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ArtTactic

Hiscox online art trade report 2019

Foreword

The online art market plods on with steady growth.

2018 was not a game-changing year and we wait to see where the consolidation and casualties will be in a market place that clearly remains overcrowded. Perhaps the penny is starting to drop as the confidence level about the future amongst online platforms has dropped significantly this year. In any event business plans and credit lines will be stretched to breaking point as most will have planned on the online art market getting traction and significant market share much quicker.

Blockchain has been much talked about, often incomprehensibly, and has proved to be a bit of a damp squib. Clearly it has potential to help with provenance, authenticity and condition reports, but on the other hand it isn't the panacea to all our troubles.

We continue to love working with the art market whether it is insuring, sponsoring or buying art, and we hope this report brings a little more clarity to a notoriously opaque market.

Robert Read
Head of Art and Private Clients
Hiscox

Key findings

The online art market grew 9.8% in aggregate in 2018 to $4.64 billion, a slowdown from the 12% growth experienced in 2017.

Whilst the online art market has been riding on the back of an overall art market boom since the financial crisis in 2009, global economic and political uncertainty is expected to test the resilience of online art buyers in 2019.

Outlook
Although 77% of the online platforms surveyed feel positively about the online art market in the coming 12 months, this is down significantly from 96% in 2018.

Consolidation
71% of the online platforms said they expected more consolidation among online art platforms in the coming 12 months.

Confidence
55% of the online art buyers surveyed said they were likely to buy more art over the next 12 months, up from 52% in 2018, however, the outlook among younger art buyers (aged 35 and below) is more muted year-on-year, with 56% saying they were likely to buy more art online, compared to 63% in 2018.

Social media
Instagram continues to be the art world's favoured social media platform, with 65% of survey respondents choosing it as their preferred social media for art-related purposes, up from 63% in 2018.

Offline vs. online
More art buyers express a preference for buying art online as opposed to offline purchases. 29% of millenial art buyers said they preferred buying art online, compared to 14% a year ago.

E-commerce
General retail e-commerce grew an estimated 18% in 2018, and online spending habits are also benefiting the online art trade, with 73% of art buyers saying they purchased other products in a similar price range prior to buying art online, up from 68% last year.

Millenials
More millenials bought art online in the last 12 months, and 79% said they had bought more than once (up from 64% last year). New art buyers are also more engaged, with 36% saying they have bought online in the last year, up from 31% last year, and 70% said they had bought art online more than once, up from 64% last year.

Next generation
Among millenials, 23% said they had never bought an artwork in a physical space (e.g. gallery, auction or art fair) prior to buying art online, up from 18% last year – signalling that the online art market plays an important role in educating and introducing new generations of buyers to art collecting.

Blockchain
The art world's adoption of blockchain technology remains slow as convincing user-cases fail to materialise. Although the technology is here to stay and will further evolve, the majority of the art world remains on the fence and waits to see how this pans out.

Provenance and ownership
Provenance tracking and ownership-registry remains the most relevant user-case for blockchain in the art market at the moment. Half of the online platforms said that a title/ownership registry for the art and collectibles market would be the most likely area where blockchain technology would succeed.

Fractional ownership
Could fractional ownership be an entry point for young buyers who want to invest in the art market? 51% of art buyers surveyed under the age of 30 said they would consider fractional ownership of art as a form of investment. 43% of new art buyers (those who have been collecting art for less than three years) also showed an appetite for fractional art ownership.

Online art market sales

Despite the online art market growing around 20-25% between 2013 and 2015 (comparable with growth rates observed in the online luxury goods industry), the last 36 months show signs of slowing down, with growth rates stagnating for the third year in a row.

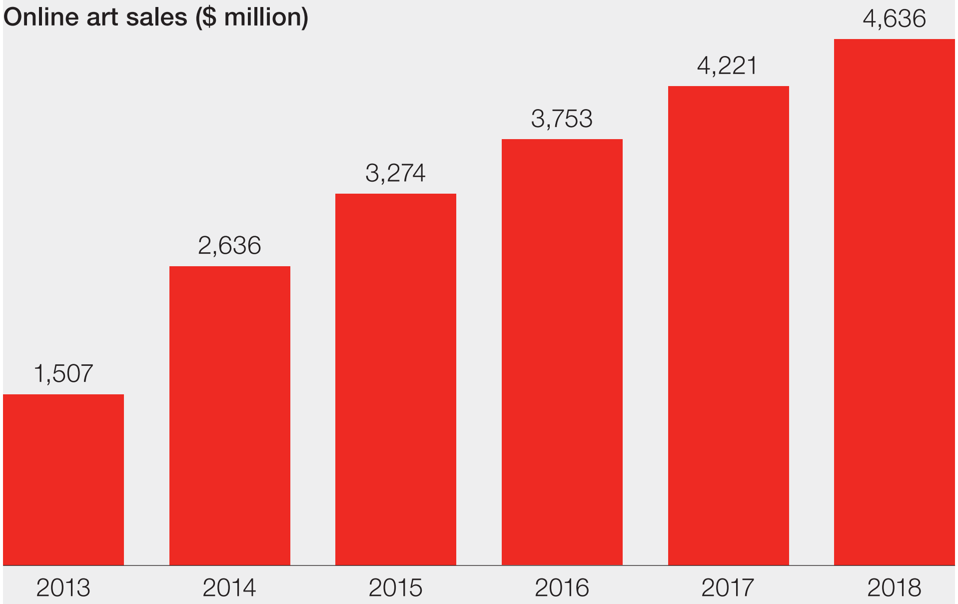
Although there was a significant spread of growth rates among the different online art sales platforms in 2018, the estimated aggregate online sales figure of $4.64 billion shows an increase of 9.8% from last year, down from the 12% growth rate experienced in 2017.

This is not to say that all online platforms are growing at a slower rate. Public data available from Sotheby's, Christie's and Heritage Auctions show that their online growth was between 11% and 17% in 2018.

Under-investment in technology may be slowing down the growth for this sector. Whilst many auction houses were quick in adapting to the new digital era, other areas of the industry such as galleries and dealers are still getting to grips with the online art market and deciding whether they should embrace it or not, and how to go about it. Only recently have we seen large galleries setting up their online viewing rooms, with David Zwirner launching their online viewing room in January 2017 and joined by a similar initiative by Gagosian in June 2018. Similar initiatives are likely to follow from other galleries and dealers in the coming 12 months.

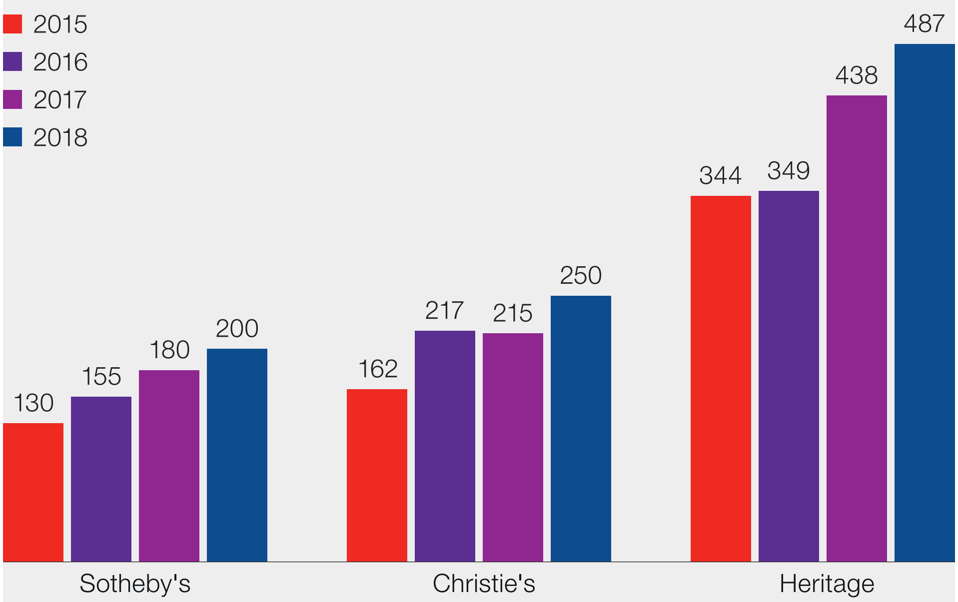
Although, growth has been slowing, there are indications that current buyers are buying more online. We estimate an average future growth rate for the online art market of 15% per year. This is the same as in last year's report, but down from 19.5% in 2017. Based on this growth trajectory, we could expect the online art market to be worth $9.32 billion by 2024.

Online art sales ($ million)



Methodology: this year's global online estimate is based on publicly available sales figures, as well as sales estimates collected from a survey of the main online art and collectible sales platforms that are mentioned in the appendix of this report. We are fully aware that these online art sales platforms do not represent the entire population of online art and collectible sales businesses, and therefore our estimates are likely to be on the conservative side.

Online sales – traditional auction houses ($ million)



Source: Sotheby's, Christie's and Heritage. The figures include only-online sales and online bidding.

Year in review – key moments in the online art market

February 2018

- **Sotheby's** acquired **Viyet.com**, an online marketplace for vintage and antique furniture and decorative objects.

March 2018

- **The Artling** launched an app with a custom-built augmented reality feature allowing users to view the artworks in real-time in their space.

April 2018

- **Sotheby's** brought back fees for online-only auctions.

