“Together, we can build a strong line of defense against these crimes.”

— Texas Insurance Commissioner Julia Rathgeber
Bridges connect two distant points. These engineering symphonies of beams, arches and trusses spread stress evenly to hold bridges together, no matter how large the chasm. Stress thus transmutes from a bridge’s weakness into its strength.

The Coalition built bridges throughout 2013. They’re called partnerships — one of the Coalition’s signature strengths.

Problem-solving partnerships abounded throughout the Coalition’s world in 2013, starting with the Coalition itself. This trusted alliance of insurers, consumer groups and government agencies helps unify the anti-fraud community and achieve far more than partners working separately.

Last year was a potent symphony of wider joint efforts. The Coalition collaborated in leadership roles with many varied partners to parry challenges such as medical fraud ... tamp down shady contractors ... offer deterrent videos educating consumers to turn away from this crime.

Look in any direction. There stood the Coalition ... energizing partnerships that bridged chasms and engineered the stress of challenge into a problem-decoding strength. Call it the power of partnering.

Sincerely,

Don Rounds, Co-Chair
Consumer Federation of the Southeast

Frank Sztuk, Co-Chair
Hanover Insurance

Texas Insurance Commissioner Julia Rathgeber
Leadership incubates at the Coalition’s board meetings. The important actions of board leadership are taken care of — committee updates given, officers chosen and finances reviewed.

The meetings also go a step beyond. They attract private briefings by leading thinkers from diverse corners of the fraud fight. The insights help the board better position the Coalition to play a more-prominent leadership role in response.

Health reform will have unintended consequences that could increase loss severity for auto and workers compensation insurers, said Dr. Rick Wakefield, JD, DC, PA, a noted consultant and medical-fraud researcher.

Medical providers increasingly will shift claims and medical conditions from private and public health insurers onto auto and workers compensation insurers. These are some of the unintended consequences of health reform.

Healthcare reimbursements are declining, especially in Medicare. And 38 million uninsured people will be added to the healthcare roles. Faced with more people to treat amid declining income, providers will make the move to recoup income. Reimbursements are higher and claims are less-scrutinized by auto and workers compensation insurers,
Wakefield contended. Some of this cost- and condition-shifting will be fraudulent. More claims for auto injuries could include healthcare injuries unrelated to crashes. Doctors might be happy to run up bills for X-rays and other diagnostics. The auto liability lines thus could experience a substantial increase in settlement costs.

Purported workers compensation injuries also could increase both in duration and frequency. Claims departments and SIUs will be important factors in catching fraud cost- and condition-shifting. Key will be staff-wide training in spotting such schemes.

Establishing strong metrics also will better help identify shifted fraud. For example: data on what providers normally receive versus what they bill auto carriers.

**Fraud deforms health reform**

Consumers must be alert to potential cons involving the Affordable Care Act with full implementation of health reform nearing in January, the Federal Trade Commission said in expanding on news aired during the Public Information Committee’s report.

Concern over fake navigators and bogus exchange websites has made headlines in recent months, reported Tracey Thomas, of the FTC’s Division of Marketing Practices.

The central theme is identity theft. Scam artists posing as navigators might try to convince consumers to hand over sensitive personal information such as bank accounts under the guise of trying to sign up consumers for health coverage.

Deceptive websites that create a false impression of being exchange sites also have been spotted and taken down. Some appear to be created by insurance agents to sell legitimate insurance. Other sites may be more sinister — designed to extract personal information while pretending to enroll applicants, Thomas said.

An upswell of scam artists approached consumers in the months before October’s open enrollment. They exploited the high public awareness of the oncoming deadline. Pitchmen said they were from the federal government and needed to enroll them with non-existent “health-reform” or “Obamacare” cards.

Seniors could be especially vulnerable. They have Medicare and thus are not part of the ACA marketplace. But con artists already are approaching seniors. The swindlers lie to seniors that the ACA requires them to sign up for “updated” Medicare cards or the seniors will lose their coverage, Thomas continued.

An FTC webcast and PowerPoint slide show are available as educational materials. Background material for consumers also is available on the agency’s website. And the FTC is encouraging consumers to phone in complaints at the agency’s tollfree hotline. Law enforcement can monitor trends through the FTC’s Consumer Sentinel Network, which logs consumer complaints. More than 2,000 law-enforcement agencies have access.
Collaborating is a Coalition priority that opens up actionable solutions

Today’s vast universe was a tiny point of glowing energy 13.8 billion years ago, smaller than a pinhead. Then came the Big Bang, a giant eruption of protons, neutrons and electrons.

These subatomic particles then gravitated together. Atoms formed, then solar systems, galaxies and Plant Earth came forth. So did insurance schemes — and America’s fraud fight.

Anti-fraud partnerships are Big Bangs in their own right. They detonate collaborative energy that brings fraud fighters together. Bigger things happen as incisive minds meld, ideas form and solutions emerge. Thus armed, partnerships impose ever-growing pressure on America’s virulent fraud thiefdom.

Partnering is a Coalition priority, institutional strength and central to our mission as a unifying force. The goal is practical solutions and actionable information made possible only by acting in concert. Last year the Coalition collaborated in force-multiplying alliances throughout the anti-fraud community.

A potentially far-reaching national effort is the Coalition’s work as a founding member and current co-chair of the Healthcare Fraud Prevention Partnership.

Insurers, federal health agencies such as HHS and CMS, and law enforcement launched the ground-breaking effort in 2010 to tackle medical fraud — by far America’s largest source of insurance crime. Greater intelligence-sharing between the public and private sectors is essential for breaking down criminal threats growing more complex by the accelerating invasion of organized fraud rings.

