

2015 Art Taipei Forum | Art & Finance

**CHANCE & CHALLENGES FOR
A BRAVE NEW ART WORLD**

Meeting Programme (Last updated: [July 15, 2015](#))

Regional Distribution of Global Wealth and Preferred Asset Allocation by the Wealthy: Art Ranks Number 2

According to "World Wealth Report 2014," the number of high net worth individuals (HNWIs, referring to individuals with investable assets surpassing \$1 million), has reached nearly 2 million, which is a growth of 15%. The fast growing regions were North America and the Asia-Pacific. HNWIs in the Asia-Pacific region have risen to 17.3%. This has lessened the gap with the number of HNWIs in North America (approx. 4.33 million) to a mere 10,000 people. Let's take a deeper look. Growth of HNWIs in 2013 mostly came from 4 major markets: United States (4 million), Japan (2.32 million), Germany (1.13 million), and China (0.75 million). The total amounts to 59.9% of the world's HNWIs. The total aggregate wealth of HNWIs has increased 14%, reaching \$52.62 trillion in 2013. It is expected to reach \$64.3 trillion in 2016, with the Asia-Pacific region taking the lead with a compound annual growth rate of 9.8%. As "World Wealth Report 2013" predicted, the Asia-Pacific has the largest number of HNWIs and will also become the region with the most aggregate wealth in 2015.

As a new wealthy class emerges, emphasis on how wealth is grown, more than how it is preserved, will be differentiated according to market. HNWIs in Asia-Pacific (with the exception of Japan) value growing wealth and making international investments (40.7%) over preserving wealth (31.1%). In comparison, HNWIs in other regions value preserving wealth (31.7%) over growing wealth (27.7%). Within Asia, 48.4% of HNWIs in China prefer growing wealth, ranking first globally. India (44.1%) and Singapore (39.3%) follow close behind. In line with global trends, jewelry, precious stones, and watches, are favored investment pieces for Asia's HNWIs (with the exception of Japan). These items take up 32.5% of all investments. Art is the second preferred area of investment, but the percentage has decreased to 15.3% from 17.3% in 2013. Chinese HNWIs still favor art the most, with a percentage of 17.2%. After further research, the reasons for the percentage decrease can be attributed to the concerns of sourcing, quality, and authenticity over art auctions in China.

Structure of the Art Market

In his book *Art of the Deal: Contemporary Art in a Global Financial Market*, Noah Horowitz points out that the art market has seen trends of globalization ever since a large number of American collectors and museum appeared on the scene in the 19th century. The post Cold War world order had an even bigger impact on the structure of the art market. New artists, collectors, and art institutions dived into the market. As the BRIC countries grew, art auction

prices in China, India, and Russia rose by 336%, 684%, and 253% respectively from 2002 to 2006. This growth directly coincides with the growth of national income in real terms. This not only shows the growth in prices and transaction volume, it also shows the increase of HNWI's in the region. In 2008, a Sotheby's spokesperson pointed out that, five years prior, art buyers that spent more than \$500,000 came from 36 different countries. In 2007, the number increased to 58 countries. This shows that the art market is undergoing globalization by the minute. Collectors and art institutions from emerging markets will play an important role in the future development of the art market.

Art fairs are the perfect embodiment of globalization. As we can see from the famous Art Basel in Switzerland, the Armory Show in New York, Freize Art Fair in London, FIAC in Paris, ARCO in Madrid, to the recently established Art Forum Berlin in Germany, Paris Photo in Paris, ARTissima in Italy, and ShContemporary in China, art expos have become a significant medium for art galleries to exhibit and sell contemporary art.

From a market structure perspective, the art market is comprised of the creator, buyer, and seller of the work; for example, artists, art agents, collectors, art financial services firms, etc. Artists and collectors make up the most of these entities. However, it is often difficult to accurately quantify these two groups. For example, some artists are either part-time or amateur creators, and most people have collected a few pieces of art in their lifetime. As to auction numbers, there are an estimated 5,000 art auction houses around the world. The transaction volume from these houses make up roughly half of global art transactions. Of these houses, two international auction houses, Sotheby's and Christie's, took up 73% of total global transaction volume in 2008. In addition, periphery services in the art industry are also considered to be part of the art market. These services include lawyers, insurance companies, artwork transportation services, interior design consultants, art collection consultants, private wealth management personnel in banks, and art financial services firms, etc. Governments, charity and non-profit organizations are all important in terms of sponsorship, financing, and exhibition purposes.