May 2018

- **LiveAuctioneers** partnered with **Codex** to present a groundbreaking auction of crypto-theme art.

June 2018

- **Gagosian** launched its own temporary, high-end online salesroom.

July 2018

- **Teamlab** and **Mori Building** launched Mori Building Digital Art Museum in Tokyo.
- **Christie's** hosted the first art and technology summit, dedicated to blockchain, co-organised by the online art platform, **Vastari**.
- **Masterworks**, co-founded by serial entrepreneur Scott Lynn, announced its blockchain-based stock trading platform for significant works of art.

August 2018

- **Justin Bieber's** manager, Scooter Braun, invested in an art start-up (**Ikonick**) that targets millennial collectors.
- **Phoenix Art Museum** presented first-ever virtual reality exhibition.

Key

- Partnerships
- Online venture
- Fundraising
- Online auctions
- Acquisitions
- Fractional ownership
- Digital art
- VR/AR
- Other

September 2018

- **Maecenas** tokenised a multi-million Dollar artwork; Andy Warhol's '*14 Small Electric Chairs (1980)*'. The beta public sale raised $1.7 million for 31.5% of the artwork valued at $5.6 million.

October 2018

- **Barnebys** acquired online valuation firm **ValueMyStuff**.
- Shirtless statue of Pope Benedict by **Jago** sold in shares to the crowd and placed in a public art institution by **Feral Horses**.
- An artwork created by Paris-based art collective, **Obvious**, using artificial intelligence was sold at Christie's auction house in New York for nearly half a million Dollars.

November 2018

- **Christie's** collaborated with blockchain title registry, **Artory**, for Barney A. Ebsworth Collection auction.

December 2018

- **Walmart** announced its plans to acquire **Art.com**.
- **Swarm** added a new security token The Art Token (TAT) to its platform, which is regulated in Lichtenstein.

January 2019

- Parisian art marketplace **Singulart** raised €1.5 million to further its international expansion.
- **Look Lateral** launched Security Token Offering for accredited investors.
- **ARTOPOLIE** positioned itself as a new fractional ownership platform that allows the average person to invest as little as $50 towards works by Pablo Picasso and similar artists. The platform is set to officially launch in Miami at Art Basel 2019.

February 2019

- **Invaluable** and **Mearto** formed a partnership to offer online appraisals.
- **Sotheby's** auction of the artificial intelligence artwork by Mario Klingemann.
- **Artfintech.one.** The first artist tokens were issued for a digital video by Dragos Alexandrescu.

March 2019

- **Artory**, the blockchain-backed digital art registry, acquired **Auction Club**, a database of auction prices from 4,000 international auction houses.

Online art platform trends 2019 – a summary

Although 77% of the online art platforms surveyed feel positive about the online art market in the coming 12 months, 19% of the platforms foresee growth levelling out in 2019, up from 4% last year.

Consolidation still on the cards
Seventy-one percent of the platforms expect more consolidation among the online art platforms in the coming 12 months, down from 81% in 2018. However, 16% believe there will not be any consolidation activity in 2019, up from 4% in 2018. Among those that believe consolidation will take place, 63% anticipate these will be horizontal mergers (companies operating in the same space), versus 37% who said vertical mergers (companies operating in different parts of the value chain). This signals that larger online art platforms will continue to absorb smaller niche players to either broaden their geographical reach and/or get access to new collecting segments.

Mergers and acquisitions
It was a relatively quiet year in terms of mergers and acquisitions. Barnebys, the search engine serving the design, antiques and art community, has acquired CollectorsWeekly.com, Simple Auction Site and the valuation service ValueMyStuff in the last 18 months, while Sotheby's moved deeper into the online decorative arts business, acquiring Viyet.com, an online marketplace for vintage and antique furniture and decorative objects.

Will there be few or many winners?
Forty-one percent of the online platforms believe the online art market will converge towards one or a few global platforms (same as in 2018), however, the low merger and acquisition activity over the last 12 months, might suggest that this scenario is some distance away. Another 41% of online platforms believe the online art market will remain category specific (up from 32% in 2018), with certain platforms dominating specific collecting segments (such as photography, prints, furniture, design and contemporary art).

Competition intensifies among online gallery platforms
Whilst 50% of the online platforms expected online auctions to be the most competitive sector last year, only 18% believed this would be the case over the next 12 months. Instead, competition is increasing among online gallery platforms, with 46% of the online platforms saying so (up from 38% in 2018).

Monetising data proves a challenge
Thirty-one percent of the online platforms said data and analytics would be an area of fierce competition last year, with many of the platforms launching or considering launching their own data and analytics platforms. However, only 11% believe this to be an area of strong competition this year. This could signal that art data and analytics businesses are still struggling to find the best way to monetise the investment in data infrastructure and analytics for the art market.

Logistics a key hurdle to future growth
Logistics also remain a key hurdle, with half of the platforms saying that delivery and customer fulfilment were key obstacles to further growth in online art market.

Bricks-and-mortar vs. online strategy
Only 38% of the online art platforms said they had established, or were considering establishing a bricks-and-mortar presence to complement their online sales, down from 44% in 2018, and signalling that the majority of the online platforms aim to focus on their online strategy.

64% of the online platforms surveyed said that building consumer trust and brand recognition were the key challenges to developing the online art market.

Hiscox online art platform ranking 2019

2019 rank	Company	Movement from 2018	Visitor rank	Buyer rank	Vistor experience rank	Buyer experience rank	Trust rank (quality of art on offer)	Average rank
1	Sotheby's (online)*	+2 ▲	3	2	1	1	2	1.8
2	Christie's (online)*	-1 ▼	4	3	2	3	1	2.6
3	Artsy	-1 ▼	1	1	4	5	6	3.4
4	Phillips (online)*	+2 ▲	9	9	3	2	3	5.2
5	Artnet	-1 ▼	2	4	6	7	8	5.4
6	Bonhams (online)*	+4 ▲	11	11	8	6	4	8
7	DegreeArt	+12 ▲	23	18	5	4	5	11
8	Saatchi Art	+1 ▲	7	10	13	12	18	12
9	1stdibs	-4 ▼	5	5	9	19	22	12
10	Etsy (art and collectibles)	-2 ▼	10	8	15	11	32	15.2
11	The-Saleroom	+9 ▲	19	17	22	9	11	15.6
12	Paddle8	-5 ▼	12	14	10	26	19	16.2
13	Barnebys	+8 ▲	16	20	20	16	12	16.8
14	Invaluable	-3 ▼	8	7	23	22	24	16.8
15	Artspace	-3 ▼	15	16	12	25	17	17
16	Heritage Auctions*	-2 ▼	18	19	18	18	16	17.8
17	Saffronart*	0 ◀▶	25	22	19	10	14	18
18	Astaguru†	NA	32	27	14	8	10	18.2
19	Dorotheum Online*	-4 ▼	22	29	11	27	7	19.2
20	Artfinder	-2 ▼	17	15	25	15	25	19.4
21	LiveAuctioneers	-8 ▼	13	13	21	24	31	20.4
22	RiseArt†	NA	27	25	16	13	23	20.8
23	Drouot Live*	0 ◀▶	20	23	28	30	9	22
24	Amazon (Art)	-8 ▼	6	6	40	21	37	22
25	Bidsquare	0 ◀▶	24	24	17	31	20	23.2
26	Ocula	-4 ▼	28	36	7	20	30	24.2
27	Artsper†	NA	26	26	24	23	26	25
28	Bukowskis†	NA	29	28	30	29	13	25.8
29	Heffel.com†	NA	34	30	26	28	15	26.6
30	Artuner†	NA	31	33	31	14	28	27.4

*Traditional auction houses.
† New entrant in the Hiscox online art platform top 30 ranking for 2019.

Based on the qualitative survey of 706 art buyers, Sotheby's comes out on top for the first time, with the most consistent survey ranking across five different categories. Sotheby's climbs from third place in 2018, whilst Christie's has been unseated after three years in prime position. Phillips online auction platform was ranked fourth, up from sixth place last year, while Bonhams is in sixth, up from tenth in 2018.

Artsy and Artnet remain the top two online-only providers in the top five ranking, scoring highly in terms of their audience reach, as well as the quality of the customer experience. They are also among the online platforms with the highest level of client 'trust'. See also page 17 for more on building trust online.

Emerging artist platforms also scored highly in this year's ranking; both DegreeArt and Saatchi Art are ranked in the top ten this year. This suggests that online platforms supporting new and emerging talents are increasing in popularity among the audiences surveyed this year.

Ranking methodology and interpretation
This is the fourth edition of the Hiscox online art platform ranking. The rank is purely based on responses from 706 survey participants, and works on the basis of the highest average rank across five categories. Two of the categories are linked to the percentage of visitors and buyers in the last 12 months, two further categories are linked to the satisfaction of the visitor and buyer experiencene. The final criteria, and new for this year, is linked to the perception and level of trust in the quality of the art sold online (authenticity risk, attribution risk, condition risk, price risk). All the ranks are relative to other online platforms and doesn't say anything in terms of the actual level of visitors and buyers, satisfaction, or trust, and hence a lower rank should not be interpreted as negative – but as a relative measure that there are other online platforms in the ranking that has achieved a better score from the survey participants. All in all there were 50 online platforms featuring in this year's survey. Each year new online platforms are added.

