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Business Day

As Empire Crumbled, Frankel Turned $10 Million Into Diamonds

By JOSEPH KAHN

A fugitive takes riches with him in a form not so easily converted to cash.

As Martin R. Frankel's insurance empire melted down in May and he prepared to flee the country, he converted $10 million into the hardest of assets: diamonds.

Mr. Frankel, the reclusive Connecticut money manager, paid the money to California diamond merchants for three suitcases full of the gems just before he left the United States, according to people involved in the transaction and court documents. The people described the transaction as frenzied and highly unusual, with Mr. Frankel's security guards flying to Los Angeles to pick up the diamonds in a private jet on May 5, the same day firefighters doused burning file cabinets at Mr. Frankel's abandoned Greenwich estate.

The diamonds potentially provide Mr. Frankel with a source of wealth separate from his overseas bank accounts, which he might have expected to be frozen soon after the authorities began pursuing him. And they are easier to transport than their equivalent value in dollars. But they are also highly traceable and might prove difficult to sell to legitimate dealers, independent experts said.

Law enforcement authorities have followed leads that Mr. Frankel, a fugitive since an arrest warrant was issued in late May, is thought to have been hiding out in European countries, including Italy. But he has already remained at large longer than some experts had thought possible. Mr. Frankel left behind documents that suggested he had researched countries that do not have extradition treaties with the United States, including Brazil and Israel.

According to Federal prosecutors and court documents, Mr. Frankel absconded with $335 million in money he managed on behalf of insurance companies in five Southern states. The case is one of the largest insurance frauds in American history. It developed over nearly a decade before state insurance regulators finally began to catch up with Mr. Frankel earlier this year, prompting him to transfer money offshore and flee the country.

Just before he did so, Mr. Frankel ordered a wire transfer of $10 million from an account under his control at Banque SCS Alliance S.A. of Geneva to the Worldwide Diamond Company's account at Bank

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How $10 Million Turned Into Diamonds

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Leumi in Beverly Hills, Calif. Robert A. Wiener, owner of Worldwide Diamond, a wholesale diamond merchant, said in an interview yesterday that he had cobbled together the rush order in less than a week from jewelry merchant inventories.

"He wanted diamonds that were easily salable in the market," Mr. Wiener said. "I said it would take some time to put together an order of that size, but he wanted them quickly. It ended up taking less than a week."

Mr. Wiener said he dealt only indirectly with Mr. Frankel. In late April, soon after Mr. Frankel and business colleagues failed to convince Mississippi insurance regulators that his finances were in good order, Richard Teel of Teel's Fine Jewelry in Los Gatos, Calif., received a call from David Rosse, Mr. Frankel's long-time security consultant.

Mr. Rosse said a client of his intended to buy $40 million in diamonds as a hedge against bank failure connected with Year 2000 computer disorders and wanted to do so immediately, people later briefed about the chain of events said. Mr. Rosse had known Mr. Teel, an independent jeweler, from the days when Mr. Rosse served in law enforcement in California, they added.

Mr. Frankel often used aliases, including that of David Rosse. The real Mr. Rosse is a security consultant who worked closely with Mr. Frankel since the late 1980's, when Mr. Frankel, then still living in his home state, Ohio, first became concerned about his personal safety, people who know the two of them said. Mr. Wiener, the diamond merchant, said he met the man who called himself Mr. Rosse. He said the Mr. Rosse he met looked nothing like the photographs of Mr. Frankel that have appeared in newspapers and television stories about the fraud.

A lawyer for Mr. Rosse did not return telephone calls seeking comment. A recorded message on Mr. Teel's answering machine at his jewelry shop in Los Gatos said he was on vacation, and he did not respond to a request for comment.

After Mr. Teel received the $40 million order, he approached Mr. Wiener, who specializes in wholesale diamond distribution. Mr. Wiener said he warned against seeking to fill an order of that magnitude in a short time. "That kind of order would certainly disrupt the market," he said. "They would not get fair prices."

The order was then changed to $10 million. Mr. Wiener said he collected several hundred certified diamonds — meaning each was accompanied by documentation that makes it easy to sell and more stable in price — ranging from 1 to 12 carats. Most of the diamonds were one to three carats and varied in price from $10,000 to $30,000. The largest, a 12-carat diamond, was valued at about $800,000, he said.

Mr. Rosse flew to Los Angeles to inspect a sample within several days of placing the order, Mr. Wiener said. Soon afterward, another of Mr. Frankel's security guards accompanied Mr. Teel to Worldwide Diamond offices on Hill Street, where they packed the diamonds into two full-sized suitcases and an army-style duffel bag. They then departed for a waiting private jet at Los Angeles International Airport, Mr. Wiener said.

A fleeing money manager has evaded arrest longer than had been expected.

The transaction was unusual because diamond buyers tend to prefer that the merchant ship the gems to a final destination rather than accepting transportation risks themselves, Mr. Wiener said. He also said that the $10 million order was the largest he had received in his 23 years in business, but added that he had no reason to suspect that the sale was illegitimate. He said he was merely acting as a supplier to Mr. Teel, a retailer he had known for many years, and that Mr. Teel had told him that Mr. Frankel came widely vouched for. Mr. Wiener also said he declined to accept cash as payment for the diamonds and demanded a wire transfer so that he could verify that the money was coming from a well-known bank, a precaution against money laundering.

"If this payment had been cash, we would not have touched it," Mr. Wiener said. "I don't think you can walk into bank like SCS with suitcases of cash and ask them to wire it."

In late May, the F.B.I. froze Mr. Wiener's account at Bank Leumi, he said. The account contained less than $1 million because he had already paid outside vendors for the diamonds he sold to Mr. Frankel, Mr. Wiener said. He said he was cooperating with law enforcement officials.

Whether the cache of diamonds will prove useful to Mr. Frankel on the run remains an open question.

Diamonds with full documentation are considered highly liquid. But the authorities can also notify dealers not to accept any diamonds that meet the description of those purchased by Mr. Frankel. Because each has its own documentation, the cuts and quality are unique and are considered readily identifiable by experts.

"There's a lot of interplay between diamond dealers and law enforcement," said Bob Lindquist, a partner at PricewaterhouseCoopers in Washington, who specializes in unraveling fraud cases. He said he expected that Mr. Frankel would have to turn to organized crime to sell the diamonds at a steep discount.

"Cash is a much better alternative," Mr. Lindquist said. "But lugging around that much cash is a problem."