Similar trends are seen for Southeast Asian art pieces with a new record of USD 7.5 million for a painting — "Our soldiers led under Prince Diponegoro" by Indonesian artist, S.Sudjojono — 63% higher than the previous record set in November 2013 by the painting "Bali life" by Indonesian artist, Lee Man Fong<sup>6</sup>.

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While the majority of banks are primarily focused on expansion of their footprint, digital transformation and profitability scale, this differentiation issue has still not been fully addressed.

1 "Private banking a tough sell in rising Asia", The Straits Times (April 2014)

2 "Fruits of Passion", The Economist (August 2013)

3 Deloitte Luxembourg & ArtTactic Art & Finance Report, 2013

4 Wealthsight Luxury Investments Report, 2013

5 Knight Frank The Wealth Report, 2014

6 "Chicken Cup sets China auction record with \$36 million", Bloomberg (April 2014)

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The global market of investments in art and other collectibles is expected to reach USD 621 billion by 2017 with Singapore reaching a similar size as France and China exceeding the size of the UK and Switzerland combined.

#### An uncontested market space

Despite the significant size of the art and other collectibles market and its rapid growth in the coming years, this market remains an uncontested space for two reasons.

First is a gap between wealth managers' and art collectors' perceptions of art as an asset class. While 62% of art collectors believe that art and collectibles should be integrated into traditional wealth management, only 53% of wealth managers agree<sup>7</sup>.

Second is the lack of understanding of client needs by wealth managers. There is a strong mismatch between art and collectibles services demanded from wealth managers and the wealth managers' perception of this demand. Research conducted by Deloitte and ArtTactic revealed that 49% wealth managers feel that art advisory services are relevant to clients. However, only 30% of art collectors wanted art advisory services from their wealth managers. This could be due to the fact that most established art collectors already have a long-standing relationship with art advisors, galleries and auction houses. In addition, 67% of art collectors believe that art valuation should be offered by wealth managers given their neutral and unbiased position, but only 44% of wealth managers view the service as client-relevant. The same is true for art market research and information services, with 61% of art collectors desiring this service from wealth managers but only 38% of wealth managers viewing it as client-relevant<sup>8</sup>.

This has led to a lack of comprehensive services in this sector across Asia. The majority of wealth managers' focus in this space is limited largely to brand sponsorships, as well as valuation and advisory services. Deutsche Bank, for instance, has developed a partnership with the Singapore Art Museum to conduct a series of visual arts exhibitions under its brand, while Barclays Wealth invested a six-figure sum to sponsor the Da:ns festival in Singapore over a period of three years<sup>9</sup>.

A Deloitte and ArtTactic survey on the key challenges of private banks in offering art-related services revealed a majority (70%) of respondents are concerned by a lack of information and research on this market. Furthermore, 57% of private banks experienced difficulties in finding the right expertise in the art-related sector<sup>10</sup>.

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7 Deloitte Luxembourg & ArtTactic Art & Finance Report, 2013

8 Deloitte Luxembourg & ArtTactic Art & Finance Report, 2013

9 "Banks' hot act", The Straits Times (August 2008)

10 Deloitte Luxembourg & ArtTactic Art & Finance Report, 2013



### Potential revenue streams

Art and other collectibles wealth is a trillion dollar market and presents significant opportunities for Southeast Asia banks, especially in three key areas.

The first of these areas is simply the expansion into wealth management services for art and other collectibles investments; in doing so, the banks can cover both financial and non-financial assets of their customers to create a holistic view of their customers' wealth. As an example, one of the Ultra High Net Worth ("UHNW") clients of art advisory firm 1858 Ltd from an emerging market allocated approximately 6% of his total wealth, or over 120 million, to fine art.

Secondly, banks can use art and other collectibles wealth as an area to differentiate themselves from other players given the lack of established players in this space.

Finally, new revenue streams can be generated to alleviate the high cost-income models that wealth managers in Asia are facing today (see Table 1).

Valuation and authentication are the most frequent requests from clients, given they are required whenever art and other collectibles investors buy, sell or insure a new piece of art. Depending on the determined value of asset and storage conditions, insurance premiums can vary from 0.3 – 1.0%<sup>11</sup>.

Art and other collectibles wealth presents significant opportunities for banks, such as a holistic view of customers' wealth, a niche play in the market and new revenue streams.

**Table 1: Revenue streams from art and other collectibles wealth management**

Direct		Indirect	
Service	Revenue	Service	Revenue
Buying and selling	up to 10 percent of transaction	Client entertainment	<ul style="list-style-type: none"> <li>Enhance relationships with existing clients</li> <li>Supports wealth managers to win new business</li> <li>Provide comprehensive view of clients' wealth</li> <li>Increase funds under management</li> <li>Retain Families across generations</li> <li>Key differentiator in a competitive market place</li> <li>Protecting clients' interests in unregulated, non-transparent market</li> </ul>
Valuation	To be determined	Internal education	
Consolidated Reporting	To be determined		
Reporting	To be determined		
Authentication	To be determined	Art sponsoring	
Auction representation	up to 10 percent of transaction	Corporate collection	
Philanthropy advice	To be determined		
Art-related inheritance and estate planning	To be determined	Art collection management	
Art financing	Spread: 2.5% Arrangement fee: 0.5-2%; Loan-to-value: 50%	Passive portfolio management	
Art investment	To be determined		

<sup>11</sup> "How art expenses stack up", Wall Street Journal (September, 2010)

Creating a successful play in this segment requires a bank to cover the whole lifecycle of art and other collectibles wealth and form partnerships with art professional companies.