The increasing influence of social media in the art world

Instagram has become the preferred channel to discover, follow, see what is trending and ultimately find art to buy.

What kind of influence does social media have on the art market and what are the patterns we see emerging? This section looks at some of the key trends when it comes to social media and the art world.

In 2017, Instagram overtook Facebook and became the social media channel of choice for the art world, and in a very short space of time it has become superior to any other social media platform. This raises the question of whether Instagram has become the biggest threat or opportunity to artists, the traditional art market and existing online art platforms.

In January 2019, Instagram had more than 1 billion monthly active users (up from 800 million in January 2017). Instagram continues to be the art world's favourite social media platform, with 65% of survey respondents choosing it as their preferred channel for art-related purposes (up from 63% in 2018 and 57% in 2017). Although still the second most popular social media channel, the prominence of Facebook has diminished, with only 33% of respondents citing it as their preferred social media platform (down from 38% in 2018 and 49% in 2017). LinkedIn and Twitter are also used, but more in the context of professional networking and news distribution, rather than as a tool to discover and follow artists or art-world developments.

34%

of all survey respondents (and 43% of respondents under the age of 35) said that social media influenced their decision-making when buying art, up from 32% in 2018 and 29% in 2017.

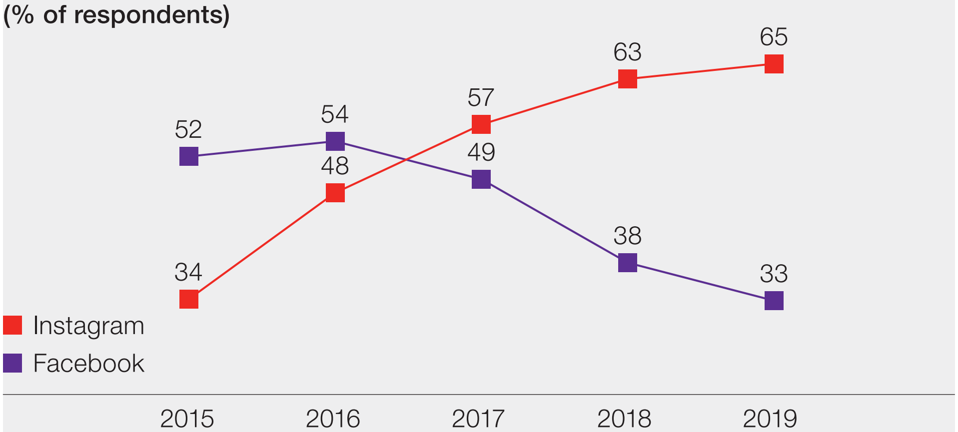
67%

of all respondents (73% of respondents aged 35 and below) said that the posts by artists and their studio had the biggest influence when buying an artwork. This was followed by 68% who said social media posts by the artist's gallery carried most significance when buying an artwork by an artist.

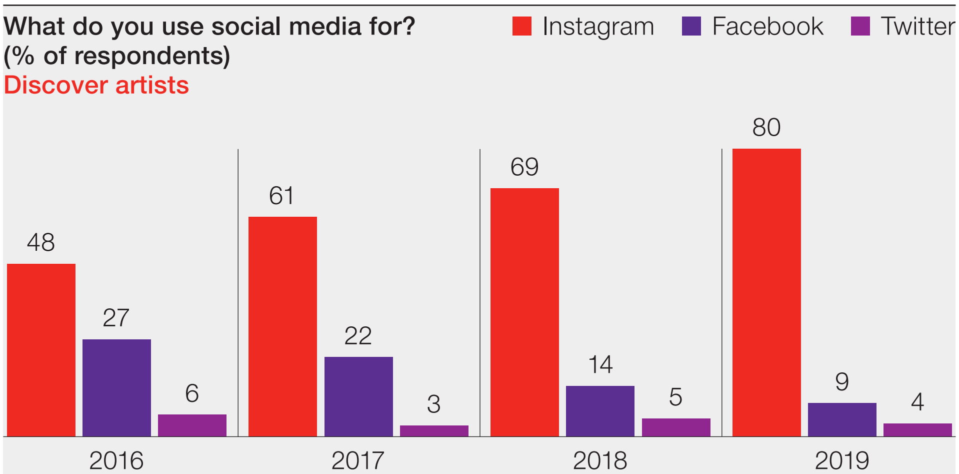
65%

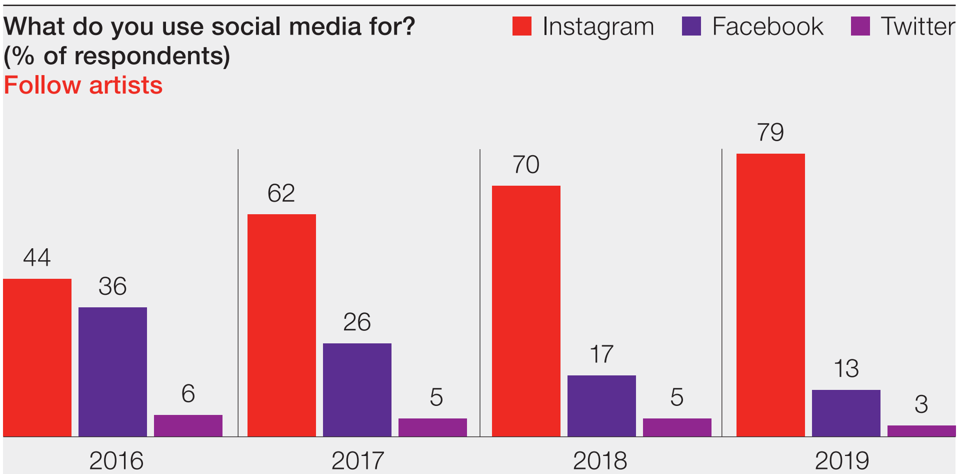
of all survey respondents say Instagram is their preferred channel for art-related purposes (up from 63% in 2018 and 57% in 2017).

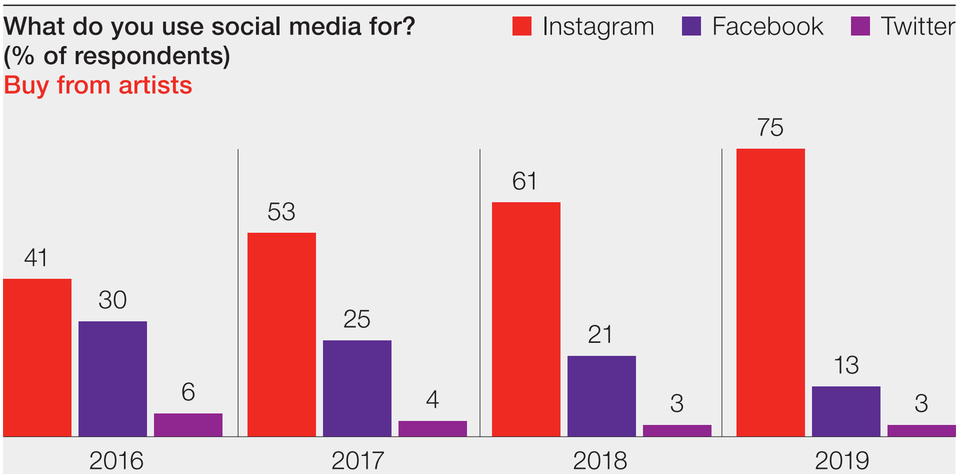
Which social media platform do you use most for art-related purposes? (% of respondents)



[1] Source: Instagram social media data and statistics from OmnicoreAgency.com.







Search and discovery

80%

of art buyers use Instagram to discover new artists.

Follow

79%

of art buyers use Instagram to follow and keep up-to-date with artists with which they are already familiar.

Trending

75%

of art buyers use Instagram to see what is popular and/or trending.

Buying

75%

of art buyers use Instagram to find art to purchase.

Influence on buying

34%

of art buyers said that social media had an increasing impact on their decision to buy art (up from 32% in 2018).

Selling

89%

of the galleries surveyed actively use social media.

Instagram

75%

of art galleries surveyed use Instagram to promote their artists and their exhibition programme (up from 61.5% in 2018). 54% of these galleries find Instagram the most effective social media platform in terms of selling and generating direct sales leads.

Artists could be the big winners in the world of Instagram as follower growth slowed down in the last 12 months.

Is the art world already becoming saturated with Instagram accounts? Not quite, although growth in followers of museums, auctions, galleries and art fairs slowed in the last 12 months. Average growth in Instagram followers for Tate, MoMA, Guggenheim and the Met was just 27% in 2019 (down from 41% growth in 2018). Among the top auction houses, Christie's, Sotheby's and Phillips saw an average 39% growth in Instagram followers (down from 44% a year ago).