In the recently published "TEFAF Art Market Report," the art market in 2014 had a scale of €51 billion, which is a 7% improvement from €48 billion in 2007 before the economic recession. The report indicated that the Chinese market was still a major market contributor, ranking only behind the United States (33%) and tying with the United Kingdom (22%). But compared to China, the US and the UK still retain advantageous positions in art trade. These two countries took up 62% of total global art imports. 2014 was also a year of high prices. Approximately 1530 pieces were sold for more than €1 million. Out of these pieces, 96 were sold for more than €10 million. This number was a 17% increase from 2013. These pieces comprised 48% of total transaction value of the art market, but contributed only 0.5% to transaction volume.

Trends in Financialization and Assetization of Art

In recent years, international discussion on the relationship between art and finance has not died down. As art economics globalizes, information becomes more transparent and commonly-found. Hard assets (such as art pieces, red wine, and other rare items) have become a new focal point for investment due to the financial crisis. The relationship between art and finance grows closer. As practices of collecting art transitions to the financialization of art, art has become an investment target as a means to diversify risk. According to a wealth report issued by Citi Group and Knight Frank at the end of March, in 2011¹, the percentage of HNWI's that professed a deep interest in art rose 25% from 2010. Combined with the strong revitalization of global art market sales since 2010, there is anticipation for growth in funds coming into the art market. Future development of financial products related to art has also garnered much attention.

Other research reports² have pointed out, as other asset markets see a downturn, some investors will use art to diversify risk, which will, in turn, cause the art market to grow against trends. This also shows how some art may be resistant to downturns and how recovery time is often faster than other economic indicators.

Rate of Return in the Art Market is Outperforming the Stock Market and has become a New Option for Asset Allocation.

As the global art market grew in recent years, rate of return on art investment has outperformed investments on financial products and raw materials. Art has gradually become the most popular new investment category. The art and finance report³ jointly published by ArtTactic and Deloitte Luxembourg in 2011 compares the Mei Moses Art Index and the S&P 500, two indexes that are indicative of market performances. Between 2003 and 2011, the range of growth and rate of return of the art market, on average, outperformed the stock market. It was also discovered that there was very little correlation in the development of the two markets. In its survey of art consultants and international art collectors, the report also indicated that, apart from emotional value and social value, potential rate of return for investments in art is an important factor for including art in asset allocation strategies. The TEFAF report showed similar findings. When comparing Artnet's C50 index of contemporary art to other indicators such as gold and oil prices, or the S&P 500, there was very little, perhaps even negative, correlation. After the shockwaves brought on by the 2008 financial tsunami and the European and American economic recessions, investment focus shifted from traditional financial products, such as stocks and bonds, and

¹ European Fine Art Foundation. (2012). *The International Art Market in 2011: Observation on the art trade over 25 years*.

² European Fine Art Foundation, *The International Art Market in 2011: Observation on the art trade over 25 years*

³ ArtTactic & Deloitte. (2011). *Art & Finance Report 2011*.

derivatives to real assets. Although having very little correlation with traditional investment categories, art had the advantage of diversifying risk, and has been incorporated into investment strategies for wealth management and asset allocation by many private banks.

The Development and Challenges of Financialization of Art

If we look at current investment modes in art, apart from individual purchases, the most common method is investing in art funds or art securities. The concept of the modern art fund can be traced back to the British Rail Pension Fund in 1974. The fund decided to invest in art as a means to diversify risk due to the oil crisis and the stock market recession at that time. As of 2014, the global art funds market is estimated at \$1.26 billion. Approximately 72 funds are currently active. 55 of these funds are established in China with a total value of \$169 million⁴. Since 2009, China has seen the gradual establishment of culture and art exchanges as trading platforms for art securities. Luxembourg will also become the first in Europe to establish a government supervised art exchange, named SplitArt. This will officially securitize art and allow it to become a tradable financial tool. In conjunction, art financing and loan operations have emerged. Investors, galleries, and art agents can utilize art for flexible financial operations. As more HNWIs venture into art collection and investment, renowned traditional banks, such as Deutsche Bank, Citibank, and Bank of America have started offering these services.

However, the development of art funds and establishing art exchanges still has many obstacles to overcome:

- The art market clearly lacks regulation and industry historical records. For example, a cultural exchange in Tianjin, China saw two incidents where shares in artwork by Bai Gengyan rose by a multiple of 17 in a few short months. And the market value of the artwork skyrocketed to 52 times of the sale price from the time of auction. Similar situations have forced the Chinese State Council to consolidate hundreds of unsupervised exchanges. It has also established restrictions on daily price limits and threshold criteria for opening investment accounts.
- Lack of liquidity and low transaction frequency in the art market are obstacles to financialization of art.
- The most important key to financialization is "appraisal" and this remains a pressing challenge. No clear and reasonable market prices will bring about difficulties for financial operations such as public offering of funds and offering financing for art.

