

## 2009 Investigations Annual Report



**Division of Insurance Fraud Prevention  
Minnesota Department of Commerce**

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## **II. MESSAGE FROM THE DIRECTOR**

Every year, insurance fraud costs each Minnesota family up to \$900. Nationwide, the cost is even more staggering. The Coalition Against Insurance Fraud pegs the cumulative cost at around \$80 billion annually. It's a vicious cycle that begins with insurance companies raising premiums to compensate for the losses they've taken as a result of fraud. Companies forced to pay those higher premiums then pass the cost on to their employees and consumers in the form of higher insurance costs and higher prices for the goods they sell.

In difficult economic times, insurance fraud is a crime we see committed more frequently. Out of desperation, otherwise law-abiding citizens try to get rid of a mortgage or car payment. Last year, we noticed a sudden jump in the number of reported insurance fraud cases involving arson. It's a trend that most likely can be attributed to cash-strapped consumers and small businesses struggling to get out of debt. In some instances, hardened criminals commit mortgage fraud to buy multiple properties for low prices, and then burn them for insurance payouts.

In most cases, insurance fraud is simply a crime of greed. Unscrupulous doctors, lawyers, bankers and insurance agents view it as a way to line their pockets. Insurance fraud often coincides with other fraudulent activity such as mortgage fraud, securities fraud and health care fraud. Shady chiropractors and other medical providers have been known to prey on unsuspecting crash victims, luring them to sham clinics and billing insurance companies for non-existent treatments. Organized gangs sometimes place their own members in health care facilities so they can steal doctor and patient IDs and then use the information to obtain prescriptions for pain-killer drugs. The drugs are then sold on the street to fund the gang's other nefarious activities.

The Division of Insurance Fraud Prevention, more commonly known as the Insurance Fraud Division (IFD), has been fighting insurance fraud in Minnesota since 2005. The primary focus of the IFD is to deter insurance fraud by aggressively investigating insurance fraud cases for criminal prosecution and promoting public awareness of insurance fraud. In 2010, the IFD plans to implement a statewide private and public awareness campaign to accomplish our strategic goals.

George S. Kyrilis  
Chief Law Enforcement Officer  
Director, Special Investigations  
Division of Insurance Fraud Prevention  
Minnesota Department of Commerce

### **III. INTRODUCTION**

In 2004, Minnesota joined 41 other states in the fight against insurance fraud when Governor Tim Pawlenty signed legislation creating the Division of Insurance Fraud Prevention at the Minnesota Department of Commerce. The legislation authorized the Commissioner to appoint peace officers and establish a law enforcement agency to conduct investigations and make arrests. The jurisdiction of the agency is limited to offenses related to insurance fraud in the State of Minnesota.

The Division of Insurance Fraud Prevention (IFD) is authorized to conduct criminal investigations of insurance fraud by Minnesota Statute 45.0135. Its statutory duties include reviewing referrals of suspected fraudulent insurance fraud submitted by insurers, responding to notification or complaints of suspected insurance fraud generated by other law enforcement agencies and consumers, initiating inquiries and investigations when the division has reason to believe that insurance fraud has been or is being committed and referring for prosecution those instances of insurance fraud to the appropriate prosecutorial agency.

The IFD maintains a positive working relationship with insurance companies, special investigation units and claims adjusters, and relies on the cooperation of many partners in local, state and federal law enforcement as well as prosecutors' offices.

### **IV. MISSION STATEMENT**

"To detect, reduce and deter insurance fraud crimes by aggressively investigating, identifying and prosecuting violators in conjunction with the insurance industry, law enforcement and the citizens of the State of Minnesota."

### **V. STAFFING**

In order to accomplish its mission and responsibilities, the IFD employs a chief law enforcement officer, investigations supervisor, eight detectives and five analysts. The eight detectives have extensive experience in law enforcement with local, county and state law enforcement agencies. In late 2009, the IFD hired a new detective and analyst to replace staff members who left the division.

## **VI. FUNDING**

The IFD is funded by an assessment on each insurer authorized to sell insurance in the state of Minnesota. Specific assessment language can be found in Minnesota Statute 45.0135, subdivision 7.