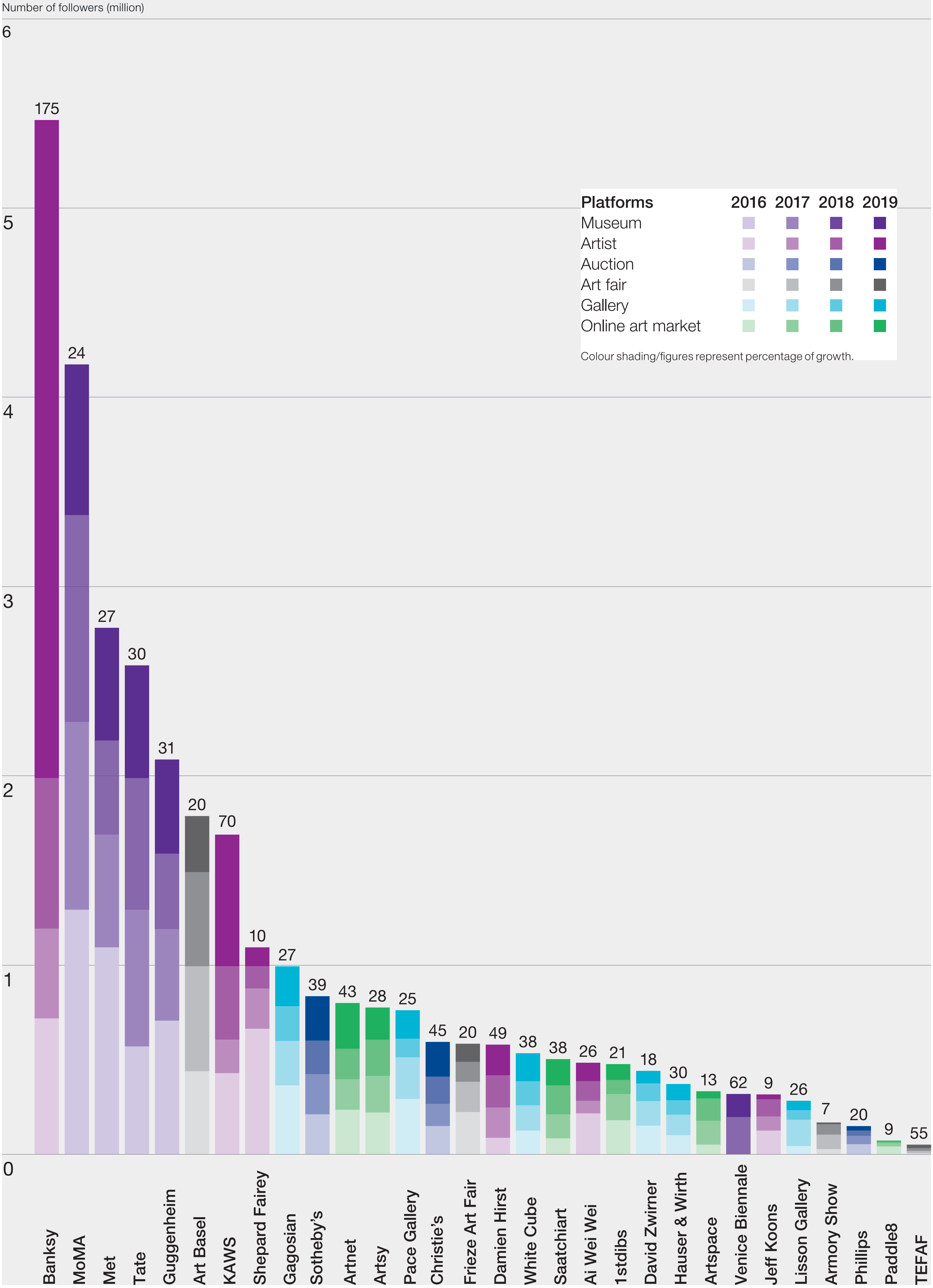
Art fairs are also seeing a slowdown in Instagram follower growth, with Art Basel, Frieze Art Fair, Armory Show and TEFAF experiencing an average increase of 20% between February 2018 to February 2019, less than half the growth rate of 44% experienced the year before. Many of the top galleries are seeing a similar trend, with Gagosian, Pace Gallery, David Zwirner, White Cube, Hauser & Wirth and Lisson Gallery seeing an average growth rate of 27% in Instagram followers in the last 12 months against 32% last year.

However, the real winners seem to be the artists. Banksy added an incredible 3.5 million followers in the last 12 months, most of these were added when Banksy's work was shredded during a live Sotheby's auction in October 2018.

Another artist with recent Instagram success is KAWS, who saw 70% growth in followers over the last year. Among NextGen Artists (artist aged under 40)[1], JR – the French photographer and street artists has the largest number of Instagram followers at over 1.2 million. For younger talents, Instagram could be a real game-changer, as it allows artists to build a large fan base (and potential collector base) outside the structures of the traditional art market.

[1] Source: NextGen Artist Report 2018 – ArtTactic/ JLT Speciality.

Instagram followers (million) and 12-month growth rate (%)



Source: Instagram – data was collected 11 February 2019.

Online art buying trends 2019 – a summary

Thirty-five percent of the art buyers surveyed said they visit online art and collectibles where you can buy art directly online a few times a week. This was up from 29% in 2018.

- Big spenders (those spending over $100,000 a year on art) have the highest frequency of visits, with 50% of these art buyers visiting art sales platforms a few times a week (up from 38% in 2018), with the majority spending between ten and 30 minutes on each visit. This suggests that online art platforms are increasingly becoming channels for sourcing artworks for seasoned collectors. Thirty-five percent of small spenders (those spending less than $1,000 a year on art) also visit these websites a few times a week, with the majority spending between five and 20 minutes per visit.

- Fifty-five percent of millenial art buyers discover online art platforms through social media, up from 50% in 2018. Word of mouth from friends and media coverage, were the two other most significant marketing channels for this age group.

- Forty percent of the art buyers under the age of 35, said they had bought art and collectibles online in the last 12 months, up from 36% last year. Overall, 44% of art buyers surveyed said they had bought art online in the last 12 months, slightly up from 43% in 2018, but still lower than 2017's 49%. Big spenders saw a significant increase in online buying activity, with 47% saying they have bought online (up from 30% in 2018).

- Last year we discovered that although a lower share of the survey sample had bought art online in the last 12 months, the people that had bought were buying significantly more than in previous years. This trend has continued this year, with 79% of the online art buyers having bought more than once, up from 74% in 2018 and 65% in 2017.

- Fifty-five percent of the online art buyers said they were likely to buy more art over the next 12 months than they did in 2018, up from 52% last year). The outlook among younger art buyers (aged 35 and below) was more muted this year compared to 2018, with 56% saying they were likely to buy more art online, compared to 63% in 2018.

- Fifty-three percent of the online art buyers use two-to-three different online platforms for their art purchases, suggesting that there isn't yet one single destination for the majority of online art buyers.

- Sixty-five percent of online art buyers aged 35 and below feel a moderate-to-strong sense of loyalty to the online platforms they buy from, down from 71% a year ago.

- Twenty-one percent of the respondents said they preferred buying art online, compared to 16% a year ago. This was significantly higher for millenial collectors, where 29% said they preferred buying art online (up from 14% last year). 46% of the art buyers remain indifferent to online vs. offline buying (up from 41%), which also signals that a large share of the art buyers see online as just another channel, rather than a substitute.

- Although the large majority of art buyers will buy art online using their desktop or laptop, 24% of the online buyers said they prefer using the mobile (up from 20% last year). Again, the propensity to use mobile when acquiring art online is significantly higher among millenial buyers, where 32% said they preferred using their mobile device (up from 24% last year).

- General online spending habits also benefit the online art trade as 73% of the art buyers said they had purchased other products in a similar price range prior to buying art online, up from 68% last year.

Among millenials, 23% said they had never bought an artwork in a gallery, auction or art fair prior to buying art online, up from 18% last year.

21%
of all respondents said they prefer buying art online.

79%
have bought art online more than once in the last 12 months.

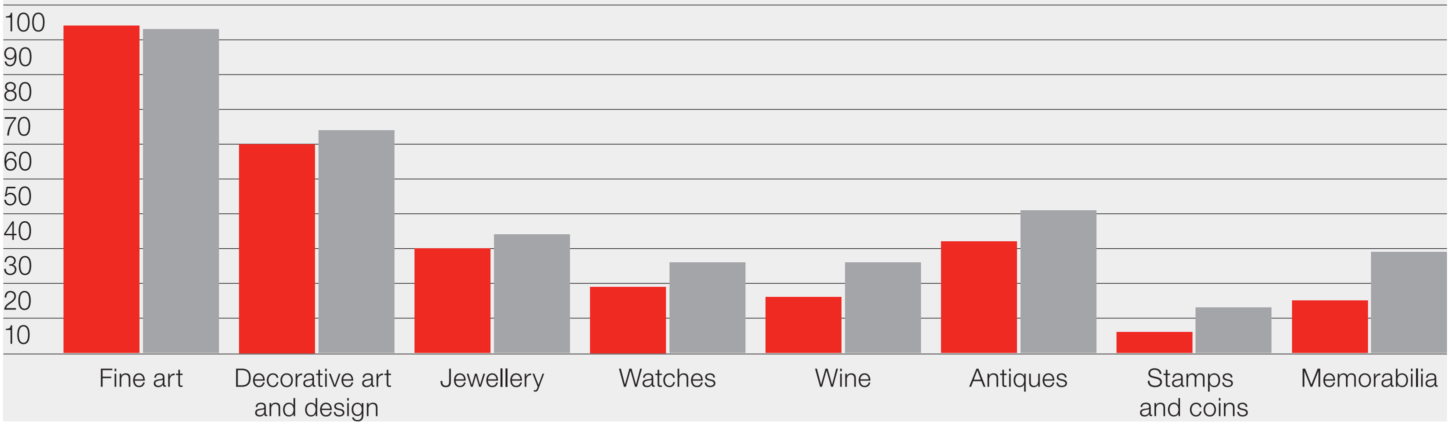
53%
say they use two or three different online platforms for their art purchases.