Ongoing information-sharing programs were launched in two key arenas last year.

**False storefronts.** Analyzing data from multiple partners will identify more sham medical clinics. They are widely used as fronts for fraud rings masquerading as legitimate medical providers.

**Terminated medical providers.** Sharing lists of crooked medical providers whose state licenses were revoked or were removed from their sponsoring insurer plans will uncover more of these threats well.

A new era of investigator involvement in grassroots lobbying also dawned with a joint effort by the Coalition and International Association of SIUs (IASIU).

The two groups began building grassroots networks of investigators to seek legislator support of tougher fraud laws in targeted states that are fraud hotspots.

Investigators can wield influence in statehouses as credible anti-fraud experts. They mobilized through a sophisticated online system called **Engage.**

Investigators emailed personally addressed letters urging their home-state legislators to vote “yes” for a new automobile anti-fraud agency in Michigan last year. Three more states were targeted early in 2014. Investigators pushed for comprehensive reforms in Minnesota — a bill that became law.

The goal was tougher fraud penalties in Colorado. In fact, a legislator co-sponsored the Colorado bill after starting a dialogue with a letter-writing fraud fighter. In Maryland, investigators supported giving prosecutors more flexible venues for bringing fraud cases. Bills in both states are being reviewed.

The Coalition also values longterm official advisory roles with the National Association of Insurance Commissioners and National Conference of Insurance Legislators.

National trends involving unlawful contractors, counterfeit airbags and Obamacare
schemes were priority crimes about which the Coalition updated the state regulators at NAIC meetings throughout the year. Requiring state prescription-drug monitoring programs and tighter regulation of pain clinics were two Coalition recommendations that appeared in a major NCOIL policy paper.

Informal advisory partnerships were another important part of the mix. The Coalition recommended legislative reforms to a working group of Minnesota legislators. Several became law in early 2014. Crooked medical providers, for example, now can be booted from the insurance system in Minnesota.

America’s state fraud-bureau directors meet annually to take the pulse of the fraud fight and fashion next steps. The Coalition delivered a wide-angle report on the national scope of contractors, airbags and Obamacare trends at the directors’ annual meeting.

Individual states also are partners. The Coalition sits on the advisory boards of the Virginia and Louisiana State Police, and New Mexico insurance department.

The Coalition also teamed with academia to combat America’s epidemic abuse of addictive prescription drugs such as painkillers. Lives are ruined and insurers lose billions of dollars to false prescriptions annually.

The nationally known drug-diversion program at Brandeis University sought Coalition advice on best practices to combat this problem. Several recommendations were included in a Brandeis white paper on prescription-drug abuse. Every state, for example, should have a functioning prescription-drug monitoring program, and should share prescription data with all other states.

In public outreach, visual media are especially effective for reaching consumers to brand fraud as repugnant behavior. The Coalition is providing eight polished anti-fraud video spots to members in concert with the Pennsylvania Insurance Fraud Prevention Authority — which also is a Coalition board member.

The spots have many creative uses — such as homepage displays, social-medial postings, and featuring at community events such as Fraud Awareness Week.

At least 30 member requests for the spots were received last year. IASIU’s Iowa-Nebraska chapter, for instance, began rotating the spots on its homepage.

Fraud fighters also value news about trends and cases that can affect an insurer, and sharpen investigator instincts about fraud crimes.

The Coalition was the nation’s primary national fraud news source for more than 10,000 fraud fighters last year. Several thousand of those readers received the Coalition’s national e-publication Fraud News Weekly every Friday through partnerships with IASIU and the National Society of Professional Insurance Investigators.

“*This partnership is a critical step forward in strengthening our nation’s fight against Healthcare fraud.*”

— Attorney General Eric Holder on the new Healthcare Fraud Prevention Partnership
Open enrollment for health reform loomed just months away. Most Americans were confused about what the massive new 1,200-page law meant to their lives, public-opinion research repeatedly confirmed.

Predatory phone callers and spam emailers seized the opportunity. They tried to convince consumers that health reform required people to sign up for “national Obamacare cards” by handing over their personal financial information. The pitches were thinly disguised identity-theft ruses.

The crime wave rippled throughout America for most of 2013. This was the largest insurance-fraud news story of the year.

The Coalition moved quickly ahead of the trend, combusting a national outreach campaign alerting consumers about the schemes and their potential to ruin people’s lives. News and blog coverage mounted. The Coalition became one of the nation’s most-visible organizations alerting consumers about the scams.

The effort highlighted a year that saw the Coalition generate a record 2,550 news and blog stories covering fully 25 diverse fraud topics.
Coalition credibility is cornerstone of efforts to brand and fraud as unacceptable across all lines of insurance.

Much coverage stemmed from the Coalition’s reputation among reporters as a trusted voice of consumers, insurers and government agencies. In news parlance, the Coalition was a credible news source.

Reporters sought clarity as the crime wave gained momentum. More than 2,000 of those stories covered the Coalition’s consumer advice and trend analyses on Obamacare scams.

“The trend has prompted the FTC and nonprofit organizations — including the National Consumers League, the Better Business Bureau and Coalition Against Insurance Fraud — to issue warnings in recent months,” the Wall Street Journal said in one of two Journal stories quoting the Coalition.

“The closer we get to registration in October, the greater the odds con artists are going to be looking for weaknesses in the emergent new system, and they will be probing,” the Coalition told the Washington Post in one of three Post stories quoting the Coalition.

“The scammers are deploying traditional Medicare cons but wrapping them in the Affordable Care Act,” the Coalition told the New York Times about health-reform scams against seniors.

