

Organized Criminal Empires' New Bag Of Tricks

Mobsters Shift from Drugs to Staged Crashes, Medicare Heists, Bogus Clinics

By: Dennis Jay, Coalition Against Insurance Fraud

Mikhail Zemlyansky was nothing if not ambitious. The Russian native masterminded a sprawling crime empire that bled New York auto insurers with seeming impunity. His gang made at least \$400 million in dirty crash-injury claims, federal prosecutors say. That audacious money haul is nearly the team value of the Baltimore Orioles. It was the largest auto-fraud scheme in U.S. history until the gang was broken open this past winter.

If the federal RICO charges hold up, then Zemlyansky will be an ominous signpost of the looting power of organized crime kleptocracies that keep infiltrating the insurance industry. Alpha gangs are setting up efficient corporate-quality theft machines that are adroitly exploiting seams in the insurance system with increasingly seismic heists.

More Large-Scale Fraud Gangs

Organized crime isn't new to insurance fraud. Gangs have assaulted auto insurers, Medicare, and other insurance programs for years. What appears to be new is an increased penetration of insurance by organized unsavories. The question is whether steroidal stealing is so routine that it's becoming a new norm for insurance fraud.

"These crimes are often the work of well-organized, sophisticated rings whose successful schemes generate enormous profits for the criminals and result in equally enormous losses to insurance carriers and, ultimately, the public," said a 2011 New York strategy report on how to combat auto fraud in the state.

Data are in short supply, but the anecdotal case is building. Investigators frequently say they're seeing more gangs of larger scope, often tighter hierarchical organization and discipline, and well-oiled looting ability. Several nine-figure fraud sprees have surfaced just in the last few months alone. But whether the curve is way up, somewhat up or even flat, the fact is that organized crime maintains a dominant presence in the insurance-fraud business.

Organized crime itself is a slippery term. There's no easy definition; call them fraud gangs or cartels. Whatever the name, they're large, complex and often-insular operations that can be devilishly hard to penetrate. Some are homegrown; some are franchises of overarching mafias back in the home country. Some rings are quite large; others are smaller but still highly organized enough to be called organized crime.

Penetrating Ethnic Gangs

Most fraud gangs tend to be ethnic. They are Russians, Armenians, Estonians, Latvians, Jamaicans and outfits from varied Spanish-speaking nations, to name just some. Ethnic gangs can be hard to penetrate. They often stick largely to their own nationality. The shared language and close family ties among gang members can erect a highly resistant barrier.

Russian mobsters and those from former Soviet bloc countries are an especially forceful criminal presence in the U.S. The fall of the Soviet Union in 1991, for example, spawned numerous powerful crime gangs loosely known as the Russian mafia. They had learned little respect for government in the old Soviet Union and had developed acute survival skills by learning how to steal from the government. These mobsters exported those. Regardless of nationality, the better-mobilized fraud operations can lodge claims for hundreds of millions of dollars before they're busted. Many more gangs may be trolling silently underneath the investigative radar.

Lawrence Duran was nailed with a whopping 50 years in federal prison last year for masterminding an attempted \$205 million ransacking of the federal healthcare safety net for seniors. A crony received 35 years.

Duran crafted a network of thieving medical outfits throughout Florida. Among other tactics, recruiters trolled halfway houses for addicts and alcoholics. The residents were bribed to receive bogus mental-health and sleep-disorder treatment billed to Medicare.

Zemlyansky's suspected roughriders were centered in the Russian immigrant enclave of Brighton Beach in New York City but stole insurance money in all city boroughs. He tried to lodge so many fake injury claims that his ring needed three billing companies just to handle the paperwork, prosecutors allege.

Recruiters monitored police radios to track down crash victims at the scene. ER employees also alerted recruiters when crash victims came in. Zemlyansky ran nine clinics in the Bronx, Brooklyn, and Queens. They allegedly provided worthless and excessive medical treatments, including physical therapy, acupuncture, pain management, psychological services, X-rays, MRIs and other services.