55%
said they were likely to buy more art over the next 12 months than they did in 2018.

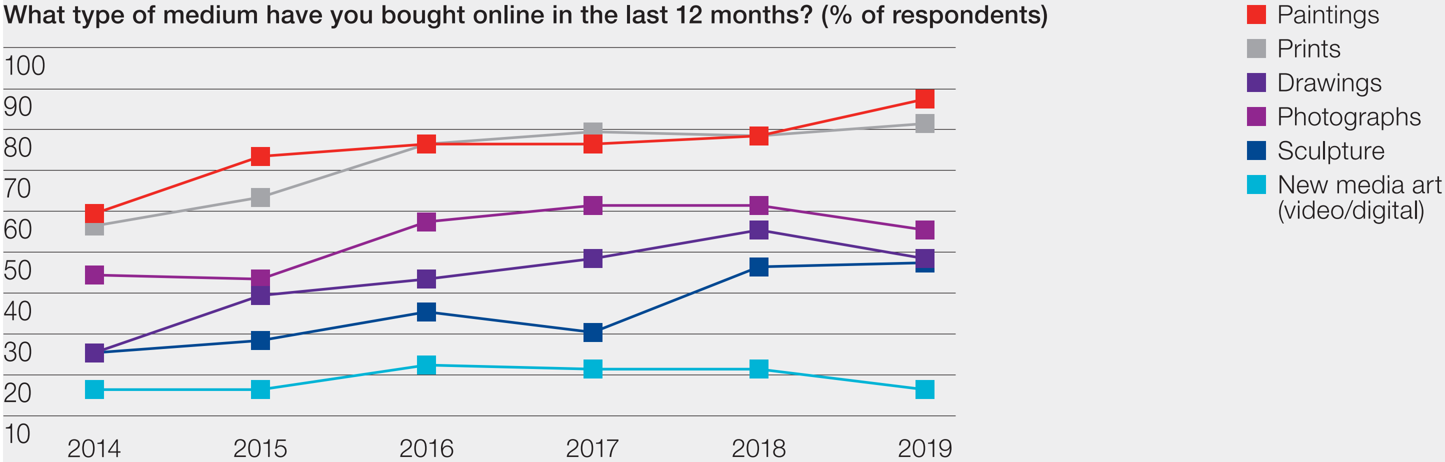
What have art buyers bought online in the last 12 months?

Online art buyers are increasingly focusing on unique works of art.

What have you bought online in the last 12 months? (% of respondents)



What type of medium have you bought online in the last 12 months? (% of respondents)

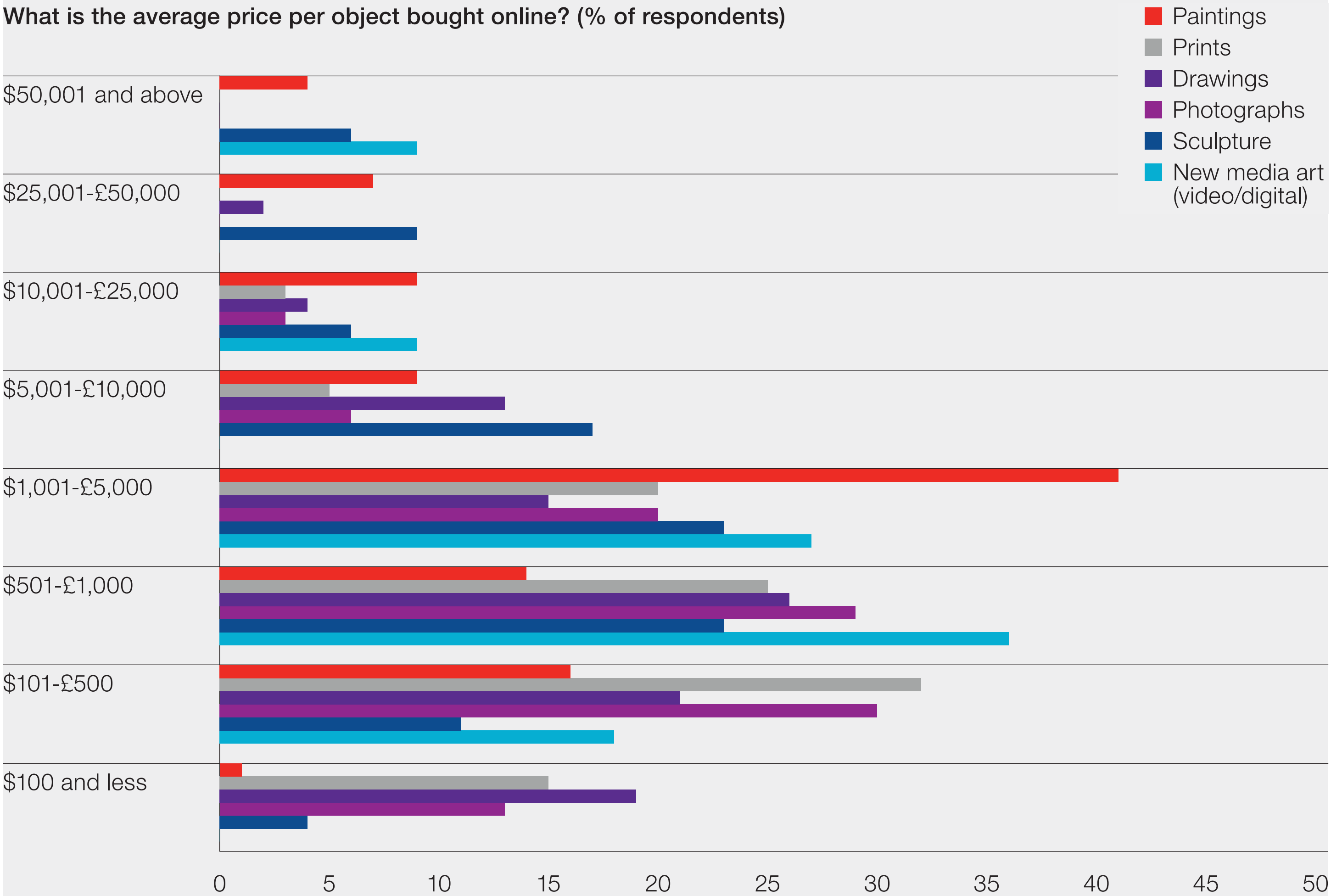


Whilst one would think that the online art market would be best suited for prints and editions at lower values, trends in recent years suggest that online buyers are buying more and more unique works (such as paintings, scultpture and drawings) online. Prints and limited editions are still the dominant medium for millenial online art buyers, with 79% saying they had bought a print online in the last 12 months, and 74% saying they had purchased a painting online.

The lower end of the art market expanding as more online buying under $5,000

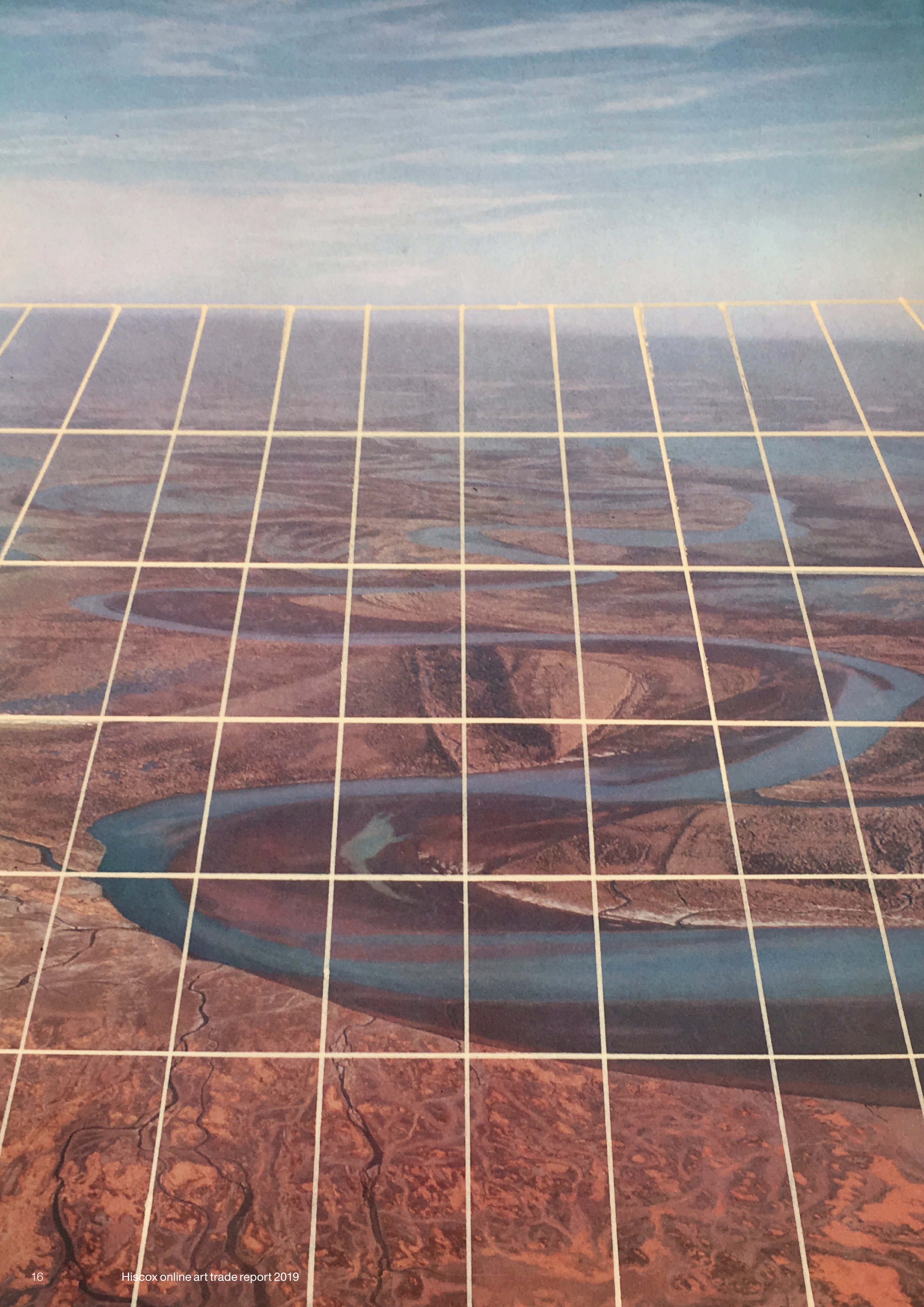
In 2015, 67% of the art buyers surveyed said they had bough fine art for an average value of below $5,000 per artwork, with 33% of the art buyers said their average price was above $5,000. In this year's survey, 78% of art buyers said their average price was $5,000 and below, suggesting that the online art market is growing fastest at lower price levels. 81% of millenial online art buyers would pay an average price of $5,000 and less for an artwork online, with 33% saying their average price was between $1,000 and $5,000, whilst 21% was between $500 and $1,000 and 22% between $100 and $500.