“You open them, you click on a link, and that could install malware on your computer or take you to a bogus exchange site,” the Coalition told CNN about spam Obamacare email pitches.

Facebook a daily source of insight

Millions of Americans glean their primary news and opinions about issues from social media, research confirms.

Facebook and Twitter, especially, have moved from explosive newcomer to mainstream information sources for consumers of varied consumer demographics.

Similarly, the Coalition’s Facebook site and Twitter account have evolved into an established role as continually updated portals of fraud news for consumers around the U.S. The Coalition posted hundreds of anti-fraud messages via these platforms in 2013. Several times a day, Facebook postings informed consumers about breaking crime stories, events and new trends — typically with useful commentaries on the news.

Facebook and Twitter followers thus increased last year as the Coalition became increasingly recognized a reliable and readable source of current fraud news, useful consumer advice and new fraud trends.

Coalition commentaries followed numerous stories...

Megastorm Sandy brought out a lot of unscrupulous people who took advantage of storm victims...

The article below tells a good story about one victim in New Jersey who fought back and won against a shady public adjuster...

Judge in Idaho ordered a fraud defendant to obtain his G.E.D. within one year or face more prison time. Courts should consider handing out more creative sentences...

Auto policyholders who are honest subsidize those who buy policies after an accident or a car gets stolen.
Consumer videos offered to members

“The police are on the phone. They want to speak to you,” an anxious woman tells her husband while cradling the receiver. He’d just tried to falsely report his car stolen so he could steal insurance money.

So goes one of eight consumer video spots the Coalition developed as a member benefit. The 30-second videos each amplifies a distinct anti-fraud message by portraying people in real-life situations to which viewers can easily relate.

In another spot, a job seeker close to being hired confesses she has a fraud conviction. The surprised interviewer dismissively tells her, “We’ll be in touch.”

Members can customize the spots with their corporate name, logo, URL and phone number. Coalition members thus gain field-tested visuals they can immediately adopt without creating anything from scratch. The spots have diverse uses. Members can post the spots on their websites, push them out via social media posts, and feature them in Fraud Awareness Week presentations, fraud fairs or other community events.

The spots were created and field-tested by the Pennsylvania Insurance Fraud Prevention Authority for in-state use. The IFPA generously gifted the spots to the Coalition, which adapted them for member use last year.

Leadership-level insights into major fraud issues captured a prominent national stage through the Journal of Insurance Fraud in America, the Coalition’s flagship quarterly.

Noted thinkers from government and private industry analyzed current fraud trends and forecasted oncoming ones. In the process, JIFA re-cemented its credentials as an editorial center of insight and analysis. Authors came from the ranks of insurer executives, academia, government, consulting and other corners of the fraud fight. More to the point, JIFA authors outlined workable solutions, thus making this journal a source of actionable information.

• Pinpoint force applied by task forces broke open deeply embedded staged-crash rings in Massachusetts. The experience is a model for other states to pressure crash rings. — Dan Johnston, the longest-tenured chief of the Massachusetts fraud bureau.

• Workers compensation insurers too often tolerate businesses that shave premiums by lying about the size of their workforce or how risky their work is. “Raising rates offsets stolen premiums, so the industry thinks it bears no real loss.” — Workers compensation attorney Leonard Jernigan.

• Advanced analytics, coupled with sound business practices and preventive measures, will yield better anti-fraud results. For insurance swindlers, speed to detection should mean speed to jail. — Consultant John Standish, former chief of the California fraud bureau.
Shaming the shameless

America’s top insurance Swindlers in Thief tumbled onto full display and dismay when the newest dishonorees were elected to the Insurance Fraud Hall of Shame.

The No-Class of 2013 showcases the year’s most brazen insurance pirates and is a staple of the Coalition’s consumer efforts. Among the year’s Masters of Disaster:

Armin Wand’s wife Sharon carried their infant daughter from their burning home. Wand tried to toss the helpless child back into the inferno. The Wisconsin man’s three other children died in the blaze he set to steal renters and life-insurance money.

Attorney Sol Naimark relentlessly sued auto insurers for a staged-crash ring in New York that tried to pilfer more than $400 million in fake injury claims. Naimark was one more reason that New York drivers pay some of America’s highest auto premiums.

U.S. Congressman Rick Renzi looted client premiums from his family insurance agency to finance his election campaign. Renzi corrupted his office and risked increasing public cynicism about America’s elected officials.

The Hall of Shame is entertaining but also the educational science of storytelling. Gritty tales of people and real-life fraud crimes effectively drive home anti-fraud messages to consumers. Research shows that:

- Stories are 20 times more likely to be remembered than hard facts;
- Our brains learn much better from specific examples than abstract information such as data; and
- Nearly six of 10 people say compelling stories motivate them to support nonprofit causes.

The Hall of Shame thus helps build deterrence and consumer intolerance by branding insurance fraud as socially unacceptable.

The Shamers reveal the price America pays for crimes that many consumers dismiss as harmless white-collar hijinks. In their backhanded way, these masters of disaster become America’s pharaohs of fraud literacy.
## Legislation

**Record fraud laws emerge as steadier economy frees statehouses**

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| **48 states make fraud a specific crime** |  |
| **45+ states have fraud bureau** |  
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The downturned economy loosened its icy grip on statehouses around the U.S. No longer forced to feverishly try and balance cash-strapped budgets, legislators turned to more-expansive priorities such as inking fraud laws onto their books.

Like a deep exhale of pent-up energy, dozens of states debated fraud bills last year. The tally was 51 new state fraud laws — the largest total since the Coalition began tracking bills 20 years ago. In fact, bills introduced have increased in each of the last two years.

