



Art Market 2020 - On the Rocks or On(line)?

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How Covid-19 has impacted the Art Market and what this means for Insurers

-Autumn 2020-

*Opinions expressed in this article are solely the personal opinions of the author *

Covid-19 gripped the world at the first signs of Spring and right at the start of the busiest and most profitable time of year for the art market. Art Basel, Frieze, TEFAF, Masterpiece, PAD, and countless more Art Fairs have been cancelled; the blockbuster Spring auctions of Christie's, Sotheby's, and Phillips (all of which account for a large portion of their annual earnings) were cancelled; and that drop in expected income left the entire Art World reeling. What is the "new normal" for the Art World, and what does this mean for the industry built on mitigating risks within it?

It is obvious the global pandemic and ensuing government lockdowns had a large impact on global markets- and the Art World is no different. To understand just how much of an impact there has been is a tricky task; pinning financial figures on the Art World (and its objects) is difficult due to the opacity of the market, where privacy is treasured. Information is self-reported for most figures regarding art gallery revenue- take for example 'Le Comité Professionnel des Galeries d'Art' (The Professional Committee of Art Galleries); as soon as the French government imposed lockdown restrictions the committee carried out a study of their 279 member galleries. About 60% of the member galleries responded with their revenue data where it was found that more than 1/3 of the galleries were likely to close in the next 12 months¹. Keep in mind, that figure was published in April- and as 2nd wave lockdowns start to edge their way back into our daily lives, it can be estimated that there may be higher figures of galleries closing in the wake of the Covid crisis.



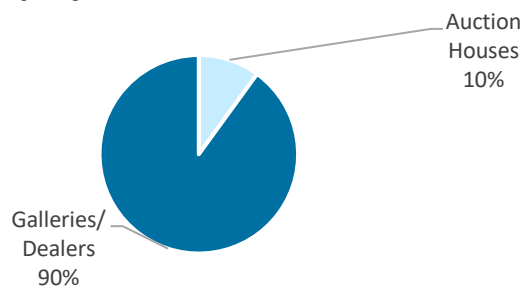
¹ Résultat De L'étude D'impact De La Crise Sanitaire Covid-19 Sur L'économie Des Galeries D'art. www.comitedesgaleriesdart.com/actualites/resultat-de-letude-dimpact-de-la-crise-sanitaire-covid-19-sur-leconomie-des-galeries-dart.

While it's difficult to look at Art Dealers/ Galleries as a whole and illustrate just how hard their finances were hit, Auction Houses (the secondary market) provide transparent information to glean insight to the consequences of external influences. With the data compiled from the auction houses, there are a few financial reports which can help us understand the health of the market. Lucky for us, most of them were published in the last few months! For the purpose of this article, I'm using the following reports to get my information: ArtTactic's "Raw Facts Auction Review First Half 2020", Hiscox Online Art Trade Report 2020, Art Basel/ UBS "A 2020 Mid-year Survey", and the Art Basel/UBS "The Art Market 2020". The picture these reports paint is of a clear contraction of the market, and a new opportunity for Online-Only auction sales to dominate the market.

For the TLDR (Too Long, Didn't Read) version of the reports:

- **General:**
 - In 2019 there were approximately 311,000 businesses operating in the global art and antiques market, employing about 3 million people²
 - Of that figure, 2.7 million people were employed by the gallery and dealer sector
 - An estimated 1/3 of galleries had downsized their staff by July³ with an average reduction by 50%. This amount of reported job losses comes to about 500,000 job losses in the first half of 2020 across galleries and auction houses.

Employment in the Art World



- **Auction Houses:**
 - There has been about a 50% decrease in the value of global auction sales for the first half of 2020 when compared to the first half of 2019⁴ (see graph on next page)
 - According to art market analytics firm Pi-eX, Christie's, Phillips, and Sotheby's combined saw a 79% decrease in revenue for their Q2 of 2020 when compared to 2019⁵
 - Post-War and Contemporary Art still hold the position of the largest sector of the fine art auction market⁶ although it decreased by about 10% from 2018 to 2019⁷, and a further decline from 2019 to 2020

² McAndrew, Clare. Art Basel & UBS, *The Art Market 2020*.

³ McAndrew, Clare. "The Art Market 2020 Art Basel - A 2020 Mid-Year Survey." *A 2020 Mid-Year Survey - The Art Market 2020 Art Basel*, theartmarket.foleon.com/2020/artbasel/a-2020-mid-year-survey/.

