

## The Cartel Connection: Linking Insurance Fraud, Drug Cartels and Terrorism

By: Christopher Tidball

Insurance fraud is a growing global phenomenon. In the United States alone, it is estimated that insurance fraud is an \$80 billion dollar industry, second only to narcotics trafficking. Not surprisingly the two are often connected. According to the Coalition Against Insurance Fraud (the Coalition), there has been an increase in organized transnational crime rings using insurance fraud as a vehicle to fund illegal activities. Compounding matters, it appears that terrorists are also capitalizing on these crimes to make a quick profit.

According to the Coalition, growing symbiotic connections among cartels trafficking drugs, terrorists, cyber thieves, mob syndicates and organized insurance fraud are utilizing one another's skill sets to profit in the belly of the underworld. These syndicates often base their operations in third-world nations with broken laws and corrupt officials where they can have unfettered access to a lawless environment. Insurance fraud, even in developed countries, provides a relatively easy, low risk and highly profitable means by which international drug cartels and terrorist organizations can make money to fund other enterprises.

An article in *Fraud Magazine* stated, "There is a significant link between insurance fraud and terrorist activities. The threat of terrorism has become the principal security concern in the United States since 9/11. Some might perceive that fraud isn't linked to terrorism because white-collar crime issues are more the province of organized crime, but that perception is misguided. Terrorists derive funding from a variety of criminal activities ranging in scale and sophistication — from low-level crime to organized narcotics smuggling and fraud."

The thriller, *Swoop & Squat*, provides a firsthand look at the impact of fraud on society because it is based upon real-life claims experiences. In a recent investigative article, the *Florida Times-Union* used the book as a backdrop to expose the very real problem of insurance fraud in the Sunshine State. The reality is that fraud is not a fictional topic and comes in all shapes and sizes, from credit card and wire fraud to identity theft and insurance scams.

During a recent meeting, a global claims leader asked just how these frauds are perpetrated. While there are a number of ways, here is the basic

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**Coalition Against  
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process for pulling off a scam and laundering funds in a post 9/11 world.

The cost of terrorism

The first thing to recognize is that criminal enterprises have expenses. The National Commission upon Terrorist Attacks on the United States has estimated that the 2005 London bombings cost about \$15,600. The 2000 bombing of the USS Cole is estimated to have cost between \$5,000 and \$10,000. Al-Qaida's entire 9/11 operation cost between \$400,000 and \$500,000.

Both drug cartels and terrorist organizations require significant funds to create and maintain an infrastructure of organizational support. To give the appearance of legitimate activities, these criminal syndicates will often set up shell companies in order to launder proceeds.

The key to gaining the upper hand is to recognize how these frauds are perpetrated. A simple example of a fraud may be a vehicle owner giving up a vehicle and then claiming it was stolen. In the vehicle give up, the person receiving the vehicle may either chop it up for parts or send it overseas with an altered vehicle identification number. These types of claims are hard to prove and insurers often end up paying the policyholder the value of the vehicle.

Tampa, New York City and Southern California. Crash rings also are moving into Minnesota, perceiving law enforcement and insurers as soft touches.

Organized crime goes global

Organized crime is also restructuring. There are fewer tightly hierarchical gangs like the old-style Italian-American Mafia families. Many ethnic rings are more loosely structured and less pyramid-shaped. A single ring also may traffic in multiple lines of insurance like Medicare and auto.

Mirroring the surge of organized crime globally, rings can be transnational — comprising players from and scheming across multiple nations. Insurance fraud may also just be part of a large portfolio that could include credit cards, money laundering, drugs, extortion, human trafficking and other serious offenses.

“These organizations are using part of this money for other things. It's been documented through investigations of this money leaving the county, leaving the state of Florida, whether it is back to Cuba, Mexico, the Cayman Islands, [or] 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,” Det. Ronnie Cooper, a special investigator with the Hillsboro, Fla. sheriff's office said in testimony about organized crime to the Florida state legislature.

Zemlyansky highlights in uber form the structure and stealing power of many modern-day organized insurance rings.

He erected a string of sham medical clinics that claimed to treat crash injuries. He was the puppeteer, illegally maneuvering clinic operations. He installed a crooked doctor named Tatyana Gabinskaya as the stooge owner and operator of seven clinics. She had bolted from the former Soviet Union with a medical degree from Leningrad University to make it in America. She got greedy and took home a cool \$10,000 each month just to sign paperwork that tried to fool insurers into paying false claims.

Zemlyansky also bribed personal-injury lawyers to sue auto insurers after coaching patients how to fake injuries. And he paid a cadre of recruiters \$2,000 to \$3,000 for each real or fake crash patient they brought in.

Clinics mass-produced injury claims. They saw up to 150 patients a day. Patients received the same “modality treatments,” including physical therapy or acupuncture, often up to five times a week per patient. It was the same with useless MRIs, X-rays, orthopedics and medical supplies such as neck braces.

Zemlyansky lived the good life — limousines, jewels, shopping sprees at Louis Vuitton and Saks

5th Avenue, plus luxury vacations to Mexico and Atlantic City. He faces up to 100 years in federal prison when sentenced.

Medical fraud runs rampant Armen Karazian is another cautionary tale. He was a vor, or overlord, of a vast Armenian cartel in Southern California. The sprawling ring was led from bases in New York and Los Angeles. Its operations extended throughout the U.S. and internationally.