To date, the assessment has collected almost \$9.7M for fiscal years 2004 through 2010. Expenditures total approximately \$6.4M for the same period. In addition, the assessment for fiscal year 2010 was collected during May 2009 because the statute requires payment to be received on or before June 1, 2009.

During the 2008 legislative session, language was enacted that transferred \$3M from the IFD account to the General Fund during fiscal year 2009. In June 2009, \$1.5M was transferred to the General Fund and another \$1.5M was transferred in July 2009, as prescribed by law. In addition, another \$64,000 will be transferred to the General Fund for fiscal year 2010. The transfer of these funds has had a significant impact on the division's operational budget and curtailed future growth plans.

On July 1, 2010, the IFD assumed administrative responsibility for the Auto Theft Prevention Grant Program. When the program was transferred to the IFD, \$500,000 was transferred from the program to the General Fund. The IFD issued \$3,060,000 in grant awards to law enforcement agencies, prosecutorial offices and community organizations for the biennium of 2010 and 2011.

## **VII. REFERRALS**

### **A. Procedure**

The IFD is responsible for investigating violations of insurance fraud under Minnesota Statute 609.611. The division received 924 referrals during the calendar year 2009. The referrals came from the insurance industry, general public, law enforcement or other government agencies. When a referral is received, it is reviewed by a case review committee to determine if sufficient facts exist to warrant an investigation. If such facts exist, the committee recommends opening an investigation to Investigations Supervisor Kandt, who assigns it to a detective. If insufficient facts exist, the committee either recommends assignment to an analyst for additional review and analysis, or the committee recommends closing the referral. For the referrals assigned to an analyst, the committee will conduct a second review of the referrals and then make a recommendation to either open or close the matter. All referrals received are entered into a database for indexing purposes. Persons who want to make a referral concerning suspected insurance fraud are encouraged to call, write, or visit the Division of Insurance Fraud Prevention at 85 7<sup>th</sup> Place East, Suite 500, St. Paul, MN 55101, 1-888-FRAUDMN. Insurance companies licensed to do business in the State Of Minnesota are required by Minnesota Statute 60A.952 to report suspicious or fraudulent activity to the Division of Insurance Fraud Prevention. Referral forms and the Minnesota Statutes and Federal

Statutes that may be applicable to insurance fraud can be found at the Minnesota Department of Commerce website, [www.insurance.mn.gov](http://www.insurance.mn.gov), under the Fraud Statutes and Penalties hyperlink. All referrals and complaints are kept confidential until criminal charges are filed.

## **B. Statistics**

Once the referrals are reviewed and classified by a division Analyst, they are entered into the divisions' confidential case management database. The IFD maintains the database for the purpose of file management and compiling statistics. The main statistics assembled from our database are related to the type, and source of the fraud.

### **1. Losses**

The amount of loss in each case referred for criminal prosecution is recorded to evaluate the financial cost of insurance fraud uncovered from our investigations. The division does not document the losses reported for each and every referral since some losses are unsubstantiated and are a derivative of abuse and error, rather than fraud. In 2009, the amount of monetary losses on investigations referred for prosecution was \$45,319,729. In comparison, the losses in 2008 were \$9,542,971 and in 2007 \$2,647,422.