Auto schemes loomed large in statehouses. Staged-crash rings have kept a grip in several states, and public outcry against life-threatening airbag ploys almost literally burst onto the national stage.

And rogue contractors continually hounded vulnerable homeowners, especially after storms such as the historic cannonade of Megastorm Sandy. Thwarting dishonest and often unlicensed contractors became a legislative priority as consumer outrage reached critical mass.

The Coalition left a large leadership footprint — criss-crossing the nation to help draft bills, testify, and advise legislators and regulators.

Perhaps most important was the Coalition’s work in forging effective partnerships with allied groups. Legislation often requires two or more years to pass. Well-coordinated partnerships increase the support and resources needed to keep the momentum running strong from one legislative session to the next.

### Red-lighting auto cons

Automobile schemes pose a safety threat to motorists, inflict large losses in false claims and help raise premiums for honest drivers. Three hotspots last year:

**Michigan.** Organized staged-crash rings gouge Michigan automobile insurers for millions...
of dollars a year with fake injuries from setup car crashes. Small surprise that auto premiums rank among the highest in the U.S. A bill sought to create a state automobile-fraud agency to ramp up investigations, gather field intelligence and help coordinate statewide clampdowns. The Coalition worked closely with the Michigan Insurance Fraud Awareness Coalition to help draft the measure, and went on public record with key legislators to support the measure.

Another partnership brought more attention to bear. The Coalition and International Association of SIUs launched an online grassroots effort to involve investigators in several target states around the U.S. The online system is called **Engage.** Michigan was the inaugural proving ground. IASIU members were encouraged to contact their Michigan legislators and urge support for authorizing the fraud authority. More than 40 investigators sent supportive letters.

The statehouse ended the year with the auto authority firmly embedded in a key committee. The measure was reintroduced as a key part of a larger automobile reform bill in early 2014.

**New Jersey.** Preventing swindlers from using police crash reports to identify and badger victims into seeking treatment from shady clinics was the focus of a reform bill. Penalizing drivers who lie about where they garage their vehicles to lower their auto premiums also was included.

The Coalition worked closely with state partners to regularly advise legislative leaders. The effort gained steady support last year and continued into early 2014.

**New York.** The Empire State is inflamed by staged-crash rings and shady clinics that over-bill insurers for bogus whiplash injuries. Albany put suppressive bills into play. Prosecutors would have gained potent courtroom tools to convict cash-ring recruiters, leaders and corrupt clinic owners who channel the false whiplash claims to auto insurers.

The Coalition reinforced the need for these reforms in meetings with committee chairs. The bills were still in motion when the 2013 session closed. They need far more support from Albany and the governor to have a fighting chance in 2014.

**Deflating airbag ploys**

The Coalition helped stir a vigorous movement to protect motorists from bogus and unsafe airbags. Crackdown bills in fully eight states were introduced in 2013 and early 2014. Several became law. It all started when a Chinese national was jailed for trying to flood the U.S. with cheap and unsafe knockoff airbags. Most of his bags didn’t inflate in federal tests, and some shot
jagged shrapnel into crash dummies. Dishonest body shops install dangerous knockoffs such as these while charging insurers full price for expensive new ones. The Coalition was widely quoted in national news stories when the arrest raised larger questions about how widespread airbag ploys were in America. Honda America noticed, and contacted the Coalition. Thus began a legislative partnership aimed at deflating airbag cons. The urging and hands-on strategic advice of the Coalition and Honda carried influence when New York, Connecticut and Ohio made it a specific crime to manufacture or market counterfeit airbags last year. Same with Texas, which increased penalties if a motorist is killed or injured due to a crash involving a counterfeit bag.

That public-spirited energy carried into early 2014. A Louisiana legislator approached the Coalition for assistance in drafting an airbag bill late last year. That dialogue led to the early 2014 introduction of a bill making the marketing and manufacturing of counterfeits a crime.

Then Alabama enacted a counterfeiting law. Varied crackdown bills also were introduced in Pennsylvania, Mississippi and New Mexico.

Nailing contractor cons

At least six states booked laws intended to tamp down dishonest, incompetent and often unlicensed contractors who fleece homeowners and their insurers.

Maryland. Luring consumers into signing contracts by offering to rebate their insurance premiums was an especially widespread dodge. The Coalition teamed with the Maryland Insurance Administration to support a bill making the practice illegal. Honest contractors don’t
need such deceptive tactics to market for business, the Coalition urged in testimony. The bill became law.

Among the other contractor laws enacted in 2013: Kansas requires roofers to register with the state ... Texas forbids contractors to act as de-facto public adjusters ... Arkansas and Wisconsin let homeowners opt out of contracts if the insurer denies coverage ... Tennessee requires contractors to be licensed.

More bills will emerge in 2014, and the Coalition plans an active role in seeking passage.

Packaging fraud bills

Minnesota. The state’s anti-fraud laws needed fresh air and updating to keep pace with morphing fraud trends. A state-empaneled working group of lawmakers proposed a raft of ideas for anti-fraud bills. Three points of impact could go far, the Coalition advised the working group. These Coalition recommendations became part of a package of bills introduced in early 2014:

• Allow the state to civilly fine fraudsters instead of depending on criminal prosecutions;
• Boot dishonest medical providers from the insurance system; and
• Expand the free exchange of vital case leads among fraud fighters and law enforcement.

Advising Coalition allies

The Coalition influences national anti-fraud policy through strategic ties with major national organizations.

In a partnership that began with the Coalition’s founding in 1993, the Coalition has served as lead anti-fraud adviser to America’s state insurance regulators. Counseling the anti-fraud task force of the National Association of Insurance Commissioners is a year-around priority.

