



Commerce Fraud Bureau Annual Report 2021

Minnesota Department of Commerce
Commerce Fraud Bureau
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MINNESOTA DEPARTMENT OF COMMERCE

Mission

To protect the public interest, advocate for Minnesota consumers, ensure a strong, competitive and fair marketplace, strengthen the state's economic future; and serve as a trusted public resource for consumers and businesses.

With You Every Day

Wherever you are in Minnesota, the Department of Commerce is with you every day. Whether you're filling up on gas, purchasing a home, working to reduce energy consumption or rebuilding after a disaster—we are with you, no matter what.

The Department of Commerce oversees more than 20 regulated industries, ensuring that Minnesota businesses are strong and Minnesota consumers are protected.

Learn more at mn.gov/commerce

Pursuant to Minnesota Statute § 3.197: This report cost approximately \$2,770.00 to prepare, including staff time.

Annual report to the Minnesota State Legislature

Pursuant to Minnesota Statute § 45.0135, subdivision 5, the Commerce Fraud Bureau (CFB) submits this annual report of its activities. The CFB is a statutorily authorized law enforcement agency-comprised of sworn agents-within the Minnesota Department of Commerce. This report provides the capstone of the activities of the CFB for the year.

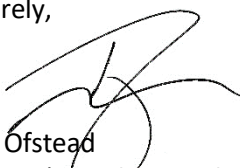
In 2021 the CFB initiated investigations on 2,991 cases, an almost 17% decrease from the 3,600 investigations conducted in 2020. CFB criminal investigations resulted in prosecutions of individuals who were responsible for committing crimes that had an economic impact on Minnesotans totaling \$7,480,304 up from \$6,811,369 in 2020.

The mission of the CFB is, "To protect Minnesotans from fraud by conducting aggressive criminal investigations in the pursuit of justice." This is not simply a statement for us, but rather a roadmap for us to continue to fight against fraud and unscrupulous individuals who prey on the good people of Minnesota. This is the reason why our work is so important. The men and woman who work for the CFB are highly regarded by their peers and have continued to perform exemplary work in the challenging conditions that have persisted over these past two years.

I encourage you to review this report to learn more about who the Commerce Fraud Bureau is and what we can do. Please feel free to contact me with any questions you may have at 651-539-1602.

Thank you for your on-going and continued support.

Sincerely,



Tony Ofstead
Director | Chief Law Enforcement Officer
Minnesota Commerce Fraud Bureau

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OVERVIEW

- The work of the CFB is a key part of the state’s consumer protection and criminal justice systems.
- Commerce Fraud Bureau investigations resulting in the filing of state and federal criminal charges had an economic impact of \$7,480,304 in 2021.
- Over the past 5 years, case referrals increased 35%.
- The number of incoming case referrals at the CFB in 2021 was 2,991, a 16.9% decrease from 2020.
- The five largest areas of suspected fraud reported to the CFB during 2021 were:
 - Automobile Insurance
 - Homeowners Insurance
 - Health Care Insurance
 - Workers’ Compensation Insurance
 - Life Insurance Fraud

COMMERCE FRAUD BUREAU

INTRODUCTION

The CFB is one of Minnesota's six state law enforcement agencies and is housed inside the Minnesota Department of Commerce.

The CFB's enforcement authority is granted under Minnesota Statute § 45.0135 and its primary law enforcement responsibilities lay in conducting criminal investigations into cases involving insurance fraud.

The range of investigations and complaints that the CFB undertakes is broad and varied. They include investigations around insurance-related senior scams, identification theft, medical ID theft, fraudulent health insurance claims, businesses illegally trying to avoid paying workers compensation premiums, cyber-crimes, property and casualty insurance schemes, funeral insurance fraud and more.

Fraud occurs when someone knowingly lies or falsifies information to obtain a benefit or advantage to which they are not otherwise entitled. Likewise, fraud occurs when someone knowingly denies a benefit that is due to someone who is entitled.

Fraud schemes continue to become more complex and often involve multiple industries beyond just insurance. An insurance fraud investigation, for example, might reveal evidence of mail fraud, identity theft, email account take-over, and investment fraud. As fraud schemes become more complex, and the perpetrators savvier, tools and techniques for identifying criminal activity have also grown more sophisticated, advanced, and often involve a higher degree of complexity as well.

Those involved in perpetrating these types of crimes often target senior and vulnerable populations, as well as those who are victims of circumstance such as storm and weather events, accidents, even burying a loved one. These predators rarely isolate their criminal activity to a specific location. They often operate statewide, but also cross state lines, with some operating internationally as well.

The CFB collaborates with local, state and federal law enforcement agencies to apprehend those responsible for committing these crimes, and then with local, state, and federal attorney's offices to hold them accountable for their actions. The work of the CFB is complex, meaningful, and plays a key role as part of the state's consumer protection and criminal justice systems.

PERSPECTIVE

During 2021, the CFB was staffed by 22 professionals: a director (Chief Law Enforcement Officer), two supervisory special agents, 14 special agents, 2 senior analysts and 3 analysts.

CFB special agents are Minnesota Police Officer Standards and Training (POST) certified licensed peace officers with extensive law enforcement backgrounds, training and experience. CFB special agents are considered experts in the field of insurance fraud. Aside from being extensively trained in criminal investigations, CFB agents and staff provide assistance and training, for consumers, the insurance industry and our law enforcement partners-locally and nationally.

The CFB analysts are highly trained personnel who function in a non-sworn support role conducting research, analyzing data, and producing reports in support of CFB special agents.

The CFB is currently the nation's sixth largest law enforcement agency tasked with the responsibility of investigating insurance fraud. California is first with 237 full time law enforcement officers followed by Florida with 156, North Carolina with 40, Virginia with 25, West Virginia with 22.

PURPOSE

The main purpose of the CFB is:

- Identify and investigate insurance and associated fraud
- Provide education in how to avoid being a victim of fraud
- Diverse and varied partnerships to identify and apprehend offenders and hold them accountable

The CFB not only conducts criminal investigations but can enhance the effectiveness of other law enforcement agencies throughout the State. This has been accomplished through many different means ranging from consulting on investigations, training and corroboration, to CFB agents being a 'force multiplier' for smaller agencies. Additionally, the unique skillsets that CFB special agents possess facilitates the investigation of crimes that require technical expertise that are generally beyond the experience, scope, and/or knowledge base of many of our law enforcement partners.

Due to the lean, agile operating principles it employs, the CFB is positioned to deploy significant assistance efficiently and effectively across the state where investigative resources may be less readily available.