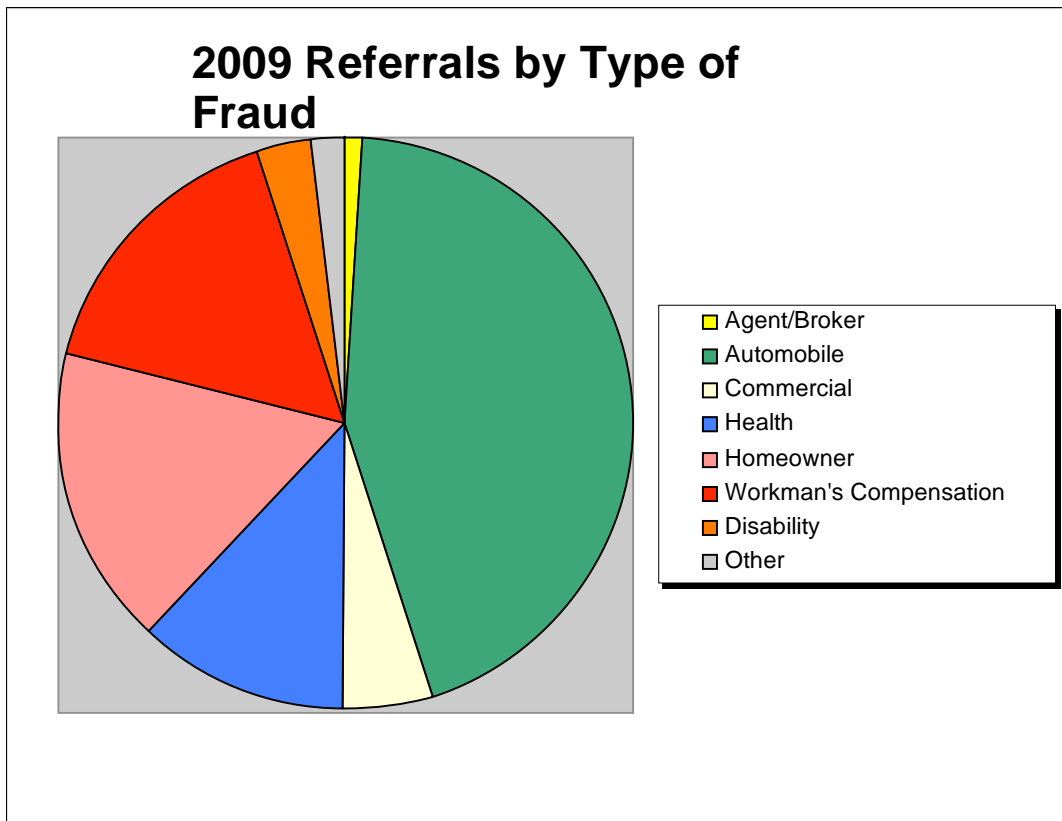
The division records the amount of restitution in cases that have resulted in successful prosecution. In 2009, the courts ordered restitution of \$3,618,035 to victims in our investigations, compared to \$2,656,970 in 2008 and \$3,065,930 in 2007.

### **2. Referrals by Type of Fraud**

The IFD assigns a case code to every case referred to the division to classify the type of fraud. The classification system enables the division to determine the most prevalent type of insurance fraud in Minnesota. The categories for each type of fraud, the number of referrals, and the percent of total in the year 2009 are as follows: agent and broker fraud – 25 (2%), auto claim fraud – 407 (35%), commercial fraud – 83 (7%), health claim fraud – 240 (21%), homeowner fraud – 201 (18%), workers' compensation fraud – 108 (9%), disability fraud – 22 (2%), and other types of fraud including life insurance, premium fraud, mortgage insurance fraud and unemployment fraud – 64 (6%).

In 2009, the referrals for insurance fraud significantly increased in several areas, including agent/broker fraud, health claim fraud and mortgage insurance fraud, which all doubled from the prior year.

The graph below depicts this breakdown for each type of fraud.



### 3. Referrals by Source

The IFD receives case referrals from four main sources: the general public, insurance companies, law enforcement agencies and government agencies. The subject of the referrals varies from individuals to businesses suspected of committing insurance fraud. The majority of these referrals are received from the insurance companies through the National Insurance Crime Bureau. The general public contact for the division is through our telephone hotline (1-888-FRAUDMN), the US Mail and the Minnesota Department of Commerce web site. The division has an inter-agency agreement with the Minnesota Department of Labor and Industry (DOLI) for workers' compensation insurance fraud. In 2009 the division's inter-agency agreement with the Minnesota Department of Employment and Economic Development (DEED) to conduct criminal investigations on unemployment insurance fraud ended since their referrals did not meet the standards of a criminal prosecution.

## **VIII. PREVENTION**

### **A. Educational Presentations**

One of the primary goals of the IFD is to educate the public, insurance industry, law enforcement, government agencies and prosecutors that insurance fraud is a crime and that it has a negative impact on insurance rates in Minnesota. According to the Coalition against Insurance Fraud, the average Minnesota family pays about \$900 per year in higher insurance premiums and other costs because of insurance fraud. Nationally, it is estimated to cost over \$80 billion annually, and 15 percent of every premium dollar spent has to be used to cover false and/or inflated insurance claims.