2015 Trends for Art Financialization in China

At the start of 2015, the Division of Industry from the Chinese Ministry of Culture issued a

⁴ ArtTactic & Deloitte. (2014). *Art & Finance Report 2014*.

"Notice on Work Preparation for 'Project to Support Cultural Finance' in 2015." The notice listed concrete items on the work to be done to support the development of cultural finance for this year. This project covers all aspects of the cultural industry, including trade, consumer loans, etc. From policy progression, we can see China's intentions of leveraging cultural industry loans and financing. The concepts of free trade zones and China's "One Belt, One Road" Initiative has brought the economic benefits of trade and commerce. Similarly, their effect on the development and use of cultural resources has become apparent. At the plenary session of the NPC Standing Committee on December 26, 2014, the Chinese State Council decided to promote Shanghai FTZ's pilot experience, and established experimental zones in Guangdong, Tianjin, and Fujian, while also deciding to expanding the FTZ in Shanghai. In all of the pilot zones, apart from industries in the Negative List, foreign investors no longer have to seek approval from administrators, rather, simply go through filing procedures. The Shanghai FTZ has been expanded from its original 28.78 km² to 120.72 km². Long-term issues such as artwork crossing borders have seen much improvement. At the same time, the manufacturing industry has been eliminating excess capacity, hence, upgrades and transitions will become an important part of China's future development.

The Opportunities and Challenges of Financialization of Art in Taiwan

In comparison with major markets such as Europe, the U.S., and China, Taiwan's law still sees art trade as property trade. Art has yet to be incorporated in the definition of securities under Article Six of the Securities and Exchange Act. Hence, there are no financial products such as art funds or art securities in the market. If we consider the development trends of the global art market and opportunities and competition in cross-Strait financial development, we must consider incorporating art as an option for asset allocation. This will also help bolster the growth of the art market. As global centers of economy and wealth shift towards the East, investment momentum and anticipated market growth is strong in Asia. The Taiwanese banking industry must not ignore the development of art financial operations. If Taiwan can reference global financialization of art as an example and establish a comprehensive investment mechanism, not only will it be able to attract more funds to the art industry, it will also prompt banks and insurance companies to include art as an asset allocation or wealth management option. By doing so, the art market is predicted to expand threefold and allow art investment to boost overall industry growth.

As it approaches its tenth year anniversary, Art Taipei Forum has chosen art finance as its topic to offer a first look at the development at art finance operations in Taiwan.

【Venue】 Taipei International Convention Center, TICC R102

【Date】 2015.10.31

Art Taipei Forum is one of the few international art fairs in Taiwan that incorporate both academia and the market. Together with foreign and domestic intellectuals and important members of the industry, ATF will showcase the uniqueness and diversity of Asian art culture in a systematic manner. There will be diverse perspectives and discourse as this year's ATF serves as an exchange platform between the Asian and international art communities.

- It is the only art industrial economics forum in the country that incorporates academia and the market; recognized by foreign media outlets and galleries as the best of its kind in Asia. After the impact of the financial crisis, development of the global cultural industry has become an important discussion topic. Art Taipei Forum has entered its ninth year and is the only research seminar in the country that incorporates both academia and the market. It is also one of the few of its kind in Asia. Its mission is to foster development and diversity of the art industry, from both academic and practical aspects. This year's ATF has expanded its marketing coverage to major Asian media outlets. We have worked together to plan promotion topics in order to build up our brand. We hope to promote deeper understanding of cultural differences and perspectives across Asia, in hopes that as the forum grows, it will be able to provide forum participants with an abundance of art sustenance.
- Launch of the ATF Open Translation Programme allows the global art perspective to be heard in Taipei and connect with the world. Ten years since its inception, Art Taipei has decided to launch the ATF Open Translation Programme in order to share footage of sessions from past years and allow the entire world to view and share these videos.
- It aims to deepen topic discussion from an industry chain perspective and fosters diverse development of the country's art industry. Past forum topics were chosen after many meetings and deliberation by committee members. Discussions on application issues of new media on the art industry and a comprehensive exploration of new media art in the industry chain are highly encouraged. It is only through this discussion can we come to recognize new media and the collection concepts and market values it holds. Only then, can we come to accept the new methods that have changed marketing.