The CFB assists law enforcement partners by providing such services as:

- Computer and cell phone forensic examinations
- Collection, analysis of evidence in financial crimes
- Surveillance support
- Technical expertise

ACTIONS

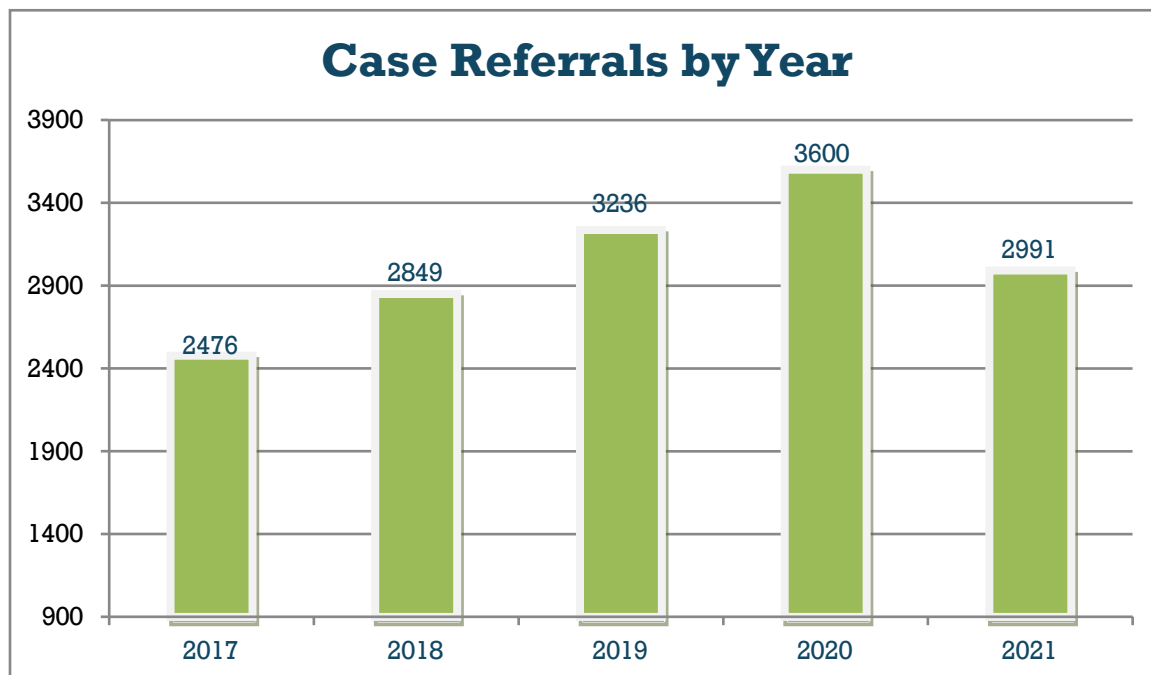
INVESTIGATIVE REQUESTS

Cases for investigation are referred to the CFB from four (4) major sources:

- The general public
- Insurance companies
- Law enforcement agencies
- Other governmental regulatory entities

Each incoming complaint is carefully reviewed to determine if the information submitted articulates a sufficient basis for the CFB to initiate a criminal investigation into the fraud allegation.

The following graphic represents the number of cases referred to the CFB for investigation during each of the previous five years.

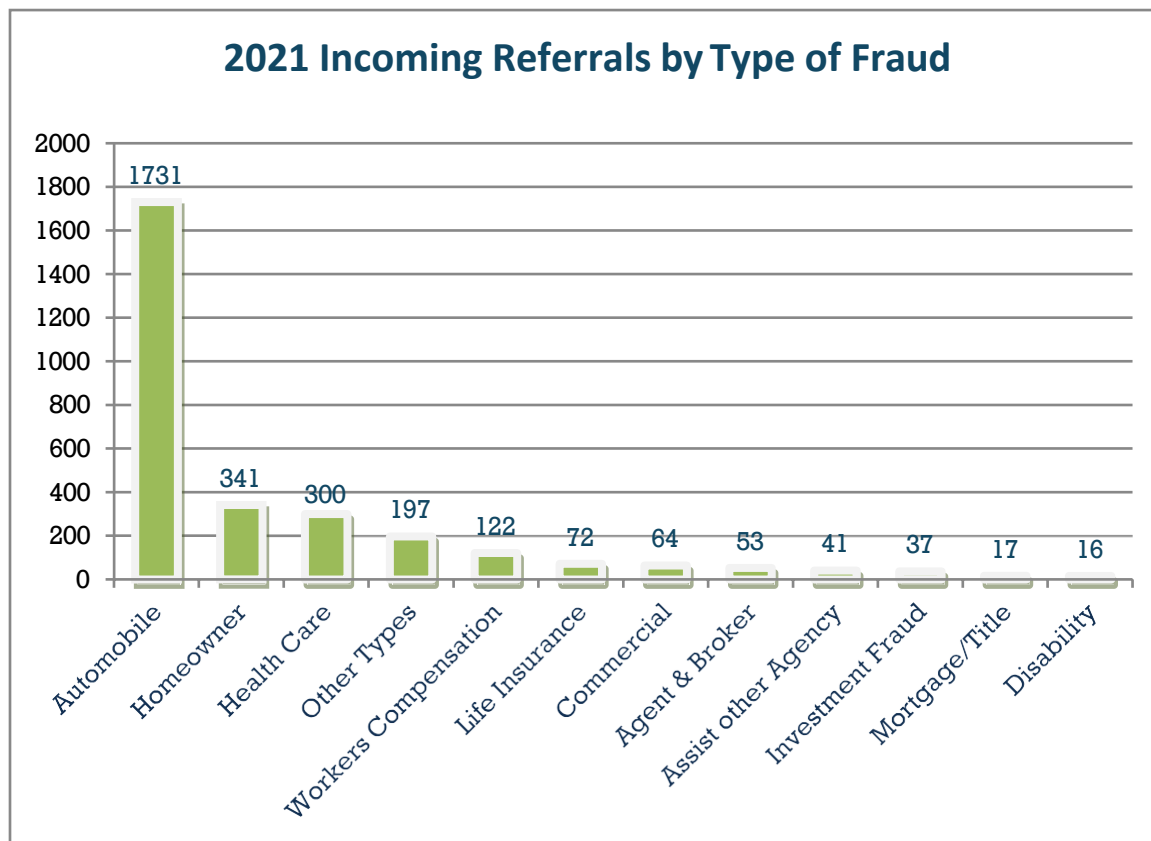


Prior to 2021, the CFB had experienced an increase of 57% in case referrals. From 2020 to 2021, the CFB saw a 16.9% decrease in case referrals.