To get this message out in 2009, the IFD made several presentations to the general public, insurance industry, law enforcement and government agencies. In 2009, the division leased exhibit booths at the annual conferences for the Minnesota Chiefs of Police Association, Mid-State Organized Crime Information Center (MOCIC), Minnesota Crime Victims Association, Minnesota Crime Prevention Association and the Minnesota State Fair to provide awareness about insurance fraud and reporting of insurance fraud.

On February 16, 2009 Governor Tim Pawlenty announced the inaugural Insurance Fraud Awareness Week in the State of Minnesota. The program was a coordinated effort by the Insurance Federation of Minnesota (IFM), the National Insurance Crime Bureau (NICB), the Minnesota Chapter of the International Association of Special Investigation Units and the IFD. A press conference was held at the State Capitol and press releases were issued each day of the week from February 16 – 20, 2009, to inform the public about the different types of insurance fraud.

### **B. Educational Materials**

As part of its public awareness program, the IFD developed a pamphlet on insurance fraud to distribute to the general public and businesses. The pamphlet provides information about why people commit insurance fraud, the types of insurance fraud, the elements of an insurance fraud and how to contact the Division of Insurance Fraud Prevention. The division also distributes pamphlets designed by the Coalition Against Insurance Fraud, "Insurance Fraud, the Crime You Pay For," which has information on the types of fraud, the costs of fraud and how to prevent becoming a victim of insurance fraud.

### **C. Other Activities**

As part of our mission to reduce and deter insurance fraud, the IFD works cooperatively with the insurance industry, law enforcement and the citizens of the State of Minnesota. The division's staff has joined, or is associated with various professional groups, both from the insurance industry and the law enforcement community. These groups include but are not limited to the IFM, NICB, National Association of Insurance Commissioners, Coalition Against Insurance Fraud, Mid-States Organized Crime Information Center, FBI



Mortgage Fraud Task Force, Minnesota Health Care Fraud Task Force, National Health Care Anti-Fraud Association, Twin Cities Securities Partnership, Association of Certified Fraud Examiners, Minnesota Chiefs of Police Association, High Technology Crime Investigation Association and the Minnesota Cyber Crimes Task Force. Our association and participation with these groups provide valuable assistance, resources and information to the Division of Insurance Fraud Prevention in our efforts to combat insurance fraud in Minnesota.

## **IX. INVESTIGATIONS**

### **A. Overview**

The IFM conducts criminal investigations on insurance fraud and offenses related to insurance fraud, including mortgage fraud, securities fraud, arson-related insurance fraud and other state and federal criminal violations. The investigation process includes activities such as interviewing witnesses, conducting background checks on suspects, interviewing victims, witnesses and suspects, executing search warrants, serving subpoenas, conducting surveillances, reviewing/analyzing documents and evidence, and conducting computer forensics.

The following cases are samples of some the division's investigations in 2009.

#### **1. Noteworthy Insurance Fraud Cases**

A doctor and his wife from Miami, Florida perpetrated a scheme to defraud more than \$107,000 from the Minnesota Comprehensive Health Association. The couple verified that they met the stat residency requirement for the program, falsely claiming that they lived in Rochester for 12 years. The couple used a UPS store as their residential address to deceive the insurance company administering the program. The Hennepin County Attorney's Office charged the couple with insurance fraud.

A man from Duluth deliberately misrepresented his ability to work and collected workers' compensation benefits while owning a construction company and working construction. He received a \$150,000 settlement from the insurance company, when his construction company made \$131,850. He was charged with two counts of theft by false representation and one count of insurance fraud in St. Louis County Attorney's Office. He pled guilty to one count of theft by false representation and was sentenced to two-years in prison; two years probation, pay \$5,000 in restitution and a \$1,000 fine.