Karazian erected an archipelago of 118 sham medical clinics spanning 25 states. He looted insurers with \$160 million in claims for worthless medical treatment.

He staged crashes to generate bogus injury claims. The gang bribed an employee of a New York City hospital to steal the names and identities of patients. They were recruited for useless crash-injury treatments. Some patients received painful nerve-conduction tests.

Karazian — who drove a \$350,000 Rolls Royce — also bled Medicare, long a favorite of organized rings. He masterminded one of the larger attempted Medicare heists in history — about \$163 million in false claims.

Many clinics were shams. 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. Karazian received three years in federal prison.

The Cuban connection

Cuban rings are a high-profile presence in South Florida. Their activities have a growing diplomatic impact. Permissive U.S. immigration laws have encouraged a thriving pipeline of Cubans who reach the U.S. with minimal scrutiny. All-told, Cuban gangsters steal hundreds of millions of dollars that feed the impoverished island nation's economy — possibly with state consent.

Until now, Cuba was a safe harbor for lack of an extradition treaty. A big question is whether Cuba will ship fraud fugitives back to the U.S. now that diplomatic channels are being reestablished.

A Cuban-run gang in South Florida lodged at least \$20 million worth of treatments for fake injuries and vehicle damage from setup and phony crashes. The takedown was called Operation Sledgehammer because ring members often banged cars with sledgehammers to mimic crash damage.

Most of the nearly 60 federally charged ring members have pled guilty. Ringleader Joel Antonio Simon Ramirez received nine years in prison in December 2014. Five other ringleaders fled to Cuba.

Cuban rings also are America's dominant health-insurance offenders. They comprise less than one percent of the U.S. population, yet include 41 percent of the healthcare fraud arrests nationwide, a *Sun Sentinel* analysis of federal records revealed.

Fraud knows no boundaries

Transnational rings are also growing insurance fraud players. They may draw operatives with special skill sets and connections from around the world, forming loose, project-driven alliances.

One transnational outfit defrauded more than 70 U.S. insurers with a focus on Workers' Compensation theft. The gang set up headquarters in Dubai. Members were Palestinians, Iranians, Germans, Filipinos, Mexicans and Armenians.

The ring made more than \$11 million in false claims for phantom diagnostic testing of phony injuries. Operatives erected a network of 19 sham clinics which were mostly post office boxes or empty storefronts. The medical identities of thousands of people were stolen to provide names for illegally billing insurers. Doctors' identities also were heisted to forge medical reports.

Bogus check-cashing firms laundered stolen insurance money through Dubai, Armenia and the Philippines. U.S. prosecutors have since dismantled the cartel.

State-sponsored insurance crimes are another order of organized scamming. Cash-poor North Korea allegedly has used fraud to help fill its coffers. In one incident, a North Korean ferry sank off the coastal city of Wonsan, killing 129 people. The North Koreans claimed all passengers automatically received insurance when they bought tickets. The reinsurance claim reached \$6 million, though the regime allegedly denied the reinsurers' own divers access to the wreck.

Fighting fraud

Fraud fighters are vigorously responding.irate federal courts are imposing stiffer Medicare jail terms. Miami-based Lawrence Duran was handed 50 years for masterminding an attempted \$205 million ransacking.

Strike forces propelled by the U.S. Justice Department and Health and Human Services (HHS) are scuttling Medicare and Medicaid rings in urban hotspots such as Detroit, New York and South Florida.

HHS is also imposing new rules, making it easier to kick cheaters out of Medicare and block shady operators before they enter the system.

And Medicare is dumping its antiquated pay-and-chase strategy. Many insurers are installing predictive analytics, giving them the potential to detect billing anomalies in nearly real time — before the suspicious bills are paid and money disappears.

Strike forces and multi-agency cooperation have proven effective in taking down complex rings. Yet broader conceptual frameworks are needed to further out-pace the dramatic morphing of contemporary insurance crime.

One promising initiative is the Healthcare Fraud Prevention Partnership (HFPP). It brings together HHS, Department of Justice (DOJ) and the HHS inspector general, plus major health plans and top anti-fraud associations. The Coalition Against Insurance Fraud is a founding member.

The HFPP is creating a new business model and speaks to a larger picture of fraud fighting. It is working to erode silos and encourage more collaboration among public and private fraud fighters and among insurers across key lines. Auto, private health, Workers' Comp and Medicare have a joint interest in derailing medical schemes.

Private insurers have large bodies of insight and leads about auto and health scams, and known crooks. The feds also have large pools of information about Medicare and Medicaid cons.

HFPP members are sharing strategies, best practices and field intelligence and robust data sharing has begun. It is helping identify rings earlier in their crime sprees, thus stemming of flow of lost claims money. Hundreds of millions of dollars in suspicious claims already have been identified.

This highly integrated approach will unearth far more well-hidden crimes, case leads and evidence than each sector can working alone. And with so many organized-crime gangs working multiple crimes such as insurance, banking and credit card fraud, the concentric circles of collaboration should extend outward to other defrauded industries and related government agencies both domestic and international. If transnational fraud is on the rise, so too should be transnational anti-fraud operations.

Organized fraud rings may not use Tommy guns, but they steal more money than Al Capone ever knew existed. One federal prosecutor's summary of Karazian spoke volumes: "His guilty plea sends a strong message to international gangsters all over the world that if you commit crimes in this country, we will find you and we will prosecute you to the full force of the law," said Manhattan-based Preet Bharara.