PROXIMAL CONSULTING WHITE PAPER 17
REINSURANCE FRAUD – ten steps to identify and avoid dubious reinsurers

I think it is public-spirited to bring to your attention a sure fire method of achieving great wealth relatively quickly with very little effort involved. No, I am not writing to you from Nigeria but from the frontiers of reinsurance fraud. If you follow the simple steps listed below then success is guaranteed (as everybody else who has tried it seems to have got away with it!). If, however, you are offended by such a suggestion then you could always use this plan to identify fraudulent reinsurers being offered to you…

- Incorporating offshore is a must: probably best to register the ultimate parent company in a far-flung jurisdiction that has minimal reporting requirements. There are a dazzling array of locations to choose from, and a wide range of helpful company formation agents to assist you. What you are looking for is low tax rates (or preferably none) and anonymity of directors/beneficial owners. However don't take it too far by utilizing fictitious jurisdictions like the Dominion of Melchizedek: that just might be too unbelievable (on the other hand….). Additionally the more complicated you can make the offshore structures the better – particularly if, heaven forbid, a police investigation is started – make it complex and they won't know where to start.

- Incorporate your operating vehicle in another jurisdiction either "nearer" off-shore (such as Dublin) or where reinsurance regulation is either very weak or completely non-existent (Belgium comes to mind).

- For both your parent company and operating entity it's always a good idea to pick a name that sounds like something else: particularly when the something else is a famous and reputable company. A word of advice: Dai Ichi was a good choice at the time but I wouldn't use it again. But there are still lots of others to choose from: any company name with "Swiss" in it gains credibility; judicious utilization of words such as "Fidelity", "European", "Investment" are always good to attach kudos to your venture. It's also a good idea to form a group of operating reinsurance companies so that you can offer your customers a choice.

- You have a choice regarding whom to have as directors of your reinsurance companies. Firstly (and this is obvious) never name yourself or any of your colleagues who are actually involved in it. Far better to either consider one of these three alternatives: pay some poor soul to be a director and take the flak; create a fictitious person(s) and invent their details or use the details of a real person without their knowledge, consent or involvement. (Don't worry: even if they do find out it will be too late).

- Should you obtain a licence? It's probably not worth it, as you can normally get away with saying that you are licensed somewhere obscure before anyone finds out that you're not. If in doubt, bluff – it normally works. This advice also applies to bad press coverage: deny it or even better threaten legal action (even better is to take legal action!).

- Now you need to have some capital. This is relatively easy: just get your parent company to "lend" you a phenomenal amount and then a few months later convert the "loan" into capital. Alternative suggestions include pension and trust funds on the other side of the world (and reality for that matter); rely on assets of a parent company that has nothing to do with reinsurance (Oil, Gas, Non-Ferrous metals). Another more insidious approach is to use real funds as capital – there are a variety of money launderers across the globe looking for interesting opportunities to launder and thus legitimize their illegally obtained gains.

- At some stage you will obviously need audited accounts. This shouldn't be too difficult. There used to be a trend of using unqualified accountants but now it's far better to either use the name of a good accountancy firm on the accounts but never instruct them (saves fees too!) or instruct them and pay the fees – if you're clever and plausible they'll believe that the capital exists and never carry out an independent objective check.

- You've now just about got everything you need to start raking in those premiums. A managing agent is a good move – so is going for market areas where it's difficult to get cover. Oh and don't forget the simplest way of making a quick killing is to offer cheap premiums. As you are never going to pay claims anyway you can afford to be generous. If you have got this far your companies will possibly even get a good credit rating – as rating agencies seem to believe published information and don't independently validate it. Throw a launch party and invite everybody who is anybody in the insurance world – the more exotic the location the better as people will remember it and amazingly give you business on the back of it.

- As for offices it always looks impressive if you have a few around the world: either use accommodation addresses or make a few imposing ones up! My recommendation regarding bank accounts is the more the merrier. Spread them out around the world and if possible get someone else to be a signatory on them. If you have doubts about the integrity of the world's banking system then why not buy your own bank (anonymously of course) and solve a few problems at once? Banking licences are available for bargain sums in many locations – you can then "finance" any new companies from your bank. Whichever alternative you choose make sure that any and all premiums collected are transferred out of your day to day operating account as soon as possible – ideally through a series of accounts spread across the world thus making the money trail difficult (if not impossible) to follow. If you can convert funds to cash at any stage even better: take the cash and bank it somewhere else – that finishes the trail off completely.

- Never deal with any of the business yourself – or at least not using your own name. Choose a "stage name" and always use it – but avoid names such as Stephen Baker or Thomas Quincey Blaine as someone, (but nobody knows who), has got there before you. Be elusive, mysterious: people love it! It's far better for all concerned if you can always get hold of those running the business for you, but they haven't got a clue as to how, where and when to contact you.

- Finally…don't get greedy. When the premiums have flooded in and before the litigation starts (concerning all that correspondence about claims you couldn't be bothered to answer), close down. And of course then start from the beginning again using new names!

If you haven't realized yet, whilst I am writing with my tongue firmly implanted in my cheek, a review of the history of fraudulent reinsurers produces some timely reminders as to the type of stunts that are pulled – and bear in mind all of the examples listed above are real and all of them were believed.

One of the questions I am frequently asked – and ask myself when I have nothing better to do – is how can security committees rubber stamp the placing of business with obscure reinsurance companies when it is obvious that such entities are at best dubious and at worst downright frauds. The answer is actually not too difficult to come up with:

RULE ONE: The essence of fraud is deception

RULE TWO: The fundamental prerequisite of a successful fraud is to make the deception believable

RULE THREE: If a fraudster can find potential victims who want to believe then success is almost guaranteed…

RULE FOUR: If you take everything you are told, or see written down, at face value then you will almost certainly lose face (and probably the shirt off your back as well)

RULE FIVE: If the price is right, irrespective of anything else, people will ignore all of the warning signs and still buy

The plan to commit reinsurance fraud listed above actually works. The opposite side of the coin is that each and every assertion made by such a reinsurer can, and should be, verified, validated and ultimately disproved. Taking such action prior to placing business with such a company can eliminate phenomenally costly and highly embarrassing fraud losses.

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Proximal Consulting

Email: enq@proximalconsulting.com

Telephone: +44 (0) 1672 516725

Offices:

Poughcombe Barns
Ogbourne St Andrew
Wiltshire
SN8 1SE
UK

Rue Du Rhone 14
1204-Genève
Switzerland