An insurance agent and owner of a brokerage services company in Fargo, North Dakota, took more than \$5 million from 33 investors in Minnesota and North Dakota. He took the money in exchange for promissory notes that promised certain rates of return, but instead converted that money for personal use. The Ponzi scheme occurred over an 18-year period. A complaint was filed in Cass County charging him with 78 counts, including 21 counts of transacting business as an unregistered insurance agent; 27 counts

of offering for sale or selling unregistered securities; 29 counts of engaging in fraudulent practices and one count of exploitation of a vulnerable adult. He pled guilty and was sentenced to 8-years in prison and ordered to make more than \$3 million in restitution.

A former securities and insurance agent defrauded 21 investors in Minnesota and North Dakota out of more than \$1.8 million in exchange for promissory notes that promised certain rates of return, but instead converted that money for personal use. The agent pled guilty to theft by swindle and theft by misrepresentation in MN and 18 counts of fraudulent practice and 20 counts of property theft in N.D. He will serve a prison term of two years and make restitution of more than \$2.5 million after pleading guilty in Norman County, Minn. and Cass County, N.D. The investigation was conducted in conjunction with the North Dakota Securities Division, which reached an agreement with a brokerage services company to repay approximately \$2.9 million to investors.

A former president and majority owner of First State Bank Minnesota in Leroy misappropriated approximately \$609,848 from the bank and its customers. He pled guilty in October 2008 to one count of bank fraud and tax evasion. He admitted to obtaining money from customer bank accounts, charging personal expenditures on the bank's credit cards, and retained proceeds from checks written to the bank and other parties. The investigation was initiated on allegations of insurance fraud, and the DOIFP executed search warrants on his residence and conducted a forensic examination of his personal computer. The investigation was deferred to the IRS for bank fraud and tax evasion, when detectives determined that he did not commit insurance fraud. At his sentencing in March 2009, he was ordered to serve 30 months in prison and pay restitution of \$609,848. He will sell his \$1.8 million stake in the bank to make restitution and pay \$474,000 in taxes.

In December 2007, a woman from Karlstad was involved in a hit and run accident with an electric utility pole after her auto insurance policy had been cancelled. She later obtained a new auto insurance policy and reported that she hit a tree in January 2008. She submitted a false claim to her insurance company and she received \$3,187 in collision. The woman was charged and pled guilty to insurance fraud in Kittson County and was sentenced to probation and ordered to make restitution of \$3,187.

A man from Owatonna collected disability payments that he was not entitled to after returning to work. He was required to report his change in work status to the insurance company and collected approximately \$21,000 in disability payments that he was not entitled to. He was charged with theft and insurance fraud by the Steele County Attorney's Office.

In Mankato, a man employed as a valet at a casino submitted a claim for long-term disability based upon partial loss of vision. He began receiving long-term disability benefits of \$770.00 each month from the insurance company. About six months later, he started a new job, but submitted false information claiming that he had no income on four different occasions. He obtained more than \$34,000 from the insurance company and

was charged with four counts of insurance fraud and eight counts of theft by the Blue Earth County Attorney's Office.

A man from St. Paul signed a workers' compensation settlement agreement with the Department of Labor and Industry (DOLI) for \$13,000. He erroneously received a check for \$55,571, which he deposited in his bank account. He withdrew and spent all of the money within the next five months. The Ramsey County Attorney's Office charged him with one count of felony theft.

A licensed real estate salesperson and insurance agent from Burnsville engaged in a pattern of insurance/mortgage fraud by using proceeds intended for mortgage insurance or title insurance. The woman misappropriated, converted and embezzled more than \$220,000 in proceeds by issuing checks for her own benefit from trust and title insurance accounts. The Dakota County Attorney's Office charged her with five counts of theft, three counts of theft by swindle and eight counts of insurance fraud.

The owner of a cable communications company in Spring Lake Park submitted fraudulent workers' compensation insurance policy certificates for his employees to his insurance company. As a result, the workers compensation insurance premiums to the insurance company were underpaid by approximately \$27,000 in 2007 and 2008. The man was charged with one count of insurance fraud and two counts of aggravated forgery by the Anoka County Attorney's Office.