TYPE OF FRAUD CASES

The five largest areas of suspected fraud reported to the Bureau during 2021 were:

- Automobile Insurance
- Homeowners Insurance
- Health Care Insurance
- Workers' Compensation Insurance
- Life Insurance



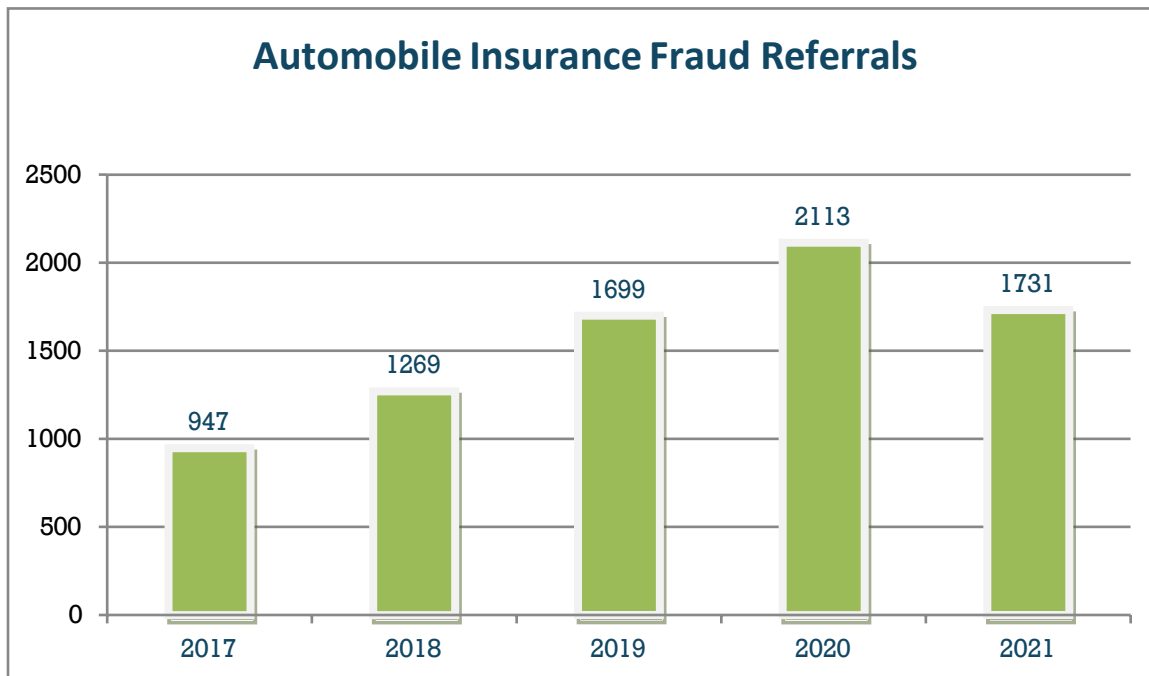
AUTO INSURANCE FRAUD

Auto insurance fraud may be attempted in any number of ways. Material misrepresentation occurs when the insured makes an untrue statement about coverage or events.

For example:

- Staging accidents
- Windshield replacement scams
- Filing false claims for pre-existing damage
- Towing scams
- Auto insurance premium evasion
- Filing false reports of stolen vehicles
- Driving without insurance or with limited insurance coverage

The following chart depicts the changes in the number of automobile insurance fraud referrals received during the previous five years:



The number of automobile insurance fraud cases referred to CFB had been steadily increasing. From 2016 to 2020, case referrals increased 177%. Between 2020 and 2021, there was an 18% decrease in referrals, which was still an increase of 1% over pre-pandemic times (2019 compared to 2021).

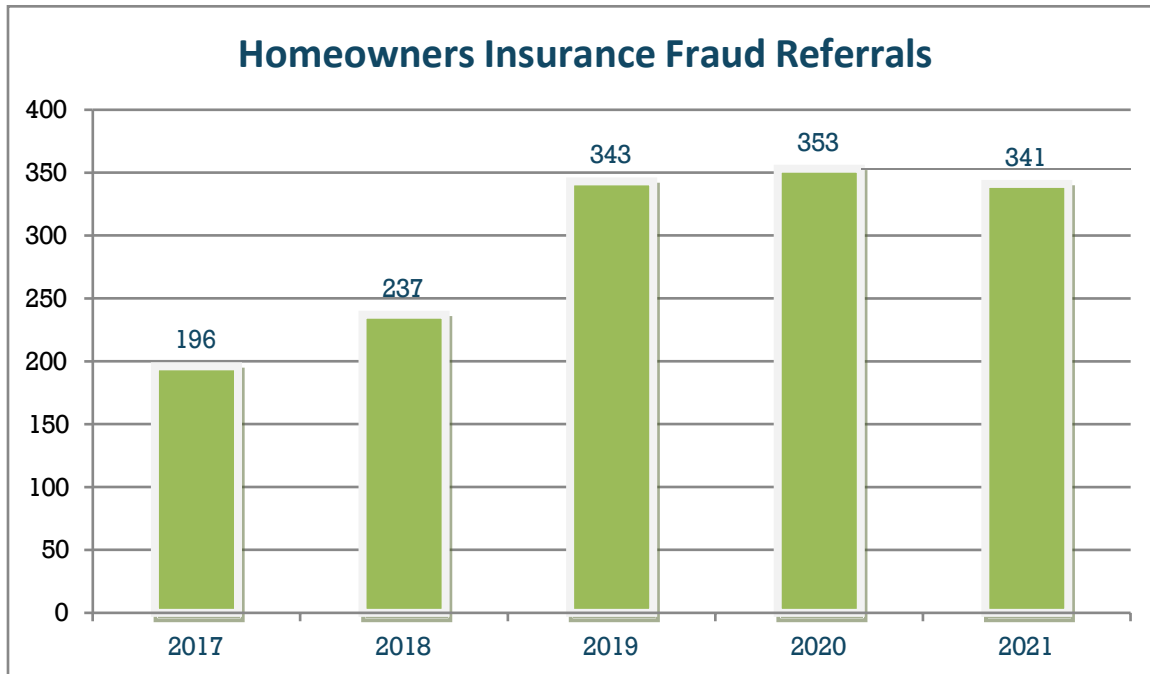
HOMEOWNERS INSURANCE FRAUD

Homeowners insurance fraud may be attempted in a variety of different ways.

For example:

- Intentionally damaging property to make a claim
- Overstating value of stolen items
- Falsifying documents or statements of coverage
- Concealing that a residence is used as a rental property or being used for commercial business
- Claiming old, existing damage as new damage
- Kick back from a contractor inflating a claim to cover a deductible

The following chart depicts the changes in the number of homeowners insurance fraud referrals received during the previous five years:



Homeowners insurance fraud cases increased 75% from 2017 to 2019 and have continued at that higher level in 2020 and 2021.