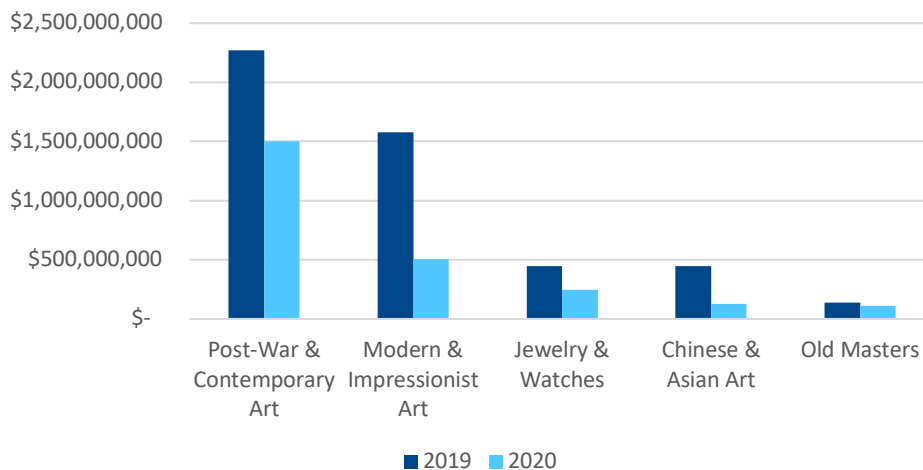
⁴ Petterson, Anders. ArtTactic, *Raw Facts Auction Review First Half 2020*.

⁵ Kamp, Justin. "Christie's, Phillips, and Sotheby's Saw Revenue Drop 79 Percent in the Second Quarter of 2020." *Artsy, Art Market Monitor*, 6 Aug. 2020, www.artsy.net/news/artsy-editorial-christies-phillips-sothebys-experienced-79-percent-revenue-drop-second-quarter-2020.

⁶ Petterson, Anders. ArtTactic, *Raw Facts Auction Review First Half 2020*.

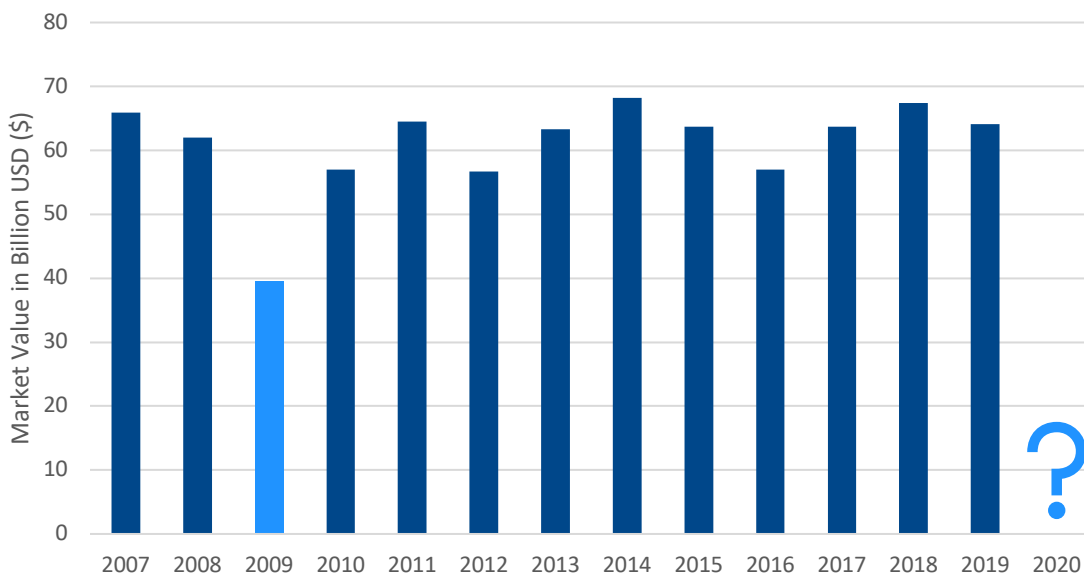
⁷ McAndrew, Clare. UBS, *The Art Market 2020*.

Year on Year Change for Auction Sales (Q1)



- The top three auction houses' H1 2020 drop in sales is greater than their drop in sales which occurred following the 2008 financial crisis. The graph below shows how 2009's financial figures were impacted by the drop in sales, and we can only guess how 2020 will perform in H2.

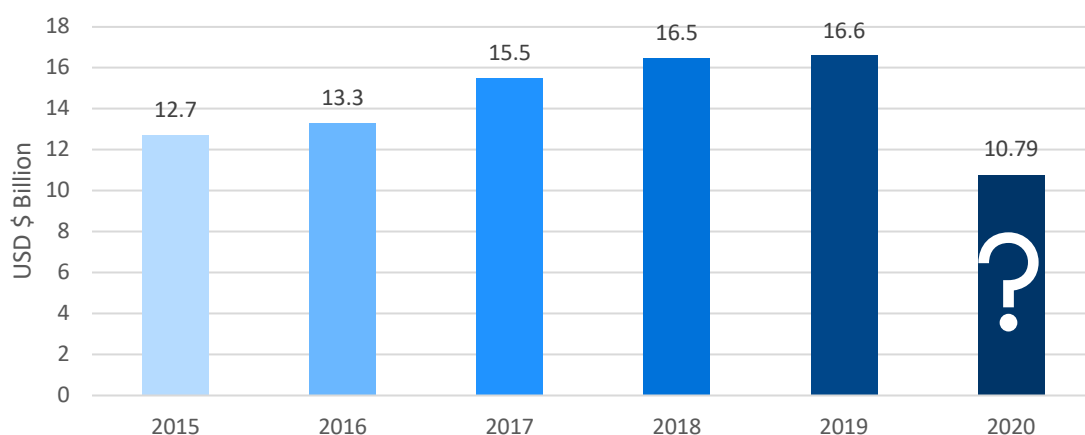
Global art market value from 2007 to 2019



