



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

January 15, 2002

To the Governor and the Legislature:

I am pleased to submit the Annual Report of the Superintendent of Insurance on the operations of the Insurance Frauds Prevention Act and the activities of the Insurance Frauds Bureau for Calendar Year 2001. I am particularly proud that this report commemorates the Twentieth Anniversary of the Frauds Bureau. The report also documents record-setting accomplishments over the past year and illustrates the Bureau's readiness to combat fraud.

Members of the Frauds Bureau have much to be proud of this past year. Arrests are at an all-time high as a result of the pro-active approach the Bureau took with law enforcement and prosecutors. Several notable sweeps contributed to the year-end total. In August, 67 individuals, including two NYPD police officers, were charged in connection with a major no-fault fraud ring operating in Brooklyn. A second sweep in December led to charges against 112 persons—among them doctors, lawyers and medical clinic personnel—for participation in a scheme to swindle auto insurers by submitting nearly \$1 million in fraudulent bills. The Bureau also participated in the first ever five-county sweep in the State leading to an indictment against 81 people in the Capital Region in October.

However, the attack on the World Trade Center on September 11 overshadowed past accomplishments and the Department acted immediately in response. On September 12, the Department activated the Insurance Emergency Operation Center to coordinate our efforts. Toll-free hotlines were established to assist consumers, insurers and Department staff, and critical information was posted to the Department's Web site. The Frauds Bureau also established a procedure for fast-tracking World Trade Center fraud complaints and placed investigative staff on duty 12 hours a day, seven days a week, to ensure that issues related to the WTC attack were given the highest priority.

The scope of the disaster, the easing of normal requirements in order to expedite payments to victims, and the amount of money available from insurers, government assistance and private charities magnify the potential for fraud. We are committed to identifying all fraudulent insurance claims and to eliminating the incidence of fraud resulting from the World Trade Center tragedy. That commitment will continue as we go forward in our efforts to root out insurance fraud across the State whenever and wherever we find it.

We look forward to the tasks ahead with renewed vigor, and welcome the opportunity to serve the people of New York State.

Respectfully,

Gregory V. Serio
Superintendent of Insurance

The Annual Report
to the Governor
and the Legislature
of the State of New York
on the Operations
of the Insurance Frauds Prevention Act
(Article 4 of the Insurance Law)

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The Insurance Frauds Bureau 1981-2001

Twenty Years of Service to the People of New York State

Twenty years ago, then-Governor Hugh L. Carey enacted legislation that brought the Insurance Frauds Bureau into existence as a law enforcement agency within the New York State Insurance Department. Since that time, the Bureau has grown into one of the premier agencies in the country dedicated to the investigation of insurance fraud. Here are highlights from our extraordinary history.

1981 On November 1, the Frauds Bureau is created. Its mission: to detect and apprehend those who commit insurance fraud and to change the public perception of insurance fraud as a victimless crime. The staff: 13 investigators, an insurance examiner and support staff under the supervision of a Director, Deputy Director and Frauds Bureau Counsel.

1982 The Bureau breaks its first major case, Claridge Brokerage, the largest producer of Assigned Risk business in New York; 28 are indicted in a \$50 million fraud scheme. Federal authorities subsequently file charges under RICO against many of these individuals.

1983 The Bureau branches out, formalizing its liaison with the insurance industry. Regular meetings with insurer SIUs are scheduled for training and networking. Legislation is enacted extending the Bureau's sunset provision to January 1, 1987.

1985 Bureau investigations result in the denial of fraudulent claims and restitution exceeding \$3 million. The New York Frauds Bureau is one of only four fraud bureaus in the country.

1986 The Bureau joins California, Florida, Idaho, Nevada, North Carolina and Ontario, Canada to establish the International Association of Insurance Fraud Agencies to encourage other states to create insurance fraud units.

1988 The Bureau establishes a Medical Unit in response to an increasing number of health care fraud reports. The Unit meets with major health insurers to discuss problem providers and potential fraud situations.

1989 The Bureau conducts its first sting operations.

1990 A 162-count indictment charges 15 Brooklyn residents with participating in an organized fraud ring. The defendants are accused of conspiring to file accident reports falsely claiming damage to luxury cars which they owned or leased.

1991 ABC TV's news program 20/20 features a Frauds Bureau case in which an undercover correspondent is seen on hidden camera buying a stolen car. Twenty-six are arrested and 53 vehicles are recovered.

1992 New laws authorize the Insurance Department to impose *civil penalties* on those who commit insurance fraud and permit a fine for possession of fraudulent automobile identification cards.

1993 Bureau investigative staff increases to 19 in New York City and 5 upstate in response to an increased workload. An Auto Unit and a General Unit are created to accompany the Medical Unit.

1995 The Bureau strengthens its relationship with the Attorney General's Criminal Prosecutions Bureau, particularly in the area of health insurance fraud. At year-end, the Medical Unit is actively pursuing 26 investigations in conjunction with the AG's Office.

1996 The Bureau establishes a toll-free hotline for reporting insurance fraud. The number of fraud reports soars to 22,343, an increase of 760% over the total for 1982, the Bureau's initial year. Arrests, at 154, and convictions, at 57, are also well above 1982 levels.

1997 Two new units – Organized Fraud and Workers' Compensation – are created and a regional office is opened in Mineola to investigate cases originating in Nassau, Suffolk and Queens.

1998 Legislation requires insurers to file a Fraud Prevention Plan with the Superintendent. The Bureau receives 305 Plans for review and approval. The Bureau hosts its first off-site seminar for insurers and law enforcement to share information and hone investigative skills.

1999 The Bureau issues its first Manual of Procedures, sponsors two conferences, launches the Frauds Resource Center on the Department's Web site, publishes a consumer brochure, and introduces an electronic fraud reporting system.

2000 Bureau staff meets with prosecutors from each of New York's 62 counties and assists the industry in launching four major public awareness advertising campaigns.

2