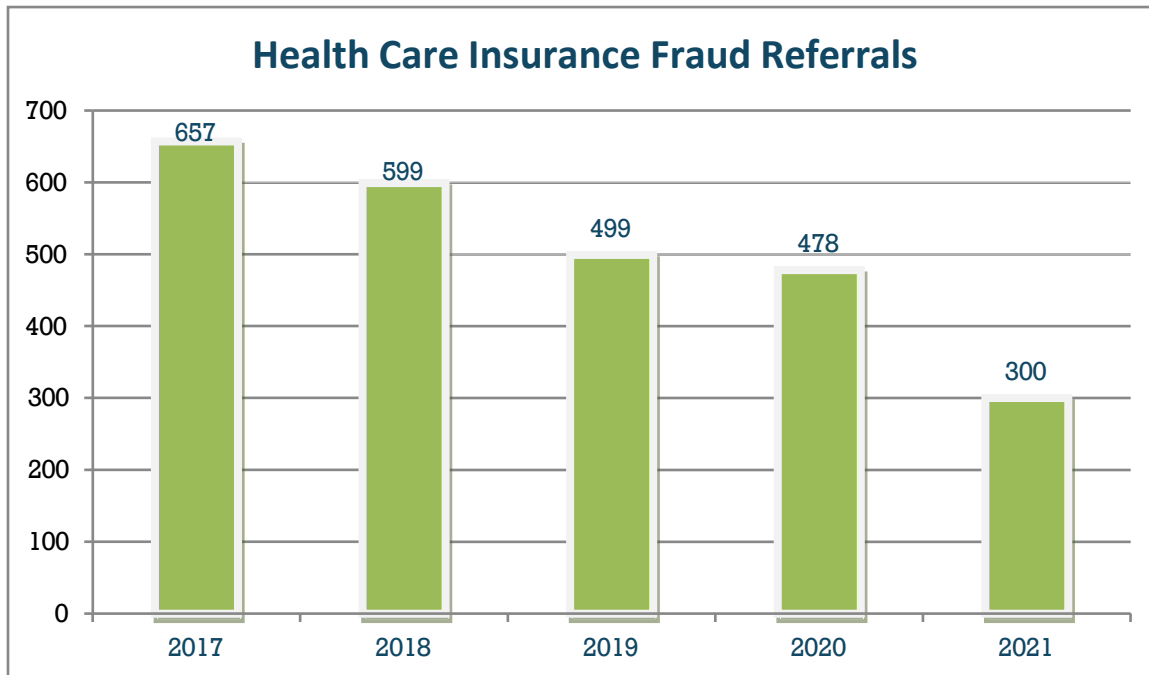
HEALTH CARE INSURANCE FRAUD

Health care insurance fraud may be attempted in a variety of ways.

For example:

- Filing claims for services or medications not received
- Forging or altering bills or receipts, misrepresenting dates and/or location of service
- Using someone else's coverage or insurance card
- Billing for services not actually performed
- Falsifying a patient's diagnosis to justify tests, surgeries or procedures that aren't medically necessary
- Staged auto accidents with fictional injuries and fraudulent inaccurate claims for injury treatment

The following chart depicts the changes in the number of health care insurance fraud referrals received during the previous five years:



The number of referred health care insurance fraud related cases have decreased 54% since 2017, with a 37% decrease between 2020 and 2021.

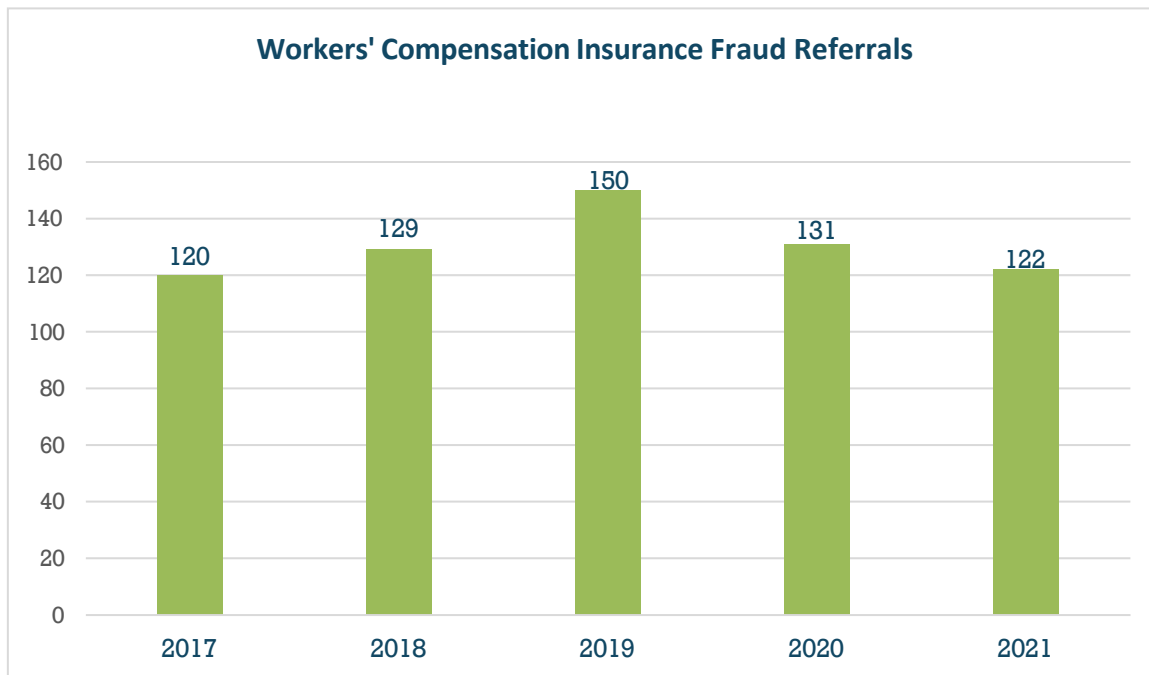
WORKERS' COMPENSATION INSURANCE FRAUD

Workers' compensation insurance fraud may be attempted in many ways.

For example:

- An employer misclassifying an employee to avoid having to pay workers' compensation insurance premium
- An employee faking a job injury or illness and using workers' compensation benefits to receive a payment for medical costs
- A health care provider, clinic, or hospital billing for a service that was not performed
- Fraudulent certificates of insurance

The following chart depicts the changes in the number of referrals received for workers' compensation fraud during the previous five years:



The average cases referred to the CFB over the past 5 years has remained relatively constant, with a decrease of 6% from 2020 to 2021.

