Articles on insurance fraud:

Art that isn't artful: paintings, provenances, appraisals and fraud

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Fake art thefts can reap deceitful collectors large insurance windfalls

Abstract: *Dealing in stolen, fraudulent and misrepresented works of art is the world's third-most-lucrative criminal enterprise today. Single stolen works can easily net hundreds of thousands or millions of dollars in resale on the open and black markets. Insurance crimes share the same lucrative profit potential. Many art-insurance cons involve staging a theft and lodging a bogus claim. There is little data on art-insurance fraud. Some insurance companies thus give fraud only a glancing priority. Thus, too many insurers are unprepared to detect well-constructed fraudulent art claims. But carriers can protect against art-insurance schemes, such as making sure the policy requires adequate examination and documentation of the works' authenticity.*

Beauty is in the eye of the beholder, the old adage goes. No one counts on its enduring validity more than swindlers who hunt for large insurance payouts by trafficking in counterfeit art and staged thefts.

Precise data on the worldwide and U.S. scope of fake art haven't been compiled. But the total most likely runs in multiple billions of dollars a year.

This signals the large windfalls beckoning art criminals who succeed. Single stolen works can easily net hundreds of thousands or millions of dollars in resale on the open and black markets. The numbers can be astronomical for entire stolen collections. Insurance crimes share the same lucrative profit potential. Too often the risk of getting caught is low compared to the profits the setup thefts bring in.

Many art-insurance cons involve staging a "theft" and lodging a bogus claim for art the owner actually hid, sold or destroyed. The "stolen" works also might be cheap counterfeits passed off as expensive originals. Or the "stolen" works are real but deliberately over-valued by the owner who hoodwinks an insurer not versed enough in sophisticate fine arts.

Devious art owners thus profit handsomely from large claims for the staged theft of works that the owners actually hid, destroyed or sold.

Despite the large amount of money on the table, art-insurance fraud is a little-understood crime. There are no credible estimates of how much money insurers lose to schemes every year. A big reason is that much art-insurance fraud goes undetected.

In this data void, law enforcement generally considers this crime a low priority, thus lowering vigilance and further emboldening insurance thieves.

Some insurance companies give fraud only a glancing priority as well. Thus too many are unprepared to detect well-constructed fraudulent art claims.

Art-insurance fraud is hard to detect. In turn, most insurers don't even know when they have been defrauded. Loss ratios thus may be artificially low. This convinces insurers to relax their vigilance, believing they have only a small or easily manageable fraud problem. This can breed a lax logic that further primes the fraud pumps: If you are paying a claim for stolen property, does it matter if that property is real or fake? Or stolen or not stolen?

"Another oddity the specialist notes is that many values given for these works seem unusually low for artists this wellknown."

As a result, some insurers settle for only a relatively low understanding of the art they cover. They often lack the expertise to accurately appraise and value their insured artworks when writing the policies.

The same lack of expertise extends to claims. The works may be fraudulently reported stolen. But the insurer has little idea if the objects are what the owner claims they are, their replacement values, or if the owner staged the claimed thefts.

Unless insurers can better penetrate schemes, they face an outflow of large losses. Supposedly high-end works — or entire collections — can be falsely valued for hundreds of thousands or millions of dollars.

Jason Sheedy moved into his condo in Minneapolis. He'd packed his collection of fine art and historic collectibles into a van he conveniently left parked outside. Someone cut open the truck's padlock and stole works by Rembrant, Salvador Dali and Peter Max, he reported to AXA Art Insurance Corp.

Sheedy collected more than $250,000. Several years later the same works went up for auction at an online site. Sheedy himself put the art for sale. He received only three years of federal probation in January 2013.

Opthamologist Steven Cooperman was $6 million in debt and needed money fast. The Los Angeles-area man had a 1932 Picasso nude and an 1882 Monet. They were worth a combined $2.5 million on the open market. Cooperman had a friend "steal" the works, and finally collected a $17.5-million insurance windfall.

Detectives were suspicious because his home showed no signs of a break-in. But the case went nowhere for five years until Cooperman's friend jilted his girlfriend. She then tipped off authorities to the scheme. Cooperman received three years in federal prison in 2001.

Suspicious theft flagged

An insurance company now faces a $17-million theft claim for possibly fake art. An in-depth review of this case reveals the challenges insurance investigators can face when tracking down forgeries allegedly pawned off as authentic.

This case also reveals sophisticated investigation strategies when an insurer does respond assertively. Identities are redacted because the investigation still is underway.

A high-net-worth person living in an affluent community in the Pacific Northwest owns a stately home, six automobiles — including a classic Ferrari — vacation property in Hawaii, and an art collection he values at $20 million.

The carrier's appraiser inspects the home and confirms its replacement value. The home has older but adequate fire-suppression and home- security systems, the appraisal notes.

The appraised value of his 62 works comes to $20.6 million. The client provided the broker with an appraisal by a Los Angeles art appraiser during policy writing.

The artworks include several German Expressionist works from between 1900 and 1940, French Impressionist paintings and several modern works by well-known artists. The listed values range from $5,000 to $750,000. Several entries read as follows on the policy:

- "Otto Dix — watercolor and pen and ink on paper, executed in 1922, signed and dated DIX 22, measuring 20" x 16" — $250,000;"
- "Roy Lichtenstein — relief print, nude with blue hair, signed and dated 1984 — $150,000;" and
- "Claude Monet – oil on board, executed 1890, river scene in gilded frame — $800,000."