An insurance agent from Shakopee used false information to obtain a better insurance rate for a customer. The agent misrepresented the terms of an actual insurance contract or application by misrepresenting garaging street addresses by using wrong locations on at least 41 insurance applications. The man misrepresented or altered clients' dates of birth on at least 45 insurance applications and misrepresented clients' social security numbers or used another person's social security number on applications. The agent misrepresented information on 58 policy holders, causing the insurance company to lose \$15,764. The Dakota County Attorney's Office charged the man with two counts of insurance fraud.

## **B. Statistics**

The Division of Insurance Fraud Prevention reviewed 924 referrals in 2009. Of those, 235 referrals were opened for investigation. The division closed 750 cases for the following reasons: insufficient facts, completed investigations with no prosecutable action, and completed investigations adjudicated in criminal court. The division sent 29 investigations to the state and/or federal prosecuting agencies for prosecution. Those cases had 755 victims with financial losses of approximately \$45,319,729, in comparison to 103 victims with monetary losses of \$9,542,971 in 2008.

## **C. Intelligence and Other Activities**

Information is a key element in solving crimes. Insurance fraud is a white collar crime, which crosses jurisdictional boundaries of city, county and state lines. The Division of Insurance Fraud Prevention shares information and intelligence with other law enforcement agencies and government agencies throughout the state to accomplish its mission. Many of the division's investigations developed into coordinated efforts by multiple law enforcement agencies to bring forth successful prosecutions.

Some of the agencies that the division's detectives have either provided assistance to or worked with on joint investigations include Sheriff's Offices, Police Departments, Federal Bureau of Investigation, Internal Revenue Service, Bureau of Alcohol, Tobacco and Firearms, U.S. Postal Inspection Service, U.S. Department of Health and Human Services, Social Security Administration, Minnesota County Attorneys, U.S. Attorney's Office, Minnesota Department of Labor and Industry, Minnesota Department of Employment and Economic Development, Minnesota Department of Human Services, and our own Insurance Market Conduct and Real Estate/Securities Divisions. This cooperation has helped solve many criminal cases, establish and build valuable relationships, and consolidate resources in the fight against insurance fraud.

## **X. PROSECUTION**

### **A. Overview**

The Division of Insurance Fraud Prevention is authorized to refer investigations on insurance fraud and offenses related to insurance fraud for criminal prosecution. The investigations are either referred to the Minnesota County Attorneys or the U.S. Attorney's Office, depending on the jurisdiction and criminal violations applicable to the investigation. Under state law, the division enforces violations of the Minnesota statutes for 609.611 Insurance Fraud, 609.612 Employment of Runners, 609.45 Perjury, 609.52 Theft and 609.63 Forgery. Under federal law, the division enforces violations of US Code, Title 18 for Section 1341 Mail Fraud, Section 1343 Fraud by Wire, Section 1347 Health Care Fraud and Section 1956 and 1957 Money Laundering. In all prosecutions, the division seeks the forfeiture of assets from defendants and restitution for the victims.

### **B. Statistics**

The Division of Insurance Fraud Prevention referred 29 cases for criminal prosecution in 2009. These investigations involved 37 defendants. Some of these investigations are pending at several prosecuting agencies and are at various stages of the court and legal process. Of the investigations that were completed, legal action resulted in twelve criminal charges, five convictions, and court-ordered restitution of \$3,618,035. In 2007 and 2008, the division had 11 and 14 convictions respectively and restitution of \$2,656,970 and \$3,065,930.

## **XI. ADMINISTRATIVE ACTIVITIES**

One additional investigative position was added in 2009 bringing the total of authorized detective positions to eight at year end, in addition to five existing analyst positions.

The Division of Insurance Fraud Prevention instituted a new case management system obtained from the Law Enforcement Technology Group (LETG). The innovative browser based records management system will provide greater efficiency and effectiveness for the division to accomplish its mission. LETG installed the system in June 2009.

## **XI. CONCLUSION**

According to the Insurance Federation of Minnesota, insurance fraud costs consumers millions of dollars a year in the form of higher premiums. The Division of Insurance Fraud Prevention has worked with our partners in law enforcement, insurance industry, government agencies and the general public during 2009 in our efforts to combat insurance fraud. We will continue to aggressively investigate and seek prosecution of fraudulent insurance fraud acts and increase public awareness of insurance fraud across the State of Minnesota.

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