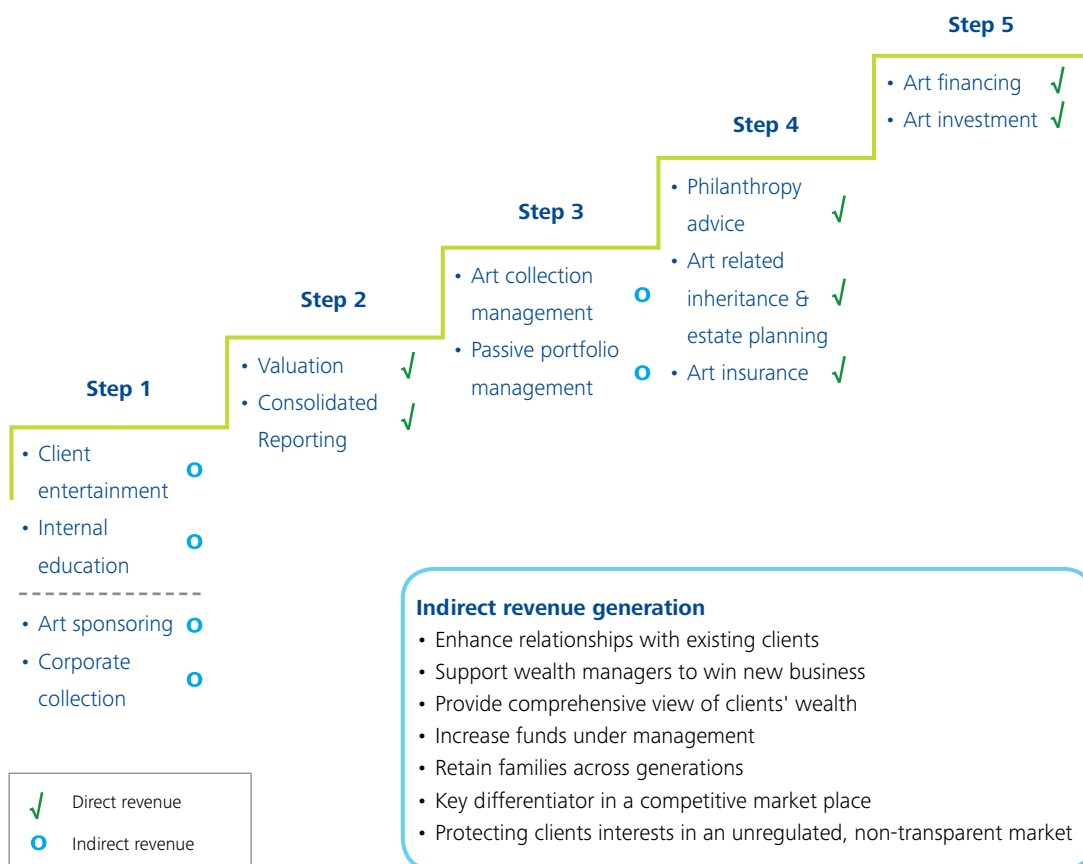
**Developing a service offering**

Besides insurance coverage, there is also a growing demand from HNWI's to turn their art collection into liquid assets through art-secured lending. Art financing represents an untapped opportunity for banks to not only generate revenue, but also gain a greater share of HNWI's, given the limited number of banks involved in art financing in the region.

Banks typically tend to shy away from employing in-house art teams as maintaining an in-house team capable of servicing multiple geographies is capital intensive and challenging from a staffing and expertise perspective. The scope of experience and expertise required to deliver an international art advisory service comparable in quality to the financial offerings delivered by the bank is extremely difficult for a private bank to achieve without outsourcing some of the requirements.

Creating a successful play in this segment requires a bank to cover the whole life cycle of art and other collectibles wealth via offerings from art education to financing. Deloitte's five step approach (see Figure 1) illustrates how a bank can develop a comprehensive art and other collectibles wealth management service offering. Starting from art education and sponsorship, a bank gradually expands their related services to the most complex and profitable ones: art financing and investment.

Figure 1: A step-by-step approach to develop your Art/Collectible wealth management service offering



### Opportunities ahead

Apart from integration of art and other collectibles in the wealth management services, it is increasingly important to build up an ecosystem of partners that will accelerate play in this sector. Art advisory firms typically charge a percentage and / or a time-based fee depending on the client's requirement. Partnerships with art advisory firms and other third parties will provide immediate access to existing expertise, a network of specialists and potential clients. In addition, partnerships can provide a point of differentiation in a competitive marketplace, training staff to approach clients about offerings, producing marketing collateral and delivering services.

Deloitte launched its Art & Finance business advisory practice to specially serve this market. By working with not only the financial community, but also market professionals and cultural organizations, Deloitte Art & Finance has built strong expertise and a knowledge of the whole art market which allows the team to offer a unique and wide range of services for wealth managers from comprehensive strategic and operational support of art wealth management implementation to a specific analysis for offering art-secured lending services, research on selecting art and other collectibles funds, philanthropic planning and art digital strategy.

Art and other collectibles wealth management is an increasingly changing landscape providing unique business opportunities. Given the fast growing HNWI market, fueling double-digit growth of investments in art and other collectibles, and the art-related service offering gaps that exist in a wealth management space in Asia, this represents a significant opportunity for SEA's forward-thinking banks.



# Find out more



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