Physicians, Lawyers Get Their Cut

Doctors also were on the take. They were paid to act as illegal straw owners of clinics actually dominated by gang members. Lawyers sued insurers, coaching the crash victims on what to say when auto insurers interviewed them.

The stolen insurance money was laundered through shell corporations and corrupt check-cashing services, officials say. These defendants used the money to finance princely lifestyles—including vacations in Mexico and Atlantic City; bling from Louis Vuitton, Chanel and Saks Fifth Avenue; plus expensive jewelry and limos.

Some 37 high-ranking members have been indicted. They are doctors, lawyers, chiropractors, and other professionals. If convictions come down, then Zemlyansky's suspected gang may be gutted.

Another aspect of the mega gangs: Much of the stolen money leaves the U.S. and may never be fully traced. What other crime the money helps fund—beyond sports cars and mansions—is fuel for much added investigation.

“These organizations are using part of this money for other things. It [has] been documented through investigations of this money leaving the county, leaving the state of Florida, whether it be back to Cuba, Mexico, the Cayman Islands, Costa Rica. So it's a lot bigger than what a lot of people understand, and the fact is that it's not just a staged crash and it's not just insurance fraud,” Def. Ronnie Cooper, a special investigator with the Hillsboro, Fla. sheriff's office, said in testimony about organized crime to the state legislature last year.

A Sinister Underworld

Insurance fraud thus links into a larger and more sinister crime world. Syndicates that bilk auto insurers often engage in banking and credit card fraud, drugs and other crimes. Stolen insurance money could be helping finance these other crimes.

Rings also may be franchises of, or at least tied to, larger mob organizations back in their home countries. Insurance fraud then becomes an integral part of larger spider webs of global corruption and deceit. North Korea even has resorted to insurance fraud to help finance its crumbling economy, according to news reports.

“The emergence of international organized crime in domestic healthcare fraud schemes signals a dangerous expansion that poses a serious threat to consumers as these syndicates are willing to exploit almost any program, business or individual to earn an illegal profit,” says Acting Deputy U.S. Attorney General Gary G. Grinder.

A gang called Armenian Power (AP) illustrates the point. Nearly 90 alleged members were arrested in February 2011. Thirteen were based in

Florida. They recruited car-crash victims to file false claims with insurers for phantom injuries. The group billed no-fault auto insurers for worthless medical treatment and services their sham clinics never provided, according to the indictment.

An Expanded Fraud Menu

Unfortunately insurance fraud was only part of AP's alleged portfolio. Identity theft, banking fraud, extortion, kidnapping, drugs, guns and other crimes were on the menu. In one kidnapping scheme, several AP members allegedly seized a victim and forced him to pay ransom. Several defendants targeted another victim in an extortion scheme lasting several months. They threatened the victim and his family to extract repeated payments, the FBI alleges.

AP also deals directly with high-level Armenian/Russian organized crime figures, both within the United States and abroad, the FBI says.

Armen Karazianis is another cautionary tale. He was a vor, or overlord, of a vast Armenian cartel in Southern California. He was busted last year in a takedown of dozens of Armenian gangsters. Karazianis erected 118 sham medical clinics spanning 25 states. He looted insurers with \$160 million in claims for worthless medical treatment.

His bust last year “provides additional evidence of the efforts by international organized crime to defraud the Medicare system,” said U.S. Attorney Edward Tarver. He staged crashes to generate bogus injury claims. The gang funneled kickbacks to an employee of a New York City hospital. The employee stole the names and identities of patients. They were recruited for worthless crash-injury treatments, with Karazianis' mobsters creating a fake hospital-referral service for crash victims. Some patients received painful nerve-conduction tests regardless of medical need, prosecutors say.

