

Martin Frankel: A Story of Insurance Fraud

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The story of Martin R. Frankel (born 1954) is the story of the biggest and most notorious insurance fraud in the history of the United States. Frankel was a con-man who was eventually sentenced to 16 years in prison. A second-year college dropout from the University of Toledo, Ohio, Frankel was a securities trader who set up the “Frankel Fund” and stole money from his investor clients. He would use the shareholder accounts for his personal expenses. The fund was eventually closed down in 1992, and the Securities and Exchange Commission (SEC) fined him \$1 million and forever banned him from trading in securities.

With a ban in place, Frankel then operated under assumed names (he used several aliases such as James Spencer, David Rosse, and Mike King) and operated unregistered securities. He set up the Thunor Trust based in Franklin, Tennessee. Using this trust and \$71 million, he gained an 83% control of a holding company, the Franklin American Group, which held interests in various southern insurance companies such as the Franklin American Life Insurance Co., International Financial Services Life Insurance Co., and other small insurance companies located in such states as Colorado, Mississippi, Virginia, and Alabama. It was never established where the \$71 million came from.

He also acquired the Protective Services Life Insurance Co. in 1994. He targeted struggling southern insurance companies. Eleven in all. There is a perception that regulations in these states were lax. These companies mostly sold funeral insurance. His modus would be to acquire insurance companies and then loot the reserves and the premiums paid. Of course, the purchase price is much lower than the pile of money with the insurance companies because monies will have to be paid out to the policyholders. He would even use these reserves to acquire other insurance companies in a seeming Ponzi scheme. He tapped into these reserves without being noticed. More than \$208 million would be stolen from these insurance companies in a decade-long scam.

Frankel would take over the reserves of the holding company and its subsidiaries on the pretext that these will be invested. Instead of being legally invested in government bonds, most of the investments were made in Frankel’s own shell companies, such as the Liberty National Securities which operated from his living room, and where the

funds would be siphoned off in Swiss bank accounts. Frankel presented bogus financial statements that showed high returns on investments.

Eventually, on April 1999, the insurance regulator of Mississippi became suspicious of investments being made overseas through a purported Vatican-connected religious foundation. He had established the St. Francis of Assisi Foundation as a way to launder money hoping that the Vatican connection would lend credibility. On the contrary, it only aroused the suspicion of the Mississippi regulator. Specifically, the insurance commissioner wanted to know why \$600 million was moved from a Vatican-linked foundation in Italy to a Catholic charity in the British Virgin Islands and then to a trust that controlled a group of Mississippi insurance companies.

The state insurance commissioner ordered Frankel to place several million dollars on deposit with a reputable Mississippi bank. He made an escape to Rome in May 1999 but was eventually arrested on September 4, 1999 in a Hamburg, Germany hotel. In 2004, he was sentenced to 200 months in prison. He was released on October 27, 2016.

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