- Auction houses shifted their behavior following the cancellation of blockbuster spring auctions, and instead turned to the internet, hosting hundreds of online sales. In June, the online sales finally paid off with the launch of online hybrid sales. It was from June where the sales figures started to improve
 - Around 85% of Q2 revenue came in during June's live hybrid sales

- **Galleries:**
 - When comparing the first 6 months of 2019 with the same period in 2020, galleries have reported that on average their sales have fallen by 36%⁸
 - Fair sales account for 30% of sales for small dealers (turnover of <\$500,000) and 47% of sales for larger dealers (>\$10 million in annual sales)
 - The cancellation of Art Fairs meant that galleries have had a 35% decrease in their H1 sales, and the likelihood of that figure improving is extremely slim (the graph below shows 2020's estimated figure at a 35% reduction- not taking into account lost sales from cancelled fairs in H2)
 - The largest expense for galleries in 2019 was on art fairs equaling about \$4.6 billion (23% of the dealer's total ancillary expenditure)⁹- with most of these fairs being cancelled, galleries have been focused on the potential recovery of their 2020 fair fees- and some galleries may have purchased event cancellation/contingency coverage

Estimated Art Fair Sales 2015-2020 (in \$ Billion)



- **Online:**
 - From 2018-2019 there was only a 4% increase in sales generated from online auctions
 - This is also following a 12.5% decrease from 2017
 - Despite the dwindling figures of previous years, in the first half of 2020, there was an increase in online-only auction sales of 497%
 - Sotheby's, Christie's, and Phillips were able to generate \$412 million in H1 2020 from online-only sales
 - The Online-only sales of Old Masters saw a 785% increase from 2019, proving that this category is sought after as a secure investment

⁸ McAndrew, Clare. "The Art Market 2020 Art Basel - A 2020 Mid-Year Survey." A 2020 Mid-Year Survey - The Art Market 2020 Art Basel, theartmarket.foleon.com/2020/artbasel/a-2020-mid-year-survey/.

⁹ McAndrew, Clare. UBS, *The Art Market 2020*.

But what does it mean for Insurers?



- **Due to the changes in the secondary market, there will be changes in the current value of Fine Art, Specie, and Jewellery objects**
- Items like Rolex Watches may have increased in value, and items like Contemporary Sculptures may have decreased in value by large margins since 2019
- There has been the green light given to US museums to sell works to cover operating losses, and this has the potential to flood the market with high quality lots that will drive other prices down
- **Making sure there are recent (and regular) valuations completed for these objects is key to making sure there is enough coverage, the risk is priced accordingly, and in the event of a loss there isn't a disagreement on the actual cash value of the object (which can create larger costs for insurers in the long run)**



- **Online-only sales are here to stay, and with this new way of buying and selling, there are new risks**
- In pre-covid times, auctionhouses and galleries would host events to highlight the availability of their high value items- by concentrating the client pool in one place, it allowed the seller to control the potential risks
- The transportation and handling of the objects to the showroom was coordinated and overseen by experienced staff members, and there was limited movement of the objects themselves
- Now with online sales, some sellers are shipping objects to their high value clients for viewings- this creates an additional transport damage risk



- How will the lack of art fairs and the need for some businesses to reduce their operating costs impact the demand for insurance coverage?
- Does the new online focus of the art world create a larger digital security risk for those companies and their client base?
- How will the logistics for the art market recover from the impact of covid, and how will these systems weather future outbreaks?



The current market is extremely unusual- but I would like to stay hopeful that what's a stumbling block now, turns into an accelerant to bring the Art World more firmly into the new digital and online era. Great changes are underway, and the trends of falling market values will hopefully be short lived with the acceleration of online presence and the ability for art world players to connect to the new marketplace. In an online marketplace, who knows what the Art World can achieve!

While the financial figures for this year are harrowing at first glance, a silver lining for Insurers is the market has been hardening with a general increase in premiums, and at the same time, attritional fine art loss ratios are reported to be down when compared to past years (according to the major players in the US market). Additionally, most hurricane activity has not affected high density population areas (so far), which means relative safety from losses in various museums and other institutions. Hopefully, 2020 has been a catalyst to drive innovation within the Art World and provide an environment that allows us to see evolving risks more clearly.

About the Author:



Grace Best-Devereux has been enjoying her Autumn days visiting the V&A's Kimono exhibition (which was very well presented in her opinion), synthesizing various financial reports about the Art World, working with McLaren's Fine Art, Jewelry & Specie and Private Clients teams with pre-risk surveys and valuations, and practicing her painting with old-school Bob Ross videos.

If you have any questions or want to discuss anything mentioned in this article, please reach out with the contact details below:

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