

## Mass. pursues Trust accountant

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BOSTON— Two years after auto insurer Trust Insurance began liquidation in light of abysmal financials, its parent company, Trust Insurance Group, still technically exists. So Trust Group CEO Paul Cantiani watched from the sidelines as Massachusetts regulators sued Arthur Andersen – the accounting firm that initially signed off on Trust’s books – for negligence.

Cantiani said the move against the accounting firm – all but gone itself after the Enron scandal – was late in coming.

“If they’re bankrupt what are you going to get, blood out of a stone?” said Cantiani, himself a former board member of Trust who stepped in around the time regulators placed the company into receivership.

“It should have been done a long time ago.”

DOI Spokesman Christopher Goetcheus said the lawsuit against the accountant is a valid one even if the state can’t recover any fines or money from Arthur Andersen.

“If we never realize dollar one in the outcome of this litigation the principle of this filing is important,” he said, “because the independent audit is a critical tool for regulators to measure solvency and Arthur Andersen failed us in that capacity in 1997.”

He also added that the DOI is “currently weighing its options” as to possible action against other parties involved with the company before its collapse.

Trust founder and former CEO Craig Bradley is apparently living in Naples, Fla., though his listed number was disconnected and he couldn’t be reached for comment.

Massachusetts Insurance Commissioner Julie Bowler, acting as Trust’s receiver, is suing Arthur Anderson in Suffolk Superior Court over its audit of Trust’s December 31, 1997 financial statements... which was a clean audit until Anderson withdrew it abruptly a year later.

The DOI alleges the audit was misleading and ultimately false and prevented regulators from acting sooner to put Trust into a receivership and stem costs to Trust policyholders and creditors now surpassing \$90 million.

Arthur Andersen officials or an attorney representing the company’s interests couldn’t be reached for comment.

Regulators, meanwhile, have been working to try to untangle financial records at Trust, Goetcheus said.

Coopers & Lybrand was Trust’s auditor until 1997 after which the accounting firm resigned.

That resignation, coupled with an analysis of Trust’s financial figures, caused the DOI to speed up its five-year audit of the company by a year, from mid-1999 (for the period ending in 1998) to mid-1998.

Meanwhile, Arthur Andersen took over and delivered a clean audited opinion on Trust’s finances as of year-end 1997.

That contrast apparently caused DOI regulators to remain suspicious. They found some irregularities as they continued the audit and ordered the company to restate its financials in June 1999.

Regulators tried to get capital into the company and attempted a number of remedies, such as ordering Trust's home office to be transferred from the Trust holding company to the insurance company, to add millions of net worth.

The DOI also pressed Trust's owners to find a capital infusion either through a merger or sale.

Eventually, the DOI approved a sale to a regional investor but the deal fell apart.

Late in 1999, Arthur Andersen refused to file an opinion for Trust's 1998 financials and pulled its 1997 year-end opinion.

Around the same time, regulators placed Trust in administrative supervision and then receivership by February 2000.

It took several months for the DOI officials to plow through a wide range of misstated numbers, Goetcheus said, before they filed to liquidate Trust in June – a decision granted a month later.

The DOI then began demanding Arthur Andersen's work papers, details that would back up their reports that regulators say they have a right to see.

Facing resistance, the DOI threatened to sue Arthur Andersen in 2001, to compel them to give the documents through discovery, and then received the papers, Goetcheus said.

The statute of limitations would have run out but Arthur Andersen agreed to delay it through a tolling agreement that would have run out Sept. 20, when the suit was filed.

Cantiani, meanwhile, said the Trust Group would have sued Arthur Andersen and others "a long time ago if we had money to hire a lawyer."

Instead, Cantiani said, Trust Group has "been trying to find out what our assets are."

Cantiani said the accountants should be blamed for Trust's downfall, as well as people like Bradley and others who ran the company.

"They left us high and dry and (Bradley's) gone," he said.

"Where is he? He's a member of the board of directors ... I find it strange he doesn't want to keep in contact and find out what's going on."

Cantiani said he's hoping to eventually resolve a number of issues, such as Trust's old employee stock ownership plan, which included money that should have "been distributed to 450 people" who worked at the company, "most of which were single parents."

The DOI lawsuit against Arthur Andersen does have precedent.

Regulators sued Coopers & Lybrand over American Mutual's demise back in the late 1980s and won millions, which went back to the state and guaranty fund, as policyholders had already been paid by then.

As Trust's assets are liquidated, its claims are being covered by the state's guaranty fund, which estimates the cost to be around \$70 million, according to Paul Gulko, fund president.

Gulko said he hadn't heard about the suit. Any recovered money, he said, would go to the receiver and then distributed to creditors, one of which is the fund.

The Trust Group has met at Cantiani's insurance agency office in the past, but hasn't gotten together in months, Cantiani said.

But Cantiani said he would continue with Trust Group.

“I’m an insurance agent,” he said. “The only reason I’m here is there’s no one else to be here.” p