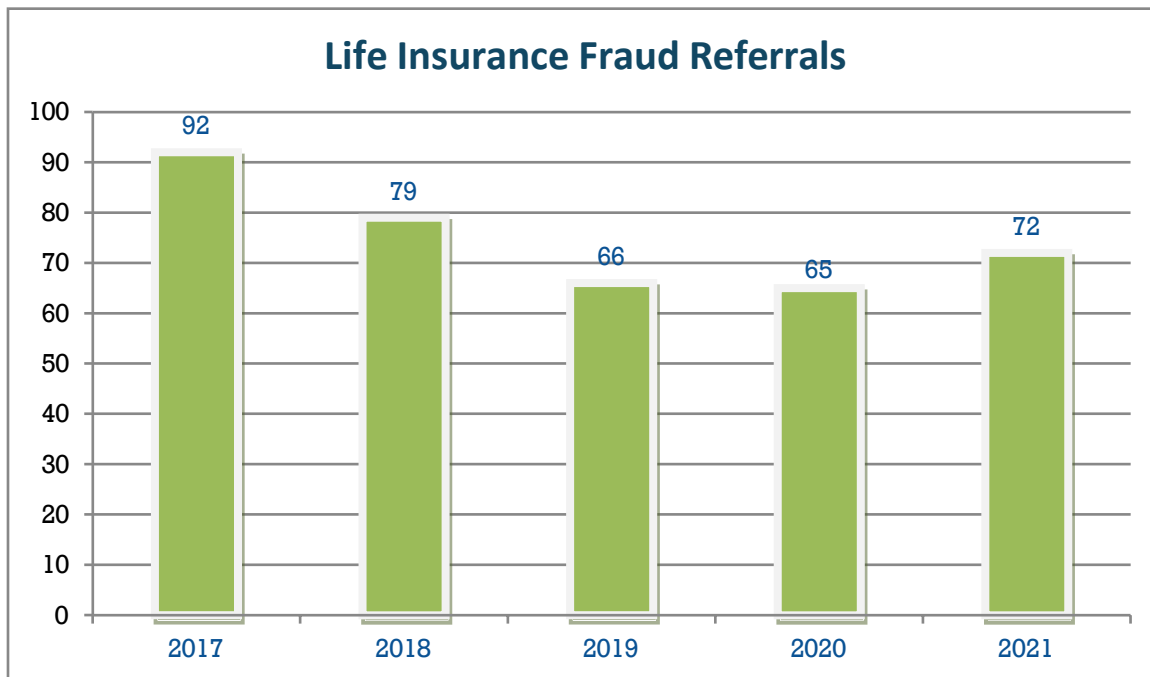
LIFE INSURANCE FRAUD

Life insurance fraud may be attempted in many ways.

For example:

- Lying on the application
- Faking a death to collect benefits
- Forging documentation
- Fake policies
- Stacking multiple smaller policies

The following chart depicts the changes in the number of referrals for life insurance fraud received during the previous five years:



The number of life insurance fraud cases submitted to the CFB has shown a decline of 27% from 2017 to 2021, but with an increase from 2020 to 2021 of 10%.

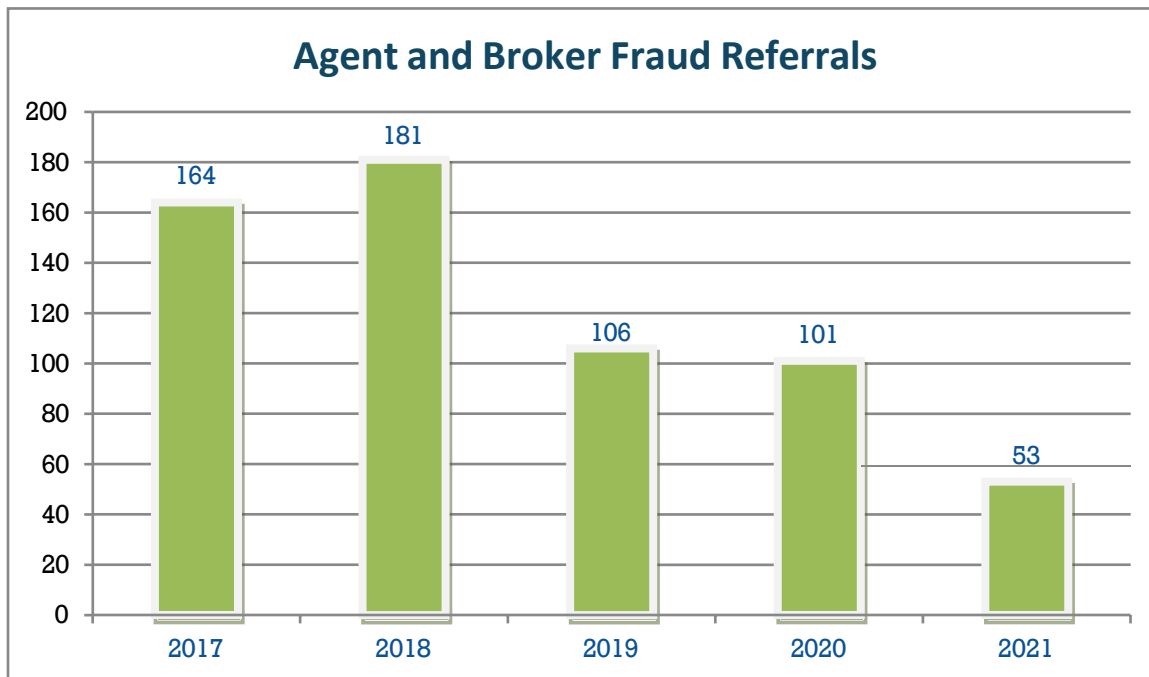
AGENT AND BROKER FRAUD

Historically agent and broker fraud has been in the top 5 of referrals. While it has generally been trending downward, it merits being included in this report. Agent and broker insurance fraud may be attempted in several ways.

For example:

- Failing to provide appropriate disclosures
- Misrepresenting a material fact about a property or structure
- Licensing violations
- Mortgage fraud
- Misrepresenting a buyer's credit report, salary or employment history in order to qualify for a home loan
- Criminal conduct by an agent or broker

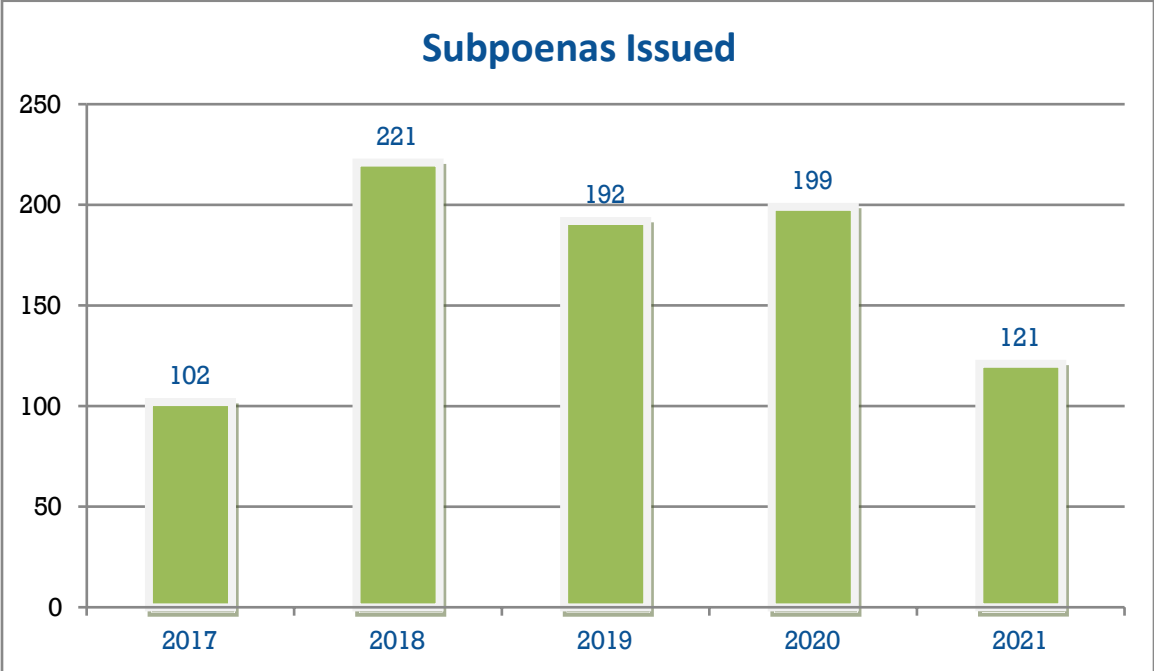
The following chart depicts the changes in the number of referrals for agent and broker fraud received during the previous five years:



The number of agent and broker fraud cases submitted to the CFB in 2021 was nearly half of that in 2020. This establishes a 68% decline over the past 5 years.