Bleeding The Medicare System

Karazianis also specialized in bleeding Medicare, a favorite target of fraud rings. He masterminded one of the bigger attempted Medicare heists in history—\$163 million in false claims.

Many clinics were sham. No patients came for treatment, and no doctors were on staff. He simply invented patients and treatments and then slid the bills through Medicare's payment system. One “clinic” in New York was merely a small office over an auto-body shop in Coney Island.

One of his clinics stole the identities of 2,900 Medicare patients in Orange County, Calif., prosecutors charge. Their information was used for fake claims involving bladder tests, pregnancy ultrasounds and other treatments. He also specialized in kidnapping, extortion, credit-card fraud and counterfeit checks.

Karazianis received three years in federal prison in 2011. The sentence was relatively light, but he was the first vor ever convicted. That alone sent a loud message to vorns of other Armenian gangs.

Theft By Force

Violence and intimidation also can be part of the new fraudscape. Organized crime rings enforce discipline, expand territory and settle scores. Kelechi Chukwueke, for example, staged car crashes, auto thefts and other cons in California. His gang threatened girlfriends, acquaintances, relatives and neighbors into taking part. Some 22 of his gang members were convicted after an eight-year romp that stole at least \$500,000 in insurance money. Chukwueke also illustrates another principal: Many organized crime gangs are smaller than their blimp-sized brethren but are still quite effective.

Florida's fraud bureau, for instance, recently launched an ongoing takedown called Operation Dark Horizon. It's the state's largest no-fault auto-insurance bust in recent years.

Five clinics allegedly were involved. At least 26 suspected gang members were arrested. They included a clinic owner, doctors, clinic employees and staged-crash recruiters and others. Three generations of one family allegedly took part—a mother, daughter and granddaughter.

Corporate-Caliber Gangs

The rise of corporate-caliber gangs with international ties and multi-industry scams raises the ante by several degrees of magnitude for fraud fighters, especially in auto, health, and workers' compensation. The investigative model of the future thus will involve ever-higher levels of collaboration in varied permutations.

Task forces and other units focused solely on organized crime and specific ethnic groups already are a large part of the anti-fraud landscape at the federal, state and even city levels. The coordination can be intricate.

However, the government and private sectors also will come together in other ways and work across lines of insurance.

Organized crime gangs are multitasking across lines of insurance. The same gang may be fleecing Medicare and running medical mills connected to staged-crash rings. But we don't know how big the problem is because fraud fighters in different lines don't often compare notes.

The days of investigators operating in silos are numbered—auto insurers tackling crash gangs, health insurers chasing down health gangs, and workers' compensation insurers hunting their medical mills.

Presenting A United Front

Closer coordination of investigations among the lines of insurance—and between the public and

private sectors—is the necessary model of the future. This highly integrated approach will unearth far more well-hidden crimes, case leads and evidence than can each sector working largely alone.

Private insurers have large bodies of insight and leads about auto and health scams as well as known crooks. The feds also have large pools of information about Medicare and Medicaid cons. So it makes perfect sense to work in tandem. Anti-fraud vocabulary also could change. The term “medical fraud” may become the commonly used umbrella term for bogus treatment involving crash rings, health insurers and workers' comp medical mills.

The feds and private sector are collaborating more regularly on insurance cases. It's still relatively informal, and a work in progress, but important progress is being made.

With so many organized-crime gangs working multiple crimes such as insurance, banking, and credit-card fraud, the concentric circles of anti-fraud collaboration and information sharing thus should keep extending farther outward to other industries and related government agencies—domestic and international.

If more of the vast criminal underworld perceives insurance fraud as a soft and lucrative target, then the insurance industry could well continue seeing a growing penetration by organized criminals. This will only increase the already debilitating outflow of insurance money and place yet more upward pressure on premiums. Moreover, that stolen money may help finance other domestic and international crime that erodes American society and its values.

The insurance industry is entering uncharted waters of cooperation and collaboration. The challenge is to be more organized than organized crime.