

# **Report on the Insurance Commissioner's Special Investigations Unit**

*September 2008*

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## **Message from Commissioner Kreidler: Protecting consumers by fighting insurance fraud**

Insurance fraud is the second most costly white-collar crime in the country behind tax evasion. It costs Americans billions of dollars each year. The National Insurance Crime Bureau estimates that 10 percent of all insurance claims filed are fraudulent, adding at least \$200 to \$300 a year in higher insurance premiums for the average household.



That's why I asked the 2006 State Legislature to support the creation of a unit to investigate criminal insurance scams and fight other organized insurance fraud in Washington state – which it did.

Our Special Investigations Unit took its first case in January 2007, and has uncovered nearly \$1.8 million in insurance fraud in its first 18 months of operation. We look forward to even greater accomplishments in the future – which we'll track in regular updates and present to the Legislature in a formal report in December 2010.

In the meantime, I encourage you to visit our Web site at [www.insurance.wa.gov](http://www.insurance.wa.gov) to learn more about insurance fraud. Learn to recognize it when you see it, how to report it and how to avoid falling victim yourself. Together, we can fight insurance fraud and save consumers' hard-earned money.

Sincerely,

Mike Kreidler  
Insurance Commissioner

## Overview

The Insurance Commissioner's Special Investigations Unit (SIU) was created by Washington State's 2006 Legislature to identify, target, investigate, disrupt and dismantle criminal organizations and individuals engaged in fraud schemes that target the insurance industry. Schemes range from an individual staging a single auto accident to companies submitting false invoices to multiple insurance companies, bilking them for millions of dollars.

The SIU brings a coordinated approach to fighting insurance fraud. Many of the cases it investigates are referred by insurance companies and other law enforcement agencies. When the SIU has gathered enough evidence (often working closely with local and federal law enforcement) and built a strong case, it then turns the case over to local prosecutors or the Attorney General's Office for prosecution.

This report, mandated in the law that established the SIU, documents the unit's creation in 2006 and its progress through June 2008.

KEY DATES FOR THE SIU	
2006	
July	Created by Legislature
September	Director hired
December	Move into building
2007	
January	Began taking cases
February	First case sent for prosecution
March	Board appointed
April	Unit fully staffed

## Staffing

The SIU has six paid staff, but is really a multi-agency task force that includes the following resources:

- Three criminal investigators who investigate cases. They can arrest, conduct search warrants, arrest warrants, and present criminal cases to prosecutors.
- One detective-sergeant who performs the same role as the criminal investigators, but is employed by the Washington State Patrol (WSP).
- One criminal analyst who specializes in high-level analysis of fraud-related data. This position also is responsible for processing and maintaining evidence.
- One member of National Insurance Crime Bureau who provides expert advice on health insurance fraud and acts as a conduit between the SIU and other insurance companies' fraud investigators.
- One administrative assistant.
- One director.
- One assistant attorney general that is assigned to prosecute criminal cases on an as-needed basis.
- One representative from the Public Affairs Division who handles media relations and outreach on an as-needed basis.

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Due to the nature of the criminal investigations the SIU conducts and the potential for confrontation, the investigators, the detective-sergeant from the WSP and the director are armed and carry law enforcement identification.

## **Budget**

With an emphasis on sound fiscal management, the SIU has spent less money each year than it has been allotted. In fiscal year 2008 (July 1, 2007 through June 30, 2008), the SIU saved more than \$350,000 than budgeted, and similar savings are projected for fiscal year 2009 (which ends June 30, 2009).

<b>SIU'S BUDGET</b>		
<b>Fiscal year (July 1-June 30)</b>	<b>Budget</b>	<b>Expenditures</b>
2007	\$685,000	\$637,922
2008	\$1,141,989	\$791,163
2009	\$1,161,125	N/A

## **Advisory board**

The 2006 legislation that created the SIU also mandated that the Insurance Commissioner appoint a volunteer board to advise him on the fraud program. The ten-member board is specifically charged with reviewing and making recommendations related to:

- The effectiveness of the program.
- The resources allocated to the unit.
- A long-term funding source for the unit.
- Whether the unit's size is appropriate.