The schedule includes 58 other works — drawings, watercolors and other paintings.

Everything seems in order. The policy is written. It is renewed a year later with three new artworks — another $500,000 in value.

The owner makes a claim about 21 months later. The insured's primary residence apparently is burglarized while the family vacationed in Hawaii. Some 53 of the 62 artworks are purportedly stolen.

The alarm system appears either to have malfunctioned or been disabled. A police report is filed. The insured produces a list of the artworks, whose listed value is $17.5 million.

Investigation underway

The insurer's adjuster alertly starts probing. He calls in a qualified art specialist who advises him to gather as much information as possible on each artwork, and get photographs of them.

The descriptions on the schedule are insufficient. The artworks' dimensions often are missing, and some works are just called a "painting" without describing the medium (oil on canvas, acrylic on board, etc.). Nor are there photos.

The appraisal for the first scheduled values is reviewed to fill out the descriptions. The insured finally provides photographs of most works.

The second appraisal then is produced, covering the three added works. The specialist assembles the information for submission to the national stolen-art databases.

He first notices the artists — they are major names. A collection of this magnitude would have been well-known. But no one seems to have heard of this collection or collector. How could so many major works have been acquired without the international auction houses, New York-London-Paris dealer community or top museum directors knowing?

A search of the public auction records turns up no matches over the last 15 years.

The art specialist also thinks the photographs — provided by the client — show poor examples of these artists' works or poor imitations.

The next question is, what are the all-important provenances? Where did the works come from and how did the insured acquire them?

Mostly by inheritance, the insured tells the specialist. Most came from a now-deceased grandmother in Vienna who acquired them directly from the artists during the Nazi era when their work was ostracized as "degenerate art," he said.

She owned a tavern and provided the artists with food and drink. In return, they gave her their works.

Artists he met in Europe also gave him works when they were just starting their careers. He also bought one or two at flea markets while in graduate school, he said.

Of course these claimed acquisitions conveniently involved no receipts.

Many values for these works also seem unusually low for artists this well-known. For example, several watercolors by Egon Schiele have sold at public auction for up to $6 million in recent years. The insured's work is valued at just $550,000. It should be $2 million or more.

Appraisal scrutinized

As the specialist and adjuster work through the artworks, more questions arise than answers. The appraisal's language describing several works is not the usual language of the art world. Many descriptions describe subjective qualities rather than the objective language normally used.

The photographs in the appraisals are identical to the ones the insured sent in. But the appraiser never saw any of the art. He worked only from photographs and information the insured provided. This included all descriptions, dimensions, mediums and artist attributions. So if the insured told the appraiser that a painting was by Otto Dix and provided a photograph, the appraiser simply accepted it.

The appraiser was honest but inexperienced. He was new to the field, which allegedly was why the insured cleverly contacted him. The insured allegedly manipulated him through the appraisal process. The insured also stressed that he did not want the appraiser to be too aggressive with his valuations. Just put modest values on most artworks, allegedly to keep the collection under the insurer's prying radar.

Searching the internet turns up seemingly exact matches of the photos. These images come from eBay pages — listing an Albanian website offering "copies" and "hand-painted" canvases in the style of "any painter you want!"

Red flags fly everywhere:

A collection of artworks like these doesn't come from out of the blue. Someone should have recognized this was a collection of major artists and sought to learn how it was assembled;

The lack of documented provenance could have been discovered much earlier in the insuring process and would have raised the alert level early;

The photographs were questionable. Any qualified art specialist would have questioned the authenticity of the works;

The appraiser was unqualified for this kind of collection. He was inexperienced, and did not follow established professional appraisal practices; and

The assigned values were way too low for the artists and mediums involved — if the works were genuine.

Protect against schemes

A collection valued beyond $20 million should have prompted the insurer to insist on a qualified, known appraiser or art specialist. Carriers can protect against art-insurance schemes. Several key steps:

Make sure the policy requires adequate examination and documentation of the works' authenticity.

Insist on full descriptions of each work to be insured. At minimum, the examination should include:

- Description of the item. It should be as complete as possible, using "Object ID" parameters, if possible (accepted international standard for describing artworks);[1]
- Title, if any;
- Artist, maker or designer;
- Date finished;

- The work’s medium or material;
- Dimensions;
- Certificates of scientific testing, if available (especially necessary for gemstones);
- Provenance – where did it come from? A dealer, gallery, auction house or direct from the artist, by inheritance?; and
- Sales receipt with full description and details or a qualified appraisal from credentialed appraiser.

Fine artworks, antiques and other goods are prized, collected and valuable. Thus they often are copied, reproduced and faked. In the hands of a clever manipulator, the victims don’t have to buy the fakes — they just have to insure them.

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About the author: Dan Farrell is a consultant for Enservio of Needham, Mass., a provider of software and services to help property-casualty insurers price policies correctly and accurately settle contents claims. He also owns Daniel Farrell LLC, an appraisal and art consultancy firm. He also is the Consulting Producer for the PBS television series, Antiques Roadshow. Farrell has degrees from the University of Notre Dame (B.A.), University of Chicago (M.B.A.) and London School of Economics (M.Sc.).