Fast-moving trends involving contractor, airbag and Obamacare schemes were highlight issues. The Coalition also regularly educated the NAIC’s Consumer Liaison Committee about these scams and their impact on consumers.

The need for strong contractor and airbag laws was a key message the Coalition pursued as the lead anti-fraud advisor to the National Conference of Insurance Legislators. NCOIL also is developing a report on best practices for combating prescription drug abuse. The Coalition made several recommendations, including enacting laws creating prescription drug monitoring programs.
Once upon a time, insurer special investigation units were mostly small operations staffed by a couple of former detectives plying the streets for case leads and plowing through thick stacks of manilla folders.

Today, SIUs increasingly are sophisticated, agile and tech-savvy operations. They have earned considerable respect within their companies in the last 10 years. SIUs are widely viewed as integral members of their insurer operations and senior management team. This growing stature is the byproduct of success in combatting fraud, contributing tangibly to their insurer’s bottom line, and protecting policyholders.

In fact, half of insurers consult their SIUs about potential risk exposure before putting a new insurance product onto the streets. That is a key finding of a Coalition study of SIUs last year.

For the first time, SIUs can benchmark their operations in detail against credible property-casualty insurer standards. The study benchmarks more than 200 areas of SIU operations culled from 46 property-casualty insurers. Combined, the respondents encompass a large majority of marketshare among property-casualty insurers. SIUs can compare against insurer size, line of insurance, budget, caseload metrics and other important functions.

The study is a promising step toward creating consensus metrics for property-casualty SIUs.

The Coalition’s Research Committee oversaw the two-year project. Just defining terms was a major startup challenge. The committee, for example, spent several months precisely defining common fraud-related terms such as claim referral. Among the key findings:

**Referrals accepted.** On average, insurer SIUs accepted more than 75 percent of claims referred to their unit for investigation. Personal-lines insurers took in 69 percent of referrals while commercial-lines insurers accepted 83 percent. Small carriers were more likely to accept referrals than large ones.

**Referral sources.** Not surprisingly, nearly three of every four referrals originated with insurer claims departments. Referrals also are being automated. Technology such as predictive analysis flagged 15 percent of referrals. This important metric will grow as more SIUs adopt increasingly potent technology.

**Training.** Nearly all insurers said their SIUs provide anti-fraud training for their staff and other departments within the company. Training is universally given to claims staff, which typically is the insurer’s first line of anti-fraud defense.

Some 72 percent of SIU investigators averaged more than 10 hours of training annually. And 72 percent of SIUs gave 1-5 hours per employee in the claims department annually.

The findings reflect several truths: Insurers widely view training as critical to vigorous anti-fraud efforts. Investigators stay current with trends and techniques. More suspicious claims are caught when insurer staff is trained and alert to signal flares at source points throughout the enterprise. State requirements for continuing education also spur robust training programs.

**Outsourcing.** Nearly every SIU hires vendors to help handle the caseload and other functions. Surveillance is by far the top function that SIUs outsource. A majority of SIUs, for instance, outsourced surveillance 80-100 percent of the time. Only small percentages outsourced case.
management, IT and regulatory compliance.

Quality assurance. Rigorously measuring effectiveness using data-driven metrics reflects the rising prominence of SIUs as part of the core insurer management team. Insurers with quality-assurance programs reviewed an average of 13 percent of cases to ensure procedures were followed and optimum outcomes achieved.

Frequently used metrics cover performance in report writing, communicating well, timeliness and overall quality of the investigation.

Budgets. Annual SIU budgets spanned the gamut, from less than $2 million (43 percent) to more than $10 million (17 percent). Precise comparisons are challenging, however, because different SIU budgets have different components.

Staffing. Achieving an optimal staff number and mix will become essential as SIUs continue expanding their roles with their insurer.

The ratio of managers to line staff is among the most useful comparisons. The average was six staff to seven managers. Larger insurers tended to have larger ratios.

Investigators also came from diverse professional backgrounds: claims (44 percent), law enforcement (29 percent), SIU (24 percent) and medical (four percent).

Investigation costs. Just over half of insurers said they spend more than $800 per investigation. Three-quarters of large companies average more than $800 per probe, while far fewer small- and mid-size carriers average that much.

Cycle time. How long does it take to finish an investigation? Personal-lines insurers most often took 30 days or less, while nearly half of commercial-lines carriers averaged 31-60 days.

In other study findings, every surveyed SIU said it investigates claims and conducts anti-fraud training. SIUs also tend to be centralized within their company (42 percent), and most said they have no dedicated case unit (61 percent).

The large majority of SIUs (83 percent) report to the claims department, with 11 percent reporting to legal.

Insurers gained a firmer grasp of how they compare with other companies, the respondents agreed in followup interviews. Equally important, the study is stirring internal discussion about best practices for increasing SIU effectiveness and impact.

“No army can withstand the strength of an idea whose time has come.”

— Victor Hugo
3 Game-Changing Trends

Everywhere you look, the face of fraud is changing. And with it, the fraud fight.

Everywhere you look, fraud is transmuting. And with it, the fraud fight.

Organized crime is advancing, technology is responding, and a new generation of crime fighters is uniquely tailored for the challenges that lie ahead.

**Technology.** Anti-fraud analytics act more human every day. Programs learn, predict, think hard and adapt on the run. They’re also very nosey. New-generation analytics has a slakeless thirst for culling more data, faster and earlier in the claim cycle. Impenetrable complexity is made clear and convincing. Soothsaying analytics forecast and prevent rather than solely detect after the fact.

Predictive analytics has grown in prominence. More insurers can forecast the likelihood of a future crime happening, or catch a current con nearly in real time. Data visualization and link analysis graphically outline complex crime networks at work.