The board is made up of five representatives from the insurance industry, two consumers, one member of the National Insurance Crime Bureau, one county prosecutor and one representative from law enforcement.

A complete list of members, including brief biographies, are available online at [www.insurance.wa.gov/fraud/fraud-unit/board-bios.html](http://www.insurance.wa.gov/fraud/fraud-unit/board-bios.html).

## **Performance measures**

The SIU's goal is to protect consumers by identifying, investigating and prosecuting organized insurance fraud. It measures its success in terms of dollars – both the amount ordered in restitution and the amount it prevents from being paid out to criminals.

In its first 18 months of business, the SIU uncovered nearly \$1.8 million in insurance fraud. That includes \$1,280,865 in projected loss prevention; \$521,071 in actual losses and \$147,640 in restitution.

## **Cases**

The SIU has opened 46 cases since it began taking cases in January 2007:

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- Ten were referred to county prosecutors.
- Sixteen involved assisting other law-enforcement agencies and have since been closed.
- Twenty are being actively investigated.

More than a quarter of the SIU's initial cases involve fraudulent claims related to personal property. Fraud by medical providers account for 12 percent of cases; auto theft, including property damage, and bodily injury each account for almost 11 percent; and staged collisions account for about 8 percent of all cases.

### **Referrals to county prosecutors**

Once the SIU has investigated a claim and collected enough evidence to build a solid case, it then turns the case over to the local prosecutor to formally charge and try the offending party. In its first 18 months, the SIU referred ten cases for prosecution. Of those, five have been successfully prosecuted, four are pending and one was declined.

**Example:** Tamra Wilson backed into a Ford Mustang while driving her Dodge pickup, causing \$2,000 worth of damage to the Mustang. Wilson attempted to leave the scene of the collision, but was detained by witnesses. At the time of the incident Wilson did not have insurance on her truck, but did have insurance on another car and tried to file a claim based on that coverage.

As a result of SIU's investigation of the claim, Wilson was charged with multiple counts, including filing a false insurance claim and theft. She pled guilty to all counts and was sentenced to one day in jail, 232 hours of community service, 24 months of probation and had to pay \$2,762 in restitution.

### **Assisting other agencies**

The SIU has established a close working relationship with several law-enforcement agencies, including the King County Sheriff, the Seattle Police Department, the Washington State Patrol and the Federal Bureau of Investigations. In many instances (16 to date), the SIU has assisted these agencies in investigating fraud cases and has helped them close their cases.

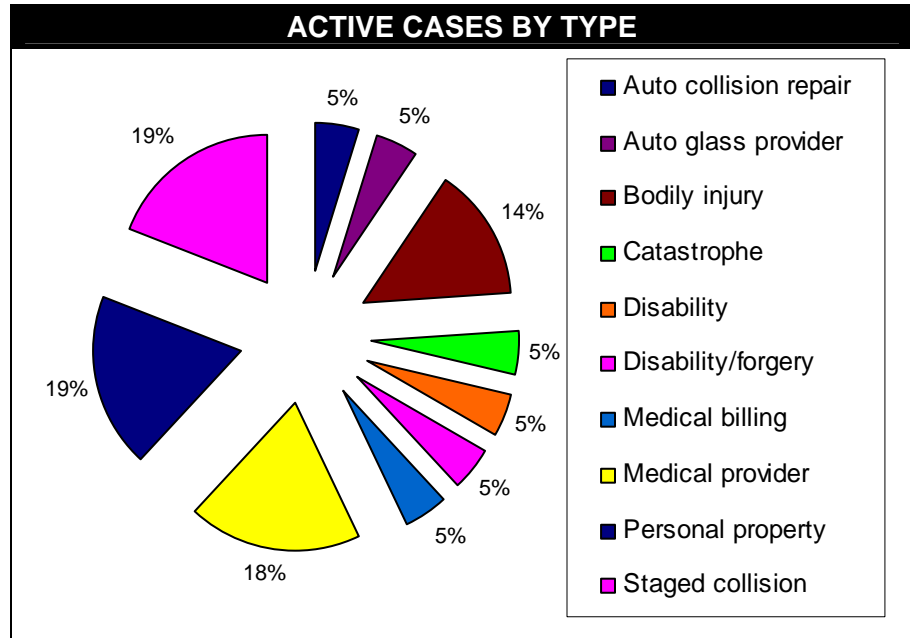
**Example:** The FBI was investigating a medical fraud case and called on the SIU to help with interviewing and to provide back-up for officer safety purposes. SIU staff worked with FBI staff to interview two suspects and a witness where the suspects had allegedly forged hospitalization records and doctors' signatures for