What is the average price per object bought online? (% of respondents)



What are the most important factors when buying art online?

1. **92%** — **Quality of the art on offer:** is the art as good as the art I can buy offline?
2. **91%** — **Search and navigation:** easy to find art and artists that I am interested in.
3. **88%** — **Reputation** of the online sellers of art.
4. **87%** — **Price transparency:** clear pricing and the possibility to check past and current prices.
5. **81%** — **Information about the art:** background information about the artist and the work.



The challenge of building trust online

With building consumer trust cited as the biggest challenge for 64% of online platforms, traditional auction houses have a major advantage compared to their online-only counterparts.

When it comes to establishing trust, it doesn't matter how compelling your website looks, how quickly it loads and how engaging your content is, if visitors are not able to establish how trustworthy you are. The aspect of trust becomes even more important in the context of the art market, largely because reputation is often very hard to establish, as there are no official ratings or guidance to who the most reputable sources are, and therefore the market tends to gravitate to those who have been there longest, i.e. trust isn't something you're entitled to; it's something that must be earned.

This year we added a new dimension to our survey questions, which was linked to the notion and perception of 'trust', i.e. who do you trust most when it comes to the quality of the online inventory (i.e. authentication, attribution, condition, pricing etc.)? Unsurprisingly, six out of the top ten online platforms were run by traditional bricks-and-mortar auction houses.

It's evident that the online strategy for traditional auction houses is working, and that the credibility and reputation that they have built up over years in the offline art market also works for the online market. With building consumer trust cited as the biggest challenge for 64% of online platforms, traditional auction houses have a major advantage compared to their online-only counterparts. Many of the online-only art platforms have built their reputation from scratch or 'borrowed' the reputation of traditional auction houses, dealers and galleries, by acting as online aggregators or platforms for the traditional art world.

Top ten online art platforms
'Trust' ranking 2019

Christie's	95%
Sotheby's	94%
Phillips	90%
Bonhams	86%
DegreeArt	81%
Artsy	79%
Dorotheum	77%
Artnet	76%
Barnebys	69%
Druot Live	66%

This is the percentage of respondents surveyed who said 'high' and 'very high' level of trust in the quality of art on offer.

What are the key issues that online buyers are most concerned about?

Physical inspection

74%

said not being able to physically inspect the work and 72% said not being able to inspect the condition were the main reasons for not buying art online.

Access to digital condition reports might be one way of addressing this concern. Technology companies such as Articheck and logistics providers such as Crozier Fine Art provide their clients with access to digital condition reporting tools. In the future this information could be linked to the blockchain as a way of tracking the condition history of an artwork over its lifetime and could mitigate the challenge of lack of physical access to the art work in the online-only world.

Bricks-and-mortar
Traditional auction houses or galleries often offer the opportunity to physically inspect the artwork ahead of a purchase, or to talk to an expert.

Online only
Online platforms often act as intermediaries and therefore often don't hold the inventory themselves.

Reputation of the seller

60%

said difficulties establishing the reputation of the seller was a key obstacle.

As more online art platforms emerge, how does the online art industry intend to build consumer trust, and will it increasingly come offline? 38% of the online platforms said this year that they had already, or were considering, setting up an offline presence in addition to their online business.

Bricks-and-mortar
Most auctions houses/galleries have built up their reputations over decades, if not longer. Their reputations were established long before online art platforms existed and they have been relatively responsive to the online challenge and changes in buying behaviour.

Online only
As most online platforms act as aggregators for other auction houses, dealers or galleries, it is difficult to ascertain their reputation given they represent a fragmented marketplace of potentially thousands of different art vendors and operators.

Authenticity

62%

said they were afraid of buying a fake or an object which is not what it purports to be.

The risk associated with fakes and forgeries when buying art online is of bigger concern this year, up from 52% in 2018 to 62% this year. With more artworks being sold online, there is a greater fear that fakes and criminal activity could start to flourish in the online art market.

Bricks-and-mortar
In-house expertise is critical in terms of ensuring that authenticity risks are minimised. Stringent controls are in place to minimise this risk, as it would also severely damage the reputation of the auction house or the gallery.

Online only
As many online art platforms are geared up to achieve scale, this growth could present challenges when it comes to monitoring and ensuring the quality of the art sold. Again advancements in technology are likely to help online platforms deal with this increasing threat.

The threat of cyber crime

Cyber security poses a challenge unlike any other. Businesses large and small, public and private, face an enemy that is unseen and largely unknown – an enemy that can be confronted but never quite defeated. In recent months the art world has been under threat from issues such as data theft and payment and invoice interception, but how prepared is the art world to fight such crimes?

So how concerned are the different stakeholders in the art market?

Online platforms

21% Concerned/very concerned about the threat of cyber crime.

36% Victims of ransomware attack (e.g. phishing scheme requiring payment to release control of the machine), up from 14% in 2018.

36% Victims of wire transfer fraud (email account takeover/impersonisation), up from 29% in 2018.

Online art buyers

Concerned about cyber crime when buying through online art platforms (same as last year). **40%**

Concerned about email fraud. **46%**

Concerned about data theft. **47%**

Afraid of payment and invoice interception. **50%**

Concerned about credit card hacking/theft of financial details. **57%**

Galleries

42% Target of some form of cyber crime in the last 12 months (up from 41% in 2018).

47% Concerned/very concerned about cyber crime (up from 41% in 2018).

Cryptocurrency market and blockchain technology

Since December 2017, the price of a Bitcoin has dropped more than 80%, from $20,000 to around $3,600 in February 2019. What could the impact be on the art world?

The values associated with art-related cryptocurrencies that launched in 2017 and 2018 have also been deflated by the overall burst of the cryptocurrency bubble. The market cap of ART, the token issued by Maecenas had a peak value of $65 million in early January 2018, but the total market value had dropped to less than $500,000 by January 2019. Another, art-related cryptocurreny called Artbyte reached a market cap of over $30 million in January 2018, but today's market value has fallen to just over $800,000.

So what role could cryptocurrencies and tokenisation play in the art world?
Such extreme price volatility in cryptocurrencies questions the appropriatness of cryptocurrencies as a payment method in the art world, however, recent developments might change this. In February this year, JP Morgan Chase, announced the JPM Coin, the first cryptocurrency created by a major US bank. As each JPM Coin is redeemable for a single US Dollar, it shares the qualities of a stable coin. Stable coin is a term used to describe cryptocurrencies meant to hold stable values, and hence remove the extreme volatility associated with other cryptocurrencies. As the eco-system around stable coin evolves, the international art world might take a second look at cryptocurrencies.

What does the art world think about the cryptocurrency market and blockchain technology?
Only 4% of the art buyers have invested in art-related tokens and cryptocurrencies such as ArtChain, Fresco, Codex, Maencenas and Saisho, as well as artist tokens such as Jonas Lund Token). 15% of the respondents had invested in cryptocurrencies, although that figure was slighlty higher among millenials (19%).

Digital art utilising blockchain has appetite among younger collectors
A quarter of buyers would consider buying digital art that is linked to or built on blockchain. This share was higher among millenials, where 31% said they would be interested buying such artworks, and even more prevalent among 20-29 years olds at 33%. Blockchain could be a game-changer for digital art, which in today's traditional art market has a limited pool of buyers and collectors.

Blockchain technology could create a new market for digital art using its ledger technology and smart contracts to ensure authenticity, ownership and provenance. This new market eco-system could ensure that artists could start to monetise the sales and distribution of digital artworks and create a new marketplace for promoting, buying and selling digital art.

