Forms

GEM SCAM RECYCLED

AN OLD FRAUD RETURNS

By Joel Volker

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Recycling isn't always a good thing. In fact, here's an example of a form of recycling we hoped we'd never see again. An American broker recently contacted an insurance underwriter in London and asked him to insure a set of rare gems. The "King Solomon's Gems Collection" was valued in excess of $160 million. The underwriter, quite appropriately, wanted to know how the value of the stones was determined before he would insure them. As the broker began to describe the 12 stones, the underwriter smelled a rat - a rat about 15 years old.

How it happened

In the early 1980s a man in Tucson reported finding a large, unpolished stone in a shoe box that was used to prop open a door. The stone, later named "Star of Nyasa," was an unpolished sapphire and was appraised in 1983 at approximately $12 million. Other stones were added, and the group became known as the King Solomon Collection.

The story of this rare find quickly swept through the jewelry industry. The $12 million appraisal was done by a member of the respected American Gem Society, but it turned out that his opinion of the values was greatly skewed. One professional appraiser declared that the stone was simply not of gem quality and put its worth at about $200. Others agreed. Members of the American Gem Society held a hearing over the appraisal, and as a result the appraiser lost his AGS membership.

The 12 gems apparently were stored in a bank vault where they remained until recently, when the owners decided to move the collection to a vault operated by a well known private company. At that time they had the collection re-appraised — by the same appraiser who inaccurately appraised it 15 years earlier. The new appraisal not only took the 1983 appraisal as valid, but updated it for inflation. The "Star of Nyasa" was now said to be worth $16 million and the collection of stones valued at more than $160 million. This was the amount the broker wanted to insure.

How the scam works

The premium to insure these gems for $160 million would have been about $560,000 per year. What would be the purpose behind paying this much money to insure nearly worthless items? The obvious possibility is that at some future date one or more of the stones would be discovered missing. It could be said that more lax security at the private company vault compared to a bank vault made potential theft or mysterious disappearance more likely. With a valued contract, the insurer would have to pay the full insured value (based on the appraisal) of the stone or stones.

Every few months broadcast media or the jewelry industry press expose jewelry scams aimed at both customer and the insurer. The same tricks are recycled and played over and over. How does this happen? Because it can. Proper appraisals by qualified, reputable appraisers eliminate inflated values because they require specific descriptive information, and put the insurer in a much better position in case of dispute.