NUMBER OF CASES, BY TYPE	
Auto body	1
Auto glass provider	1
Auto theft/property damage	5
Bodily injury	5
Catastrophe	1
Comprehensive theft	1
Disability	2
Disability/forgery	1
Falsifying facts of loss	1
Forgery	1
Medical billing	1
Medical provider	7
Personal property	12
Prescriptions	1
Staged collision	4
Theft (personal property)	1
Towing	1
<b>TOTAL</b>	<b>46</b>

injury claims. The suspects admitted to the insurance fraud during the interview. They will be facing federal charges of insurance fraud and wire-fraud.

## Active investigations

The SIU is actively investigating 20 cases. The most common types of cases include suspected fraud related to disability and forgery, medical billing, medical providers and bodily injury. While most active investigations are kept confidential, the following case has reached some major milestones and includes releasable information.



**Example:** In 2005, Farmers Insurance launched an investigation into the billing practices of Robert T. Wooster, owner/operator of Doctor Bob's and DRB Enterprises Auto Glass in Battle Ground, Washington. The investigation revealed that Mr. Wooster was routinely billing for replacement of tempered back and side glass when he had only replaced a vehicle's windshield. Altogether, investigators identified 110 bogus claims for a total of \$54,000.

In March 2007, Farmers turned the investigation over to the SIU so that it could pursue criminal charges against Mr. Wooster. After gathering additional evidence, the SIU served a search warrant on the glass shop in October. The information uncovered during the search bolstered the SIU's case and led to it being accepted for prosecution by the state's Attorney General's Office. Mr. Wooster was charged with first-degree theft on July 17, 2008.

While this case already has gone to prosecution, the investigation is not over. SIU investigators continue to sift through evidence and expect that the case will be expanded to include a broader time period and multiple insurance companies.

## Recommendations from the advisory board

The Insurance Commissioner's fraud advisory board has the following three recommendations related to the SIU:

- **Pursue dedicated funding.** To establish the SIU, it was funded through the regulatory account that covers all functions of the Office of the Insurance Commissioner. As to future needs, the Legislature gave specific guidance to

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consider alternative sources for funding of the unit. The advisory board believes that funding the SIU through the regulatory account severely limits the capacity of the unit and its possibility for future expansion and recommends a new source of funding that will meet the unit's future needs.

- **Focus more attention on single-claimant cases.** Representatives from the insurance industry have been particularly vocal on this issue because most of the fraud cases they see include a single claimant. However, the legislation that created the SIU specified that its primary focus is organized criminal fraud.
- **Strengthen fraud laws.** Under current law, fraudulent claims under \$1,500 are misdemeanors and have a two-year statute of limitations. Claims over \$1,500 are felonies and have a three-year statute of limitations.

The advisory board would like the statute of limitations to be extended because many cases cannot be pursued by the time they are discovered and identified as fraud. The board also recommends that multiple cases be combined to determine the dollar value. In many cases, this would make multiple-claim schemes punishable as felonies, rather than as multiple misdemeanors.