Limited take-up of crypto-payments among online platforms
Ten percent of the online art platforms said they were currently accepting cryptocurrencies as payment for artworks, up from 7% in 2018. Only 14% of the plaforms said they were planning to add this feature to their payment service in the coming 12 months (down from 22% last year). However, 42% of the online platforms believe that cryptocurrencies will be the most viable form of blockchain technology/user case in the art world.

Blockchain take-up slows down as convincing user-cases fail to materialise
Despite the hype and early promises of blockchain's ability to cure many of the art market's ills, the initial bubble seems to have deflated. Although the technology is here to stay and will further evolve, the majority of the art world remains on the fence and waits to see how this pans out. Only 7% of the online art platforms said they had imbedded blockchain at the core of their business, the same as last year. A further 30% said they were considering it (down from 38%) and 53% said they had no plans to embed blockchain into their business, up from 35% last year. Only 9% said they didn't know, compared to 19% last year.

Provenance tracking and ownership-registry remains the most relevant user-case for blockchain in the art market at the moment
Fifty percent of the online platforms said that a title/ownership registry for the art and collectibles market would be the most likely area where blockchain technology would succeed, compared to 64% in 2018. A lack of proper traction among the blockchain providers around authentication, providence tracking and title registry, signals that the art market has lost some of the initial urgency to adapt to blockchain technology that was seen during 2018, and many are currently have a 'wait-and-see' approach in the short to medium term.

Galleries embrace blockchain-based technology in name only
Crypto art markets (such as DADA Art) and blockchain-based solutions became hot topics in the last 12 months, but only 50% of galleries have thought about how the gallery and its artists could potentially take advantage of these new developments and the technology itself, although all of these galleries said they were unsure of how to actually utilise the technology available. 31% of the galleries said they don't see the relevance for their artists and their business.

Is the art market ready for fractional ownership of art?

Asset tokenisation allows for fractional ownership in an underlying asset, such as art, and we have seen a number of blockchain-based platforms emerging in the last two years.

However, in today's market, it would be challenging to acquire investment grade art for much less than $100,000. This means that the vast majority of people don't have the money to invest in artwork by blue-chip and established artists. However the advent of 'asset tokenisation' could change this.

The interest in fractional ownership of art has been around for some time. About ten years ago, a number of art exchanges (similar to stock market exhanges) were set up in China, and allowed investors to buy shares (fractional ownership) in artworks and trade these shares daily on an exchange. Due to excessive speculation and price volatility these exchanges were swiftly regulated by the government, and were either forced to change their business model or close down. A number of similar initiatives were also tested in Europe without success. So could the current generation of fractional art ownership platforms succeed where past generations have failed? Could fractional ownership be a way of attracting new audiences to the art market, or will history repeat itself?

Survey findings

Financial motivations for buying art do vary with gender and age, and the economic value of an artwork is a higher motivation for purchase among male buyers. 53% of women said 'value potential (return on your investment)' is important or very important when buying art compared to 65% of men. Younger and new art buyers put more emphasis on the investment potential of art, with 61% saying this was an important or very important reason for buying art.

Forty-six percent of millenial art buyers (aged 35 and below) said they would consider fractional ownership of art as a form of investment, with an even higher share, 51%, of younger buyers (less than 30 years old) saying they would consider it. New art buyers (defined as collecting art for less than three years) also showed an appetite for fractional ownership of art, with 43% saying so. There is a clear generational gap when it comes to the topic of fractional investment, with 29% of art buyers above the age of 50 saying they would consider investing in art through fractional ownership models. 85% of the online art platforms said they were not considering offering their clients 'fractional ownership' in artworks.

Whilst, a significant share of art buyers would consider fractional ownership, the majority remain doubtful about its application to the art market, mainly because of the lack of emotional enjoyment and passion associated with such investment. Others expressed concerns about the fact that fractional ownership could lead to excesss speculation. One respondent phrased the challenge in the following way: "*Whilst fractional ownership works for companies, because companies create true value (cash flows) and redistribute this value to their shareholders. The only value that an artwork can generate is speculative and therefore shared ownership for art will unfortunately only lead to ponzi schemes.*"

Could fractional ownership create the next generation of art patrons?

Despite the fact that most recent fractional art ownership models are focusing on 'democratising' art investment, maybe fractional ownership should instead be a model for democratising 'art patronage', maybe it even could be the next generation model for museum fundraising, i.e. tokenisation is used as a method for institutions to raise finance for specific projects or maybe even acquisitions, and where people enjoy the returns of this fractional investment through being an active supporter, which could carry emotional, social as well as potentially financial benefits.

Glossary

Cryptocurrency
A digital asset designed to work as a medium of exchange that uses strong cryptography to secure financial transactions and verify and transfer assets. Cryptocurrencies use decentralised control as opposed to central banking systems. The most well-known crypocurrencies are Bitcoin, Litecoin, Ethereum and Ripple.

Token
A token represents an asset or utility that a company has and they usually give it away to their investors during a public sale called initial coin offering (ICO) see below. ICOs are basically crowd sales, the cryptocurrency version of crowdfunding.

Initial coin offering (ICO)
An initial coin offering, or an ICO, is a fundraising mechanism in which new projects sell their underlying crypto tokens in exchange for Bitcoin and Ether. It is somewhat similar to an initial public offering (IPO) in which investors purchase shares of a company. A variety of scams have raised concerns about the lack of regulation and whether ICOs should be regulated securities.

Security tokens offering (STO)
A crypto token that passes the Howey Test* is deemed a security token. These usually derive their value from an external, tradable asset, such as real estate and art. Because the tokens are deemed a security risk, they are subject to federal securities and regulations. Compared to tokens offered in an ICO, which do not give any rights or obligations, but instead provide access to a specific network, platform or service, tokens offered in a STO are actual financial securities that are backed by something tangible like the assets, profits, or revenue of the company, and which offer legal rights such as voting or revenue distribution.

*A test created by the US Supreme Court for determining whether certain transactions qualify as investment contracts.

Fractional art ownership platforms

Artfintech.one

A technology company that originated from Artplus Inc. founded in 2012 by David Dehaeck and Nathalie Haveman. The company has developed a Patron Protocol based on a blockchain-based technology, facilitating fractional ownership in digital artworks. It's an open source ecosystem which allows carefully-selected artists to tokenise digital art and to make it available to patrons and investors via WUNDER.ART, a decentralised, autonomous, blockchain-based digital art museum. The first artist tokens were issued in February 2019, for a digital video by Dragos Alexandrescu.

Feral Horses

Founded in 2017, Feral Horses allows individuals to purchase shares of artworks by contemporary artists. The shareholders may own as little as 0.1% and are free to trade as they please. This type of communal ownership allows investors to diversify and optimise their portfolio, and share related investment costs with others. Feral Horses manages the insurance, transportation, storage and logistics of the artworks, while also renting the pieces in the interest of the owners. Feral Horses is focused on contemporary artworks including sculptures, paintings, photographs, mixed media, and new media between £3,000 and £30,000, making it the ideal entry point for young collectors who want to start benefiting from the diversification that art offers and simultaneously supports emerging artists.

Maecenas

Founded in 2017, Maecenas allows users to purchase up to 49% of valuable art collectibles using Bitcoin (BTC), Ethereum (ETH) or the platform's native ART token. Maecenas used its blockchain platform to auction a 31.5% share of an Andy Warhol painting, 14 Small Electric Chairs, for $1.7 million in the autumn of 2017. In November 2018, they announced that they had teamed up with crypto exchange Ethershift.co to conduct the first 'perpetual' digitalisation and tokenisation of a Picasso work of fine art.

ARTOPOLIE

Announced its entry in the fractional art ownership space in January 2019. It positions itself as a new fractional ownership platform that will allow the average person to invest as little as $50 towards works by Pablo Picasso and similar artists. ARTOPOLIE plans to democratise access to fine art – a market that has been controlled by the super rich, auction houses and art galleries. ARTOPOLIE acquires each masterpiece and files it with the Securities and Exchange Commission (SEC). Once the SEC approves the offering, ARTOPOLIE will sell fractional ownership on its platform. The model looks similar to Masterworks.

Look Lateral

Founded in 2018, Look Lateral uses blockchain technology to allow anyone to invest in the global art market through buying and selling fractions (shares) of artworks. The company has recently announced a security token offering (STO). The security token's value is based on a share holding in Look Lateral Inc.

Masterworks

Founded in 2017 by Scott Lynn, an entrepreneur and art collector. The platform offers fractional ownership in major works of art for as little as $20 per share. The first art work marketed to potential investors in August 2018 was a One Colored Marilyn (reversal series) from 1979. Currently their website says they are 'testing the waters' under Regulation A of the Securities Act of 1933. This process allows companies to determine whether there may be interest in an eventual offering of its securities.

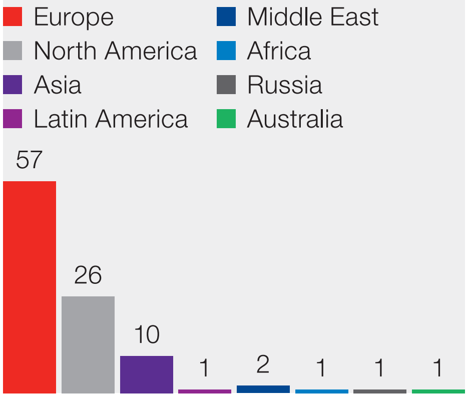
Methodology

The survey findings are based on responses from 706 art buyers surveyed through ArtTactic's contactmailing list (this was lower than 831 in 2018, and is mainly due to the new GDPR regulations that came into force in May 2018, which reduced the overall sample we were able to reach out to this year). Like last year, most of the survey respondents participated in this year's survey as well. Although the central focus is around fine art, we have in this survey also explored online buying habits of other collectibles.

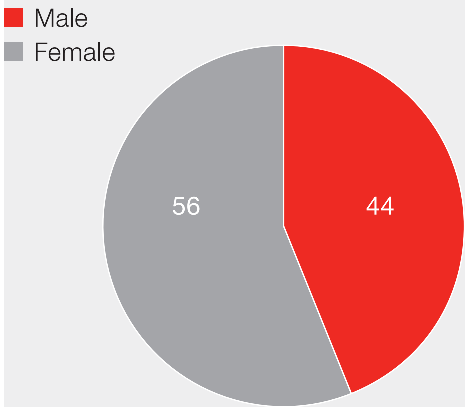
For this report we also surveyed 128 galleries and dealers (slightly down from 130 in 2018) representing a wider range of art and collectibles. Over half (60%) of these galleries were linked to contemporary art, whilst 40% represent a wider selection of dealers in different collectible areas (such as photography, modern and impressionist art, design, furniture, decorative art, antiquities, and old masters). The large majority of these galleries were small- to mid-tier galleries, and the findings need to be viewed in this context.

This year's report also includes the survey feedback from management and key staff of the online art platforms participating in this research. In January and February 2019, ArtTactic conducted 42 one-to-one interviews and online surveys (from a total population of 75 companies profiled in the appendix).

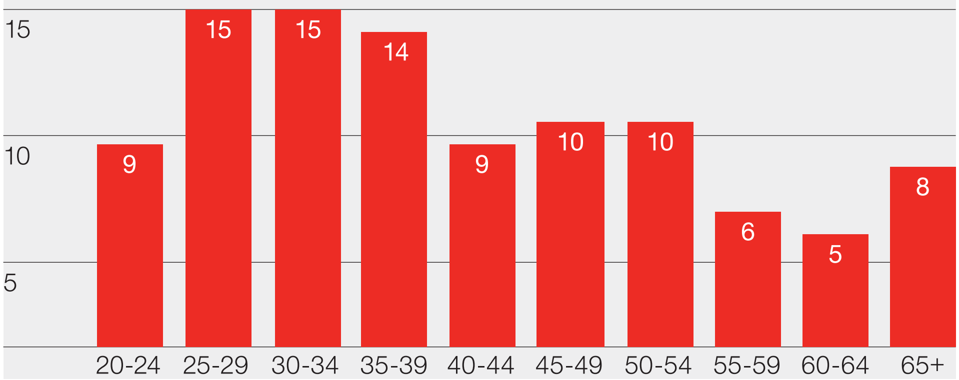
Survey sample: art buyers by region (%)



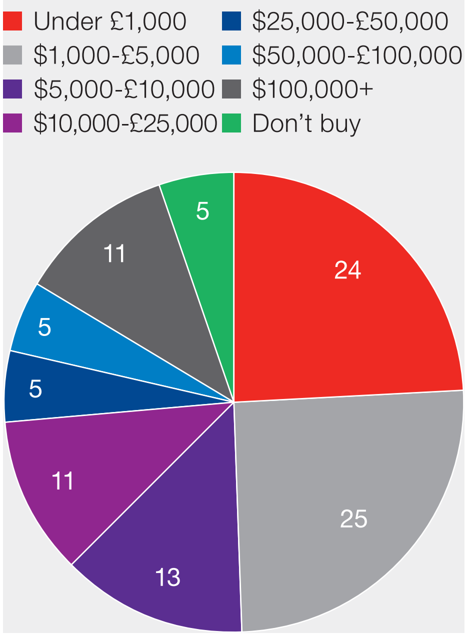
Gender (%)



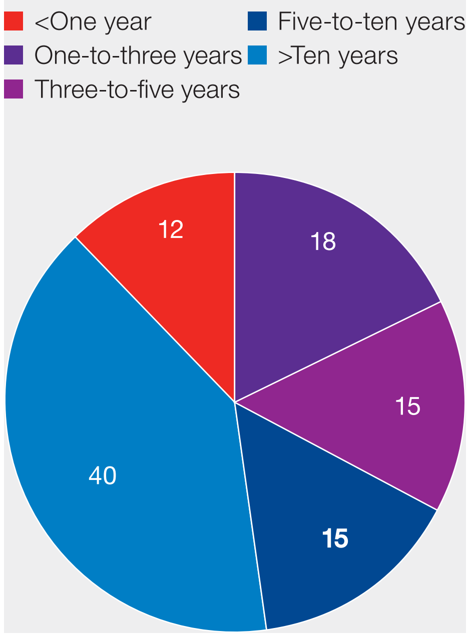
Survey sample: art buyers by age group (%)



How much do you spend on art and collectibles a year? (%)



How long have you been collecting? (%)



List of artwork

Cover:
Nathalie Du Pasquier,
Detail of *Untitled*, 2014

Photo: Delfino Sisto Legnani, courtesy the artist

Page 13:
Lilah Fowler
Drawings for Land Use #18, 2018
Collage using mixed media
31 x 22 cm

Page 16:
Lilah Fowler
Drawing for Land Use #12, 2018
Collage using mixed media
31 x 22 cm

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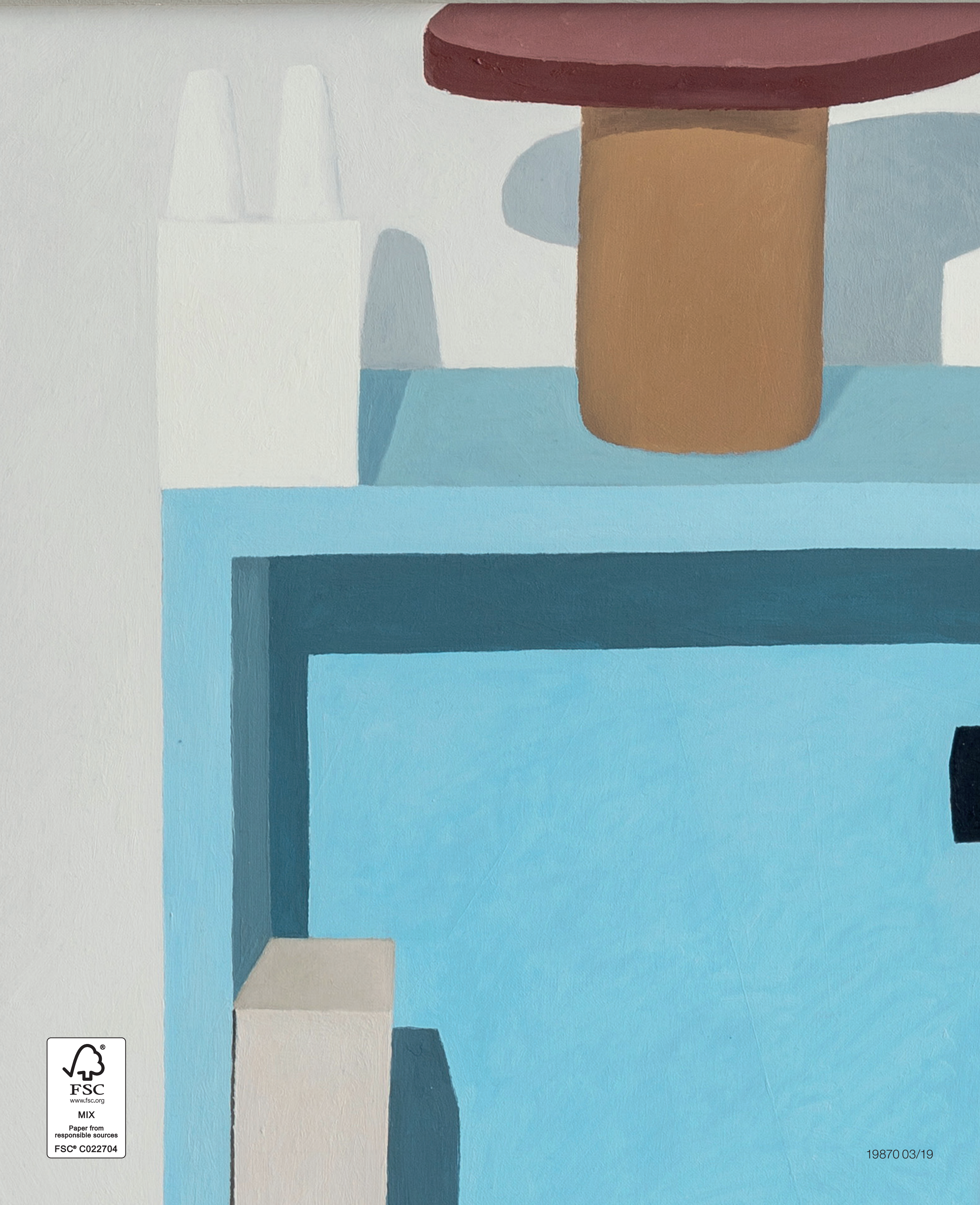

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