Agenda

Saturday, October 31, 2015	
09:30	Registration
10:00-12:30	<p>Modes of Trade in the Art Industry: Art Financing and Loans / Open discussion</p> <p>Moderator I-Cheng LIU, Executive Director of CTBC Financial Holding</p> <p>1000-1030 Chinese art finance pledge financing system - A case study on Bank of Weifang</p> <p>Speaker Juan HUANG, Professor of China Art Financial Institute, Renmin University of China</p> <p>1030-1100 Corporate Art Collection in China</p> <p>Speaker Li JHAO, Professor of China Central Academy of Fine Arts</p> <p>1100-1200 Open discussion</p>
12:00	Lunch Break
13:30-15:00	<p>Modes of Trade in the Art Industry: Possibilities of Developing Art Funds in Taiwan</p> <p>Moderator Yui-Chun WU, Director-General of Securities and Futures Bureau</p> <p>Speaker Terry HUANG, Vice President of MOTIF Art Group and Executive Director of MOTIF Art Consulting Taipei Branch</p>
15:00	Tea Break
15.30-17.00	<p>Constructing an Art Appraisal Mechanism and a Appraisal Personnel Certification System/Open discussion</p> <p>Moderator Long-Sheng SHIH, Executive Director of Taiwan Art Gallery Association Taipei Art Economy Research Centre</p> <p>Establishing an Appraisal Mechanism in the Greater China Region - Do We Need an Appraiser Association of Greater China?</p> <p>Speaker </p> <p>Betty KRULIK, President of Appraisers Association of America</p> <p>Yi YIN, Dean of Art Science and Technology Studies Center, China Art Science and Technology Institute</p>

(subject to change)

(in chronological order)

I-Cheng LIU,

Executive Director of CTBC Financial Holding

Mr. Liu holds an MBA from the Wharton School of the University of Pennsylvania and is CFA certified. He was the former general manager of the Taipei branch of Barclays Capital and the former chairman of the board of Easycard Corporation. In the past he spearheaded the 3.0 digital financial services environment project at China Trust. He has also been an avid long-time supporter of cultural activities.

Juan HUANG,

Professor of China Art Financial Institute, Renmin University of China

Ms. Huang holds a Ph. D in economics from Renmin University. She currently serves as the deputy director of the Chinese Art Financial Institute at Renmin University. Her field of study is mainly currency policy, commercial banking theory, and art finance. She also advises on the annual Chinese art finance research report, published annually by the institute. She regularly publishes analysis and research on the Asian and Chinese financial markets.

Li JHAO,

Professor of China Central Academy of Fine Arts

Mr. Jhao's field of research is mainly art history, cultural heritage protection, and art preservation. He participated in and founded China's first online auction house, Artrade, and is one of the main organizers of the China International Gallery Exposition. He also founded Artnews.cn and serves as one of its editors. Currently, he serves spearheads the Center for Chinese Art Market Data Analysis at the Art Administration Department of China Central Academy of Fine Arts.

Yui-Chun WU, Director-General of Securities and Futures Bureau

Chairman, MasterLink Securities Investment Advisory Corp. President, GreTai Securities Market Commission

Deputy Director-General, Securities and Futures Bureau, Financial Supervisory Commission

Division Director, Chief Secretary, Securities and Futures Commission, Ministry of Finance

Terry HUANG,

Vice President of MOTIF Art Group and Executive Director of MOTIF Art Consulting Taipei Branch

Mr. Huang holds a Ph. D in art history from Harvard University and has served as professor

at many prestigious learning institutions such as Oxford University, City University of New York, NYU. He has also served as a budget committee member of the National Endowment for the Arts. He was a former senior consultant for the Acquisition Fund at the Museum of Modern Art. Besides from overseeing purchases and sales of artwork, he was also responsible for executing the museum's sponsorship programs from JP Morgan Chase Funds.

**Long-Sheng SHIH,
Executive Director of Taiwan Art Gallery Association Taipei Art Economy Research
Centre**

Mr. Shih is the current executive director of the Taiwan Art Gallery Association Taipei Art Economy Research Centre. He has participated in observation and research of the contemporary art environment and market for many years. He formerly served as the Secretary-General of the Taiwan Art Gallery Association and participated in many projects by the Ministry of Culture on industry surveys and policy research of visual arts.

Betty KRULIK, 2014-2015 President of Appraisers Association of America

Betty Krulik has over 35 years of experience in the handling of American and European 19th and 20th Century art; she has sold to and on behalf of major collectors and museums around the nation. She has acted as appraiser for corporate and institutional collections as well as private collectors.

**Yi YIN,
Dean of Art Science and Technology Studies Center, China Art Science and Technology
Institute**

The Art Science and Technology Studies Center was formerly a studies center for determining painting authenticity. Yi Yin, the current dean of the center, is a long-time researcher of Chinese paintings, and also the materials used and techniques applied in these paintings. He is the editor of several books on art appraisal and Chinese art, and is also heavily involved in organizing international conferences such as the "Expert's Meeting on Perception and Management of Chinese Painting" and the first "Chinese Art Record Certification Symposium."