Text mining lets insurers sift previously unavailable “unstructured” data such as adjuster or claims officer field notes.

Mining of social media is gaining speed. **Facebook, Twitter, Pinterest** and other social platforms are vaults of incriminating photos and comments. **Facebook** images of a supposedly injured worker’s scuba trip to Grand Cayman induce quick plea bargains. Software also automates social-media searches, replacing laborious manual efforts. Big Data is an exciting watchword. Data pours into insurers with increasing velocity and volume. Analytics with a thirst for mining and ordering bigness is a frontier that reveals large wealths of evidence.

And say hello to a new class of fraud fighter: The SIU analyst, and entire analyst units. These incisive thinkers help interpret the vast data into valuable patterns and leads.

Lack of budgets and challenges in proving return on investment, however, hamper wider adoption of powerful new analytics.

Still, the most powerful software won’t replace the judgement and dogged pursuit of investigators. Software doesn’t make arrests, create task forces, shut down crooked clinics, help package cases for trial and testify in court. Fraud fighters are masters of the kingdom, and analytics remain ever-willing servants.

**Wired-up Millennials.** Every generation leaves a footprint on America and its workforce. Broadly, they have distinct ways of thinking, interacting and solving problems. And now come the Millennials. Born roughly between 1980 and 2000, they are 80-million strong.

Millennials are coming into their own as fraud fighters. Swindlers should be very worried. Millennials are the first generation born with computers at their fingertips. They are tech-centric, hotwired digital natives uniquely adapted to the 21st-century fraudscape.

Large and complex rings, especially, continue carving inroads into fraud. But Millennials quickly master sophisticated, ring-busting analytics that were outer-edge just three years ago.

Millennial fraud fighters have instant access to vast information flow. They are hotwired 24-7 with mobile devices, continuously sifting information on cellphones, iPad minis and other hand-held tools. There is no work week or weekend. There is only action, a never-ending desire to mine their devices for case leads and information, wherever they are.

Millennials adeptly mine **Facebook, Twitter** and **Pinterest** for fraud leads such as false workers compensation injury claims. They...
scour Instagram for “selfies” of the claimant’s Aspen ski trip.

Mobile phones also make it easier to snap a quick, high-quality photo. Immediate access to maps saves surveillance time. SIU analysts are a new kind of fraud fighter, a new job description providing incalculable support for investigators. Many are Millennials. They are keyboard naturals, quickly fluent with the new analytics programs barreling into the anti-fraud world. Overall, Millennial anti-fraud professionals embrace the fast pace of technological change. They eagerly cast aside last year’s tools and techniques and quickly learn new skills that provide an edge. This new breed of investigator has worked with data for years and intuitively understands how information can be pulled from across platforms to provide a rich starting point for investigations.

By the time a claimant is sitting across the investigator’s desk, these professionals have far more answers than their predecessors would have.

While Millennials go to the office or into the field, their real workplace sits in their laps and palms. And that’s because the young investigator lives in fear of missing something pertinent.

Organized crime. It’s axiomatic that organized crime has created a growing beachhead in the world of insurance fraud.

What’s new is their growing volume and speed of emergence. They appear to be especially emergent in medical fraud — healthcare, automobile and workers compensation.

Medicare and private healthcare money are the richest targets. Well-run rings can quickly steal tens of millions of dollars. Fake home healthcare, medical equipment, so-called infusion therapy and general medical care are among their cons.

Automobile scams are another playground. A Russian-run ring tried to heist more than $400 million with phony crash-injury claims.

Most rings are ethnic. Eurasians from Russia, Latvia, Estonia and Armenia keep proliferating. Some are franchises of the home-country mob, and others are self-starting U.S. entrepreneurs. Rings from diverse Spanish-speaking and Caribbean nations operate widely in South Florida.

A single ring may bilk insurers from multiple lines of insurance. A Southern California gang ransacked Medicare, and staged crashes to lodge false claims for phantom crash injuries.

Transnational fraud complicates the equation. One U.S. gang fleeced at least 70 workers compensation insurers. Ring members hailed from Germany, Iran, Mexico, Armenia and the Philippines. Insurance rings in the U.S. and overseas are creating symbiotic connections with drug cartels, cyber thieves and crime syndicates. Nation states commit fraud to lard their sagging coffers. Insurance fraud also has funded terrorism. And Colombian drug cartels have bought life-insurance policies to help launder drug money.

In response, HHS is making record Medicare busts using task forces in hotspot cities. New analytics also detect Medicare scams early in the claim cycle. Irate federal judges routinely hand down double-digit sentences.

Insurers in the U.S. and around the world also must better recognize the transnational nature of organized fraud rings. Greater coordination with anti-fraud forces in multiple nations must quickly take shape.
Families torn apart, health endangered and lives lost to insurance schemes

Insurance fraud often is viewed as a crime of numbers — billions of dollars stolen a year, record numbers of swindlers are arrested or millions of dollars of stolen money recovered.

Such numbers are useful barometers of progress. But often lost amid the tidy-looking digits are the honest people who fall prey to these crimes. They are betrayed and their lives damaged — often deeply, often for good. Fraud victims and every American who could be a victim — are why we fight this crime.

Families ruined. Ana Ovando placed her children into cars that she maneuvered into insurance crashes with innocent motorists on South Florida’s roadways. Their lives were endangered with each collision.

Ovando then forced her children to have worthless and potentially harmful chiropractic treatment for inflated insurance billings. Next she tried to convince them to lie on the witness stand during her trial. The family was torn apart when Ovando received 6 1/2 years in federal prison. The kids sobbed uncontrollably, and Ovando’s oldest child gave up her dream of college to care for the children.