SUBPOENAS

One of the most important aspects in conducting investigations into complex fraud cases is evidence gathering. A large amount of the evidence that is required to obtain a successful prosecution relies upon securing evidence via the subpoena powers granted to the Commissioner of the Minnesota Department of Commerce. The following chart represents the number of subpoenas issued pertaining to investigations conducted by the CFB during each of the previous 5 years:

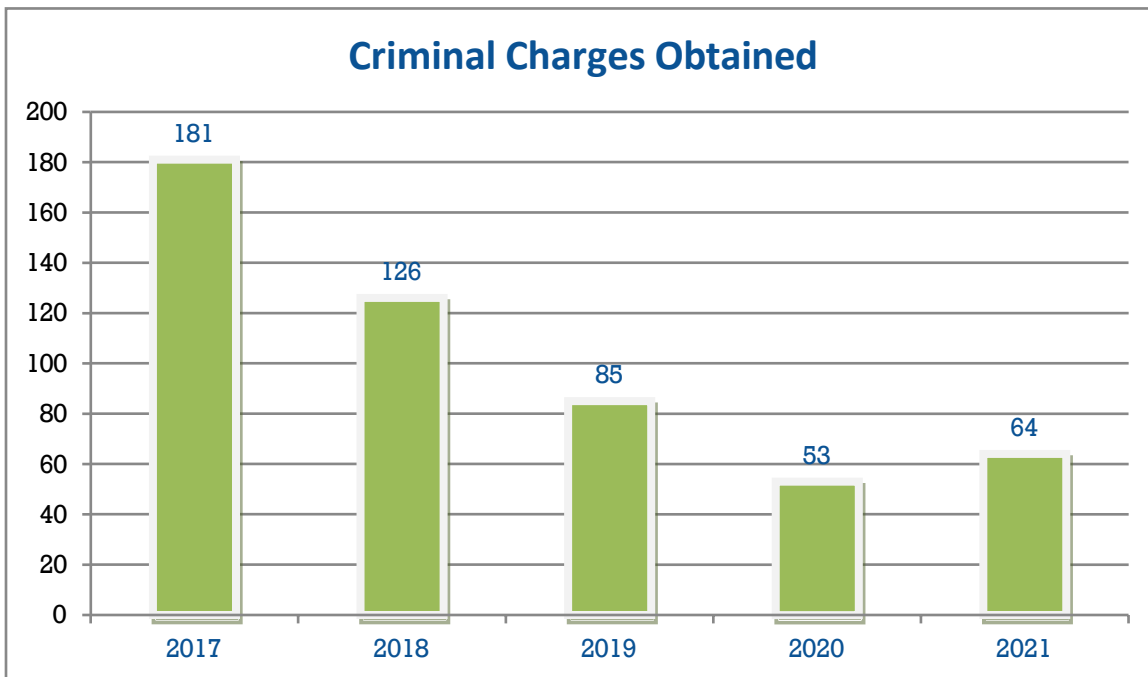


PROSECUTION

The CFB submits the results of completed investigations for criminal prosecution. These investigations are referred to either a County Attorney's Office, the Minnesota Attorney General or to the United States Attorney's Office, depending on the jurisdiction and criminal violations applicable to the investigation.

Due to the nature of insurance fraud investigations, the number of cases referred in a calendar year are separate from, and independent of, the number of cases charged or settled. In other words, cases investigated by the CFB can remain open and ongoing for more than one calendar year.

The COVID-19 pandemic continued to have a major impact on the court system in 2021, resulting in major delays in obtaining criminal charges on CFB investigations.



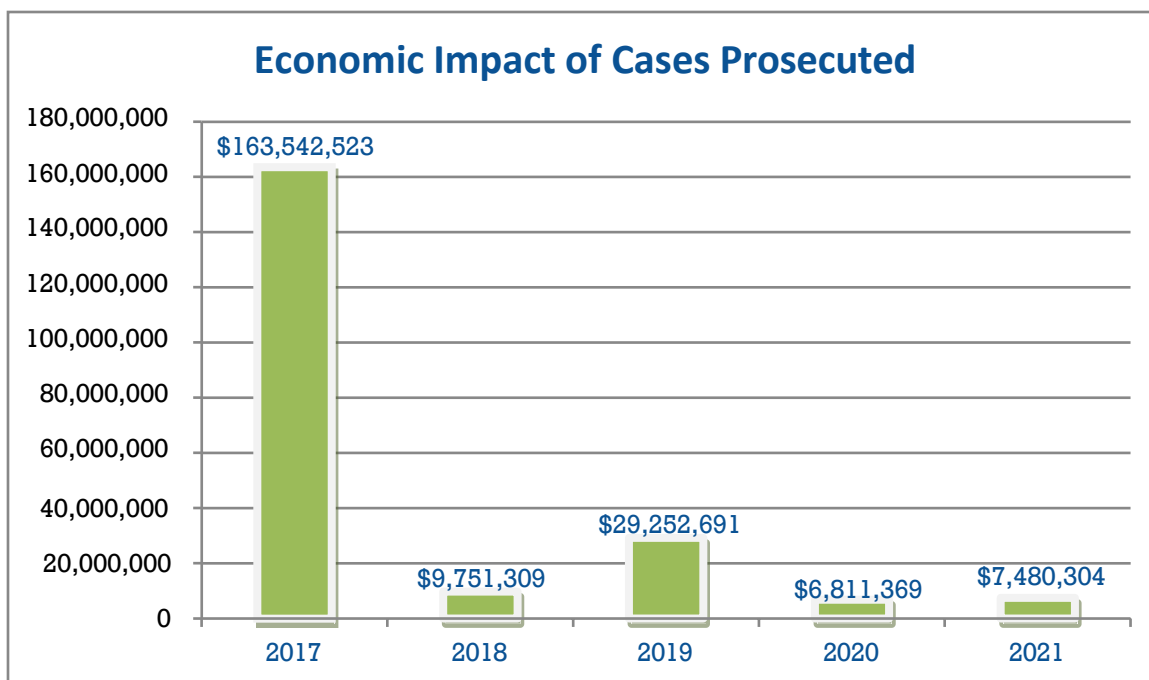
By the close of 2021 the CFB had obtained a total of 64 charges on cases submitted for prosecution, down two-thirds from 2017.

