Where cyber meets art

by Hayden Kopser 13 Apr 2021 Insurance Business America Magazine

For as long as fine art has existed, thieves have sought to steal it. Though criminals have become increasingly sophisticated and capable of using digital methods to take down the computer systems of major companies and even central banks, they have kept the art world squarely in their predatory sights. Due to the pandemic, art deals are increasingly being conducted wholly or partially online. With this shift, the methods of stealing art and the money intended to buy it have multiplied, and so too has the importance of first-party cyber insurance for families and entities in the fine art space.

In 2020, numerous headlines detailed the continued legal fallout over a 2018 email spoofing scam that was used to fraudulently obtain a wire transfer of $3.34 million intended for the purchase of a painting by landscape great John Constable. This was no small fraud – and, making matters more worrisome, the parties involved, a London dealer and a Dutch museum, were by all accounts respected and legitimate organizations. Two major lessons from this incident are that reputable dealers and buyers are far from immune to fraud, and there is a strong and growing need for cyber insurance to serve as a backstop for parties impacted by electronic fraud in art transactions.

The topic of art-related cyber fraud also brings to mind the curious case of Angela Gulbenkian, the supposed art scion turned accused fraudster, whose alleged actions serve as a human analog to a well-run digital scam. Married to a distant relative of the prominent art-collecting Gulbenkian family, she is accused of using her married name to pad her resume and present herself – quite successfully it would seem – as an art expert.

Ultimately, Gulbenkian’s masquerade as an art powerhouse ended like most masquerades: her mask was removed to reveal something quite different and far less elegant than what was initially presented. However, as with many fraudsters, nearly everything checked out at first glance. Her last name was real, and she apparently knew enough about art to talk the talk. Eventually, the façade began crashing down when Gulbenkian was alleged to have accepted $1.53 million for a Yayoi Kusama pumpkin sculpture, which she neither possessed nor had the authority to sell. Though there are ongoing legal cases against Gulbenkian, because much of the negotiation for the piece took place via electronic means, first-party cyber insurance could have indemnified the Hong Kong-based victim of her fraud.

Aside from the large price tags involved, these two cases are similar to common online scams. Many, if not most, feature numerous signs of legitimacy. Yet if one looks closely – and, of equal importance, knows what to look for – they might spot a single letter missing or added to an email address. Perhaps they will pick up the phone to call a seller and verify that emails with wire transfer instructions are accurate and legitimate. Often, simple acts like spotting a minor inconsistency or involving a disinterested third party to help authenticate a transaction can save thousands or millions of dollars, not to mention reputations.

Cyber insurance can fill the gap when preventative measures fail – so it would be wise for all parties involved in major art transactions to require proof of adequate first-party cyber insurance before agreeing to a deal. Having enough cyber coverage in place for first-party financial loss would allow for a smoother indemnification process in the event of fraud, rather than leaving costly litigation as the only remedy for an injured party.

Art fraud leaves in its wake a unique form of embarrassment that can only be experienced when one is fooled about a highbrow topic on which they consider themselves an expert. Preventative measures are of primary importance, and though cyber insurance cannot fully remedy a damaged reputation, it can be used in many cases to indemnify those who find themselves the financial victims of art-related cyber fraud. Commercial art entities, as well as ultra- and high-net-worth individuals and families with collections, must develop preventative action plans and consider purchasing cyber insurance to protect their financial exposure to art fraud.