Community betrayed. Matthew Lemberger’s home was reduced to smoldering ruins. Racial slurs were scrawled on the couple’s car. The home fire seemed a hate crime: Lemberger is white and his wife is African-American. The sympathetic community rallied to support the couple.

Except that the Green Bay, Wisc. man had his home burned down for insurance money. Lemberger disguised the scheme as a hate crime. His deceit betrayed loyal community members and risked increasing public skepticism when real hate crimes surface. Lemberger received 10 years in jail.

Surgeries botched. An orthopedic surgeon botched thousands of surgeries, leaving patients permanently disabled. Dr. Spyros Panos performed several surgeries on one patient’s Achilles tendons, leaving her unable to walk. The White Plains, N.Y. surgeon did two unneeded knee surgeries on another woman. She can’t work fulltime anymore and lives on disability income. Panos received 4 1/2 years in federal prison.

Patients abused. “Have a heart” could’ve been a watchword for cardiologist Mehmood Patel. The Lafayette, La. man inserted hundreds of stents into healthy patients who didn’t need the often-painful and risky procedure to open clogged heart valves.

The worthless surgeries pilfered millions of dollars in health-insurance money. Some patients had heart attacks and even strokes. Others needed remedial surgery. Yet more patients required regular blood transfusions after Patel injured them during surgery. Sadly, other patients were disqualified from receiving or donating organs in life-or-death situations. Patel ultimately received 10 years in federal prison.

People murdered. Karl Karlsen told his son Levi to fix the transmission of Karlsen’s Ford F-250 pickup. Levi went underneath the truck on his back in their family barn in upstate Varick, N.Y. Karlsen sneaked in and kicked away the jack. The 5,000-pound vehicle crushed Levi’s chest. Karlsen walked away, leaving Levi to die a horrific death of suffocation in order to steal $700,000 in life-insurance money. He received 15 years to life in state prison.
How we fight
Federal prosecutor learns fraud, jails dozens of Florida crash-ring members

Federal prosecutor Ann Marie Villafana was new to insurance, insurance fraud and South Florida’s virulent staged-crash underworld. Specializing in human-rights violations and other crimes, the U.S. Justice Department handed her a daunting job.

She was tasked as the courtroom spearhead for Operation Sledgehammer. It is a major ongoing dragnet aimed at eviscerating major staged-crash activity in a region rife with large rings. Villafana faced down alpha-level fraud cabals. The sprawling scammers often literally were in high gear, stealing tens of millions of dollars in sham whiplash claims from setup car crashes.

Staged-crash rings are a poisonous industry in South Florida. They leach hundreds of millions of dollars a year in false injury claims from setup car crashes, state officials estimate. Crash rings are a large reason honest Florida drivers pay among the highest auto premiums in America.

In fact, Florida’s average two-car family pays a “fraud tax” of nearly $100 in higher annual auto premiums, the Insurance Information Institute estimates.

Thrust into this fraud maelstrom, she quickly became fluent in the complex worlds of insurance and fraud. Assembling major cases virtually on the run, she impelled dozens of high-level ring members to plead guilty rather than face her imposingly built cases in court.

Villafana’s crushing legal cudgel earned her the Coalition’s 2013 Prosecutor of the Year Award.

The crush-ring members lightly bumped their own cars into each other at low speed. Often they damaged their cars with sledgehammers to clumsily mimic crash damage. Hence Operation Sledgehammer. Ring members also maneuvered innocent motorists into dangerous roadway crashes at high speeds to set up false injury claims.

Dishonest chiropractors and other medical providers then flooded auto insurers with millions of dollars worth of useless or phantom treatment of fake whiplash injuries. Most treatments were factory-line duplicates. Lawyers also sued auto insurers to extract inflated injury payouts.

Dozens of federal, state and local law-enforcement agencies launched a lengthy campaign to shut down the criminal operations. Auto insurers played essential roles in the dragnet as well.

Large volumes of complex evidence poured in. Arrests mounted. Villafana molded the evidence into convincing cases. She charged more than 100 suspects and handed them a stark choice: plead guilty, or challenge her in court and face certain conviction with long years in a cold jail cell.

Nearly every suspect pleaded guilty. Doctors, chiropractors, recruiters and fake car passengers fell. At least 20 crooked chiropractic clinics were shut down. Villafana also convicted shadowy financiers who handled the money.

She swept dozens of criminals off the streets, with more cases pending.

Ring members earned sentences of up to 96 months. Courts have ordered more than $18 million in repayment. Dishonest lawsuits also have fallen in South Florida. Especially important, motorists are much safer.

Ann Marie Villafana is the courtroom hammer in Operation Sledgehammer. It remains an ongoing crime-fighting enterprise. Villafana will keep forcing staged-crashers onto the exit ramp and straight to federal prison.
Flash Forward

Shared vision with partners advances ambitious 2014 agenda

The Coalition’s year unfolds with an act of leadership: The Board of Directors approves an annual plan that vaults the Coalition into the year with a clear direction.

But the plan also reflects a vision for the entire fraud fight. The Coalition sits at the cross-roads of the fraud fight, partnering with groups from all corners of this epic endeavor. Fraudsters continually evolve, and so does the Coalition and its partners.

The Coalition’s 2014 goals reflect that shared vision. Fraudsters also will learn new skills: run fast, while they can.

Public Outreach

Fraud schemes prowl the nation, and consumers must be empowered to know the warning signs. Deterrent warnings must convince more consumers to view fraud as deviant behavior.