ECONOMIC IMPACT

In 2021, CFB investigations that resulted in the filing of criminal charges had an economic impact of \$7,480,304.

When a charging decision is reached on a case, the data from that case is reflected in the year the determination was made rather than the year that the criminal activity referral was received. The data listed for 2021, reflected charges that were obtained in 2021 even though some of the cases were reported in years past.

The economic impact amount represents the actual cash loss that occurred as a result of the criminal activity. Oftentimes, this amount is less than what was stolen due to the statute of limitation issues encountered in multi-year investigations. This represents the amount that a prosecutor can charge in their complaint.



Note: In 2017, the CFB charged a \$150 million fraud case, known as the Providence Case. The Providence Case is one that had a significant impact on CFB’s economic impact calculation due to the large amount of money that was invested, and lost, by consumers.

PARTNERS

The CFB works in collaborative partnership with local, state and federal law enforcement agencies, and attorneys' offices to investigate, apprehend, and prosecute offenders and hold them accountable for their actions.

In 2021, the CFB had 8 cases charged in Greater Minnesota. These counties were Winona, Rock, Le Sueur, Rice, St. Louis, Stearns, Faribault, and Renville. These cases can be challenging and complex to charge. CFB agents work with prosecuting attorneys to develop comfort and solid understanding of cases due to the complexity of the cases the agency pursues.

In 2021, investigations by CFB resulted in 19 cases being charged in Minnesota. Prosecuting partners included three cases charged by the United States Attorney, six cases charged by Greater Minnesota County Attorney Offices and ten cases charged by Twin Cities metro area County Attorney Offices.

OUTREACH AND PREVENTION

In 2021, the CFB's outreach efforts continued to be severely restricted due to the COVID-19 pandemic. All in-person seminars were postponed or canceled during the pandemic. In prior years the CFB has conducted training seminars for law enforcement, the United States Attorney's Office, the Federal Reserve Bank of Minneapolis, financial institutions, insurance companies, industry groups and educational institutions.

TASK FORCE OFFICER PROGRAM

During 2021, the CFB continued its partnerships with multiple federal agencies and their respective Task Force Officer (TFO) programs.

The TFO program is a force multiplier leveraging CFB resources with law enforcement partners. This program enables several CFB agents to be cross designated as Federal Law Enforcement Officers, which allows the agents access to various federal law enforcement data systems, personnel and other resources. This enables the CFB to gain additional expertise and competency in conducting complex criminal investigations. Participation in this program continues to elevate the CFB in the eyes of Minnesotans and law enforcement peers.

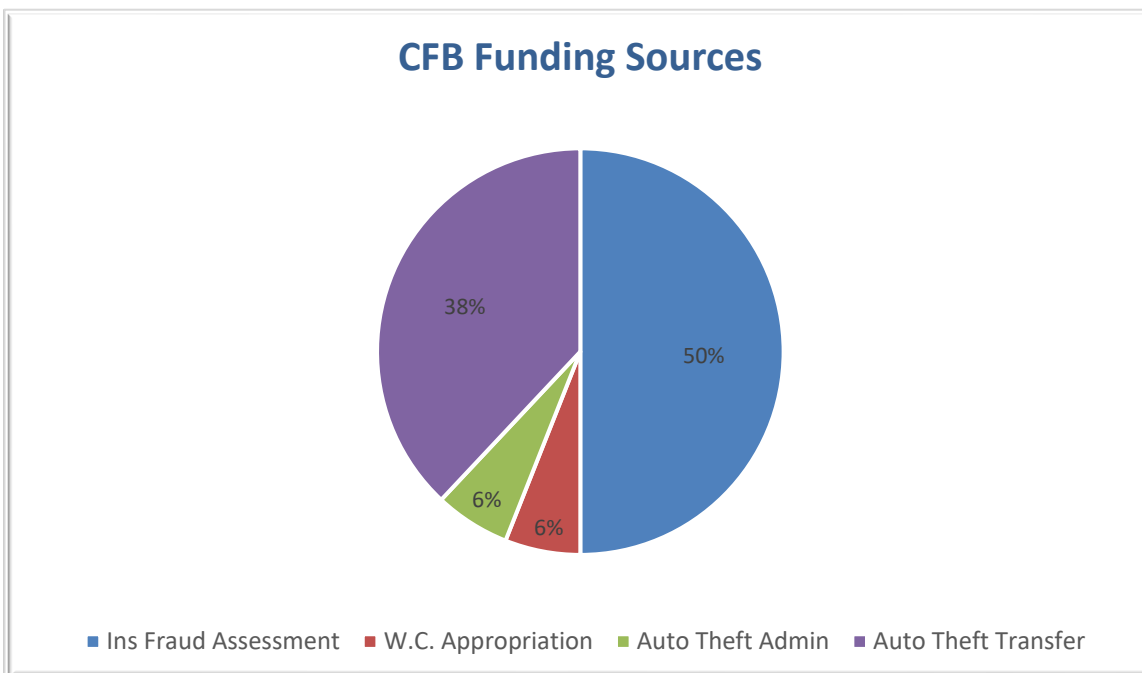
Because of a combination of internal expertise and reliable partners, the CFB continues to be a recognized leader and expert in insurance fraud, and associated crimes, within the law enforcement community.

BEHIND THE SCENES

FUNDING SOURCES

Annual funding for the CFB comes from four major sources, which are described in more detail below:

- An insurance fraud assessment on insurers.
- A legislative appropriation from the Minnesota Department of Labor and Industry to conduct investigations concerning workers' compensation fraud.
- An administrative fee to offset the costs associated with managing the Auto Theft Prevention Grant Program.
- A \$1.3 million appropriation from the Auto Theft Prevention Grant Program.



INSURANCE FRAUD ASSESSMENT

The largest portion of the operating funds utilized by the CFB is generated through an annual assessment authorized under Minnesota Statute § 45.0135, subdivision 7. The assessment is levied on insurers that have been authorized to sell insurance in Minnesota. Currently 1,136 companies pay this assessment.

