



ART MARKET GURU
BLOCKCHAIN AND THE ART MARKET

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BLOCKCHAIN AND THE ART MARKET

PREFACE

Industry analysts valued the global art market in 2016 at US\$45 billion. It's difficult to arrive at a more accurate figure, however. The art market remains largely opaque and illiquid. Although companies such as Artprice and Artnet maintain public auction records, galleries and private parties do not record nor make their sales public. This means there are no complete historical or real-time transaction price records. This suspicious and often inefficient process discourages many potential investors, making art an illiquid asset class.

Outsiders may observe the art market as glamorous, lively and exciting. Vernissages, vibrant cocktail parties and fancy VIP dinners punctuate agendas. Powerful gallery owners and auctioneers battle for the attention of buyers, engaging in a race to entertain potential art investors. Although the art stage looks stunning, it would benefit from becoming a better regulated environment, both at national and international levels.

Blockchain technology may offer solutions for more security, trust and transparency in the art market.

Smart contracts and blockchain networks may allow the formation of more honest art exchange platforms. The new digital platform may enable owners, collectors and investors to carry out direct transactions safely with each other. Blockchain may also reduce the need for intermediaries such as auction houses, galleries, brokers or art dealers. Transaction costs could also drop as blockchain portals offer an opportunity to replace dependency on traditional players by presenting trustworthy, decentralized trading platforms. By publicly recording all transactions, blockchain's price discovery mechanism promises a more transparent art market.

Blockchain technology may also allow a wider audience access to the art market. Investors will be in a position to diversify their assets, owning shares of various artworks. This will enhance liquidity of the art market. Blockchain platforms have the potential to offer more opportunities for art investors, allowing them to buy a share of an artwork at a lower transaction cost. It will inject liquidity and transparency. Galleries and collectors will be in a position to raise funds by listing their existing artworks on the exchange to sell their assets or finance the purchase of new collections.

When I started my career in Art at the Jan Krugier Gallery, we sent printed images of artworks by FedEx to prospective buyers. Digital images of art works were not in use. In less than two decades, technology has changed most industries beyond recognition - except Art. However, blockchain technology promises the art market can be as financially liquid and operationally transparent as any other sector.

Now, there is no reason for Art to escape modernity.

Frédéric de Senarclens
Founder of Art Market Guru



SUMMARY

Few investment opportunities nowadays are as fraught with confusion or lack of information as Blockchain technology. And few industries are as opaque as the art market.

Our research report *How to Evaluate the Risks of Blockchain in the Art Market* is a guide that provides investors the information they need to understand the basics of Blockchain technology, how it applies to areas where the technology intersects art markets, and the issues to consider when eyeing investment in relevant areas.

The new, disruptive technology could impact stakeholders in the art market, including:

- ▶ Collectors
- ▶ Asset stakeholders
- ▶ Private equity players
- ▶ Artists
- ▶ Dealers
- ▶ Museums and galleries
- ▶ Insurers
- ▶ Logistics specialists
- ▶ Customs agencies

We focus on topics collectors and private equity players should consider when mulling investments in Blockchain applications that may affect any other stakeholders in the list.

The areas of greatest interest to art market stakeholders include:

- ▶ Authentication and Provenance
- ▶ Sales
- ▶ Insurance
- ▶ Art logistics

We view Blockchain technology as full of promise for its capacity to bring greater transparency and trust to the art market. The technology also holds out the promise of speeding financial transactions involving the sale and insurance of art. It also has the potential to provide artists greater leverage in pricing their art. And Blockchain could allow them to share in the success of their own art as it increases in value.

However, Blockchain and the so-called “crypto-currencies” like Bitcoin and Ether that underpin Blockchain networks are still very new. Gartner, the technology research company, considers Blockchain still squarely in the early stages of adoption, entrenched in “hype”. Media attention and prognostications about Blockchain far outweigh its usefulness so far. Governments, banks, private equity investors, venture capitalists and high net-worth individuals are probing opportunities to make money from the new technology.

Though it is still early days in the implementation and practicality of Blockchain, early adopters and technology evangelists are trumpeting the technology has the potential to reshape the way businesses, individuals and even societies may interact. They claim Blockchain may be as revolutionary as the internet itself.

Though the authors of *How to Evaluate the Risks of Blockchain in the Art Market* remain agnostic about the degree to which Blockchain may revolutionize society, it is the case that there is a great deal of interest in Blockchain applications. However, as is always true with any investment, *caveat emptor*. And there are still many caveats involving the technology.

We identify the main due diligence considerations for each of the Blockchain applications relevant to the art markets. The considerations fall into the categories of:

- ▶ Technology
- ▶ Security
- ▶ Government policy
- ▶ Corporate governance
- ▶ Investor rights

While each of the areas of due diligence apply to each of the stakeholder areas of interest, they do not apply in equal measures. And while we address stakeholder considerations, we are not advising on which aspect of Blockchain in which to invest. We leave those insights to professional investment advisors and individuals. Nevertheless, *How to Evaluate the Risks of Blockchain in the Art Market* sets out to arm potential stakeholders with information and questions enough to assess Blockchain opportunities related to Art.