The Coalition is working to align the nation firmly against this crime. Among the goals:
• **Expand** member use of eight deterrent consumer TV spots
• **Identify** fast-moving trends and alert consumers. Dishonest contractors are disappearing without finishing promised work. Crooks also are trying to steal people’s identities using so-called Obamacare scams
• **Update** a visionary white paper outlining a national consumer outreach strategy. It’s called *United We Brand*

Government Affairs

Staged-crash rings abound in several populous states. Deceitful contractors and airbag counterfeitters bilk consumers and their insurers.

The Coalition will launch initiatives on several fronts:
• **Develop** grassroots coalitions to enact fraud laws in at least three states
• **Create** a model law clamping down on drivers who avoid paying full auto premiums
• **Seek** non-traditional partners, such as the Coalition’s work with Honda America in combatting airbag schemes
• **Compile** a directory of state drug-diversion laws

Collaboration

Partnering remains a bedrock Coalition mission. The Coalition plans a full plate of formal and informal collaborations throughout the year. A small sample:
• **Expand and advance** the landmark public-private Healthcare Fraud Prevention Partnership
• **Launch** more grassroots campaigns with IASIU to enact effective state anti-fraud laws
• **Advise** leading national insurance associations on fraud trends and national anti-fraud policy
• **Promote** adoption of consumer videos developed in partnership with the Pennsylvania Insurance Fraud Prevention Authority

Research

New research reveals insights that develop evidence and analysis that add direction to the fraud fight. The Coalition will:
• **Publish** a research report on point-of-sale scams
• **Conduct** a study of state insurance fraud bureaus
• **Author** a report on life and disability schemes
• **Complete** an analysis of insurance fraud globally
Members

Consumer organizations

American Council on Consumer Interests*
Center for Business & Economic Research, Marshall University
Center for Consumer Affairs-University of Wisconsin-Milwaukee*
Citizen Advocacy Center*
Consumer Action*
Consumer Alliance*
Consumer Federation of America*
Center for Business & Economic Research,
Marshall University
Center for Consumer Affairs-University of Wisconsin-Milwaukee*
Citizen Advocacy Center*
Consumer Action*
Consumer Alliance*
Consumer Federation of America*
Consumer Federation of the Southeast*
Families USA
Florida Consumer Action Network*
Foundation for Payments Fraud Abatement & Activism
International Association of Lemon Law Administrators*
National Association of Consumer Agency Administrators*
National Consumers League*
National Fraud Information Center*
National Society of Professional Insurance Investigators
National Urban League*
The National Center for Prevention of Home Improvement Fraud

Government organizations

Florida Workers’ Compensation Joint Underwriting Association
International Association of Insurance Fraud Agencies*
Louisiana Auto Theft & Insurance Fraud Prevention Authority
Louisiana State Police*
Maryland Automobile Insurance Fund
Maryland Insurance Administration - Insurance Fraud Division
Massachusetts Department of Industrial Accidents
National Association of Insurance Commissioners*
National Conference of Insurance Legislators*
National Criminal Justice Association*
National District Attorneys Association*
New Jersey Department of Banking & Insurance
New Jersey Office of the Insurance Fraud Prosecutor
Office of Attorney General, Arizona
Office of the Attorney General, Colorado
Office of Attorney General, Pennsylvania*
Office of the Cape May (NJ) Prosecutor
Office of Medicaid Inspector General (NJ)
Okahoma Insurance Department
Pennsylvania Insurance Fraud Prevention Authority*
Rhode Island Workers Compensation Fraud Unit
San Diego County (Calif.) District Attorney*
Texas Department of Insurance Fraud Unit
USDA Risk Management Agency
Virginia State Police
Washington State Department of Insurance
West Virginia Office of the Insurance Commissioner

Insurance organizations

AIPSO
Allstate Insurance Company*
American Family Insurance*
American Insurance Association*
Amtrust North America
Assurity Life Insurance
BlueCross BlueShield Association
Citizens Property Insurance Corporation
CNA*
Country Insurance
Direct General Insurance
Erin Insurance*
Farmers Insurance Group*
First Acceptance Insurance
GEICO*
Hanover Insurance Group*
Harleysville Insurance
Homesite Insurance
IAT Group of Companies
International Association of Special Investigation Units
John Hancock Financial Services*
Kentucky Employers’ Mutual Insurance
Liberty Mutual Group*
Mass Mutual*
MetLife*
National Health Care Anti-Fraud Association
National Insurance Crime Bureau*
Nationwide Insurance Company*
New York Automobile Insurance Plan
OneBeacon Insurance*
Pinnacol Assurance
Progressive Insurance*
Property Casualty Insurers Association of America
Prudential Insurance*
Scottsdale Insurance
Selective Insurance
Sentry Insurance*
State Farm Insurance Companies*
Swiss Re
The Hartford*
The Standard Insurance Company
Travelers Insurance*
Zurich North America*

Anti-fraud resource organizations

BAE Systems
CARCO Group
Claims Verification, Inc.
G4S Compliance & Investigations
Global Options
Hub Enterprises
ICS Merril
Identity Theft Resource Center
Inform Software, Inc.
ISG
ISO
LexisNexis
Llorente SIU
Medical Identity Fraud Alliance
North American Training Group
Poloniou SIU Systems
Roman & Associates, Inc.
SAS Institute, Inc.
Sedgwick Factual Photo
The Robison Group
Thomson Reuters
Veracity Research
Verisk Health

Coalition Staff

Dennis Jay
Howard Goldblatt
James Quiggle
Jennifer Tchininosian
Kendra Smith

* current member, Board of Directors
"For justice sake, I’m glad you caught me."

— Tweet by California fraudster Wanda Podgurski, convicted of fake property claims