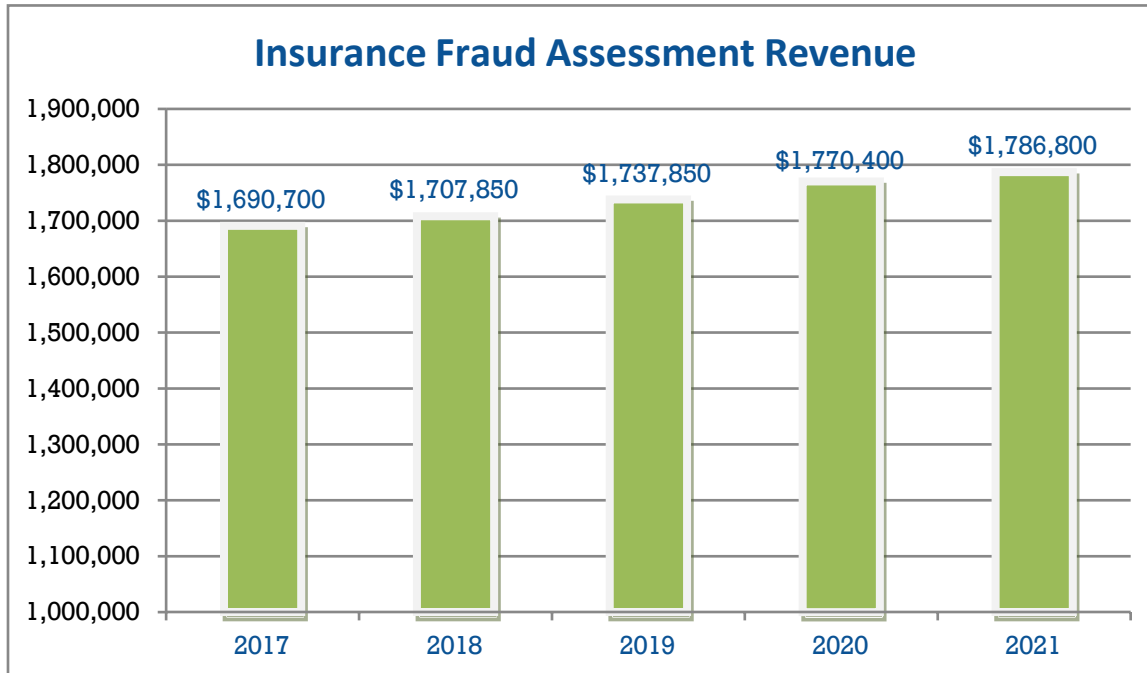
The assessment formula has remained unchanged since its inception in 2004. The assessment is calculated under the following formula:

Total Assets	Assessment
Less than \$100,000,000	\$ 200
\$100,000,000 to \$1,000,000,000	\$ 750
More than \$1,000,000,000	\$ 2,000

Minnesota Written Premium	Assessment
Less than \$10,000,000	\$ 200
\$10,000,000 to \$100,000,000	\$ 750
More than \$100,000,000	\$ 2,000

For example, an insurance company that has \$150,000,000 in assets and writes policies that carry \$90,000,000 in premiums would pay a total assessment of \$1,500 (\$750 + \$750). It is important to note that the assessment is levied on the insurance company, not individual agents.

The following chart depicts the revenue generated by the assessment for the past five years:



The five-year average of revenue obtained through this assessment is \$1,717,650. In 2020, the assessment was collected from 1,177 insurance companies conducting business in the State of Minnesota. These companies paid in on average \$1,504 in support annually for CFB operations.

WORKERS' COMPENSATION INVESTIGATIONS

Minnesota Statutes § 176.181, subdivision 2, requires Minnesota employers to either purchase workers' compensation insurance to provide benefits to their employees for work-related injuries or they must obtain approval from the Minnesota Department of Commerce to self-insure if they have the financial ability to do so.

Individuals who collect workers' compensation benefits to which they are not entitled are committing insurance fraud. Through a legislative appropriation, the CFB receives \$198,000 in funding to offset costs associated with conducting investigations into workers' compensation fraud.

AUTOMOBILE THEFT PREVENTION PROGRAM ADMINISTRATION

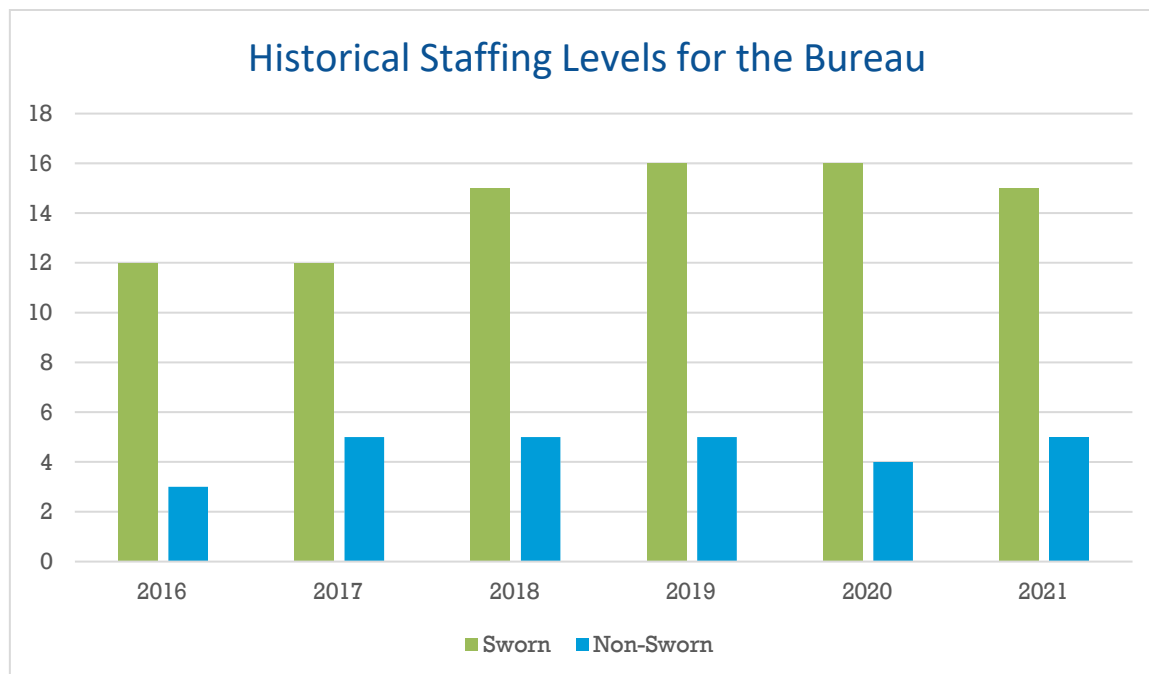
In 1996, the Minnesota Legislature enacted Minnesota Statutes § 65B.84 which created the Automobile Theft Prevention Program (ATPP). Funding for the program comes from a surcharge collected from automobile insurance carriers that provide comprehensive insurance coverage issued in Minnesota. The amount of the surcharge is 50 cents per vehicle for every six months of coverage. Using this funding, the program makes money available through a competitive grant process for activities that address the problem of auto theft. Since 2009, the CFB has managed this program.

This statute allows the CFB to retain up to 10% of the funds collected under the ATPP to pay for the costs of administrating the program. In 2019, the CFB received \$220,000 under the ATPP for program administration.

In 2017, the Legislature passed a change to Minnesota Statutes § 65B.84 which requires the transfer of \$1,300,000 each year to the insurance fraud prevention account to assist in the funding of the CFB.

HISTORICAL STAFFING LEVELS

The following graph represents the historical staffing levels of the Commerce Fraud Bureau as of December 31 of each year.



Commerce is here to help

If you have a question or concern about a possible scam or fraud scheme, contact the Minnesota Department of Commerce's Consumer Services Center at consumer.protection@state.mn.us, 651-239-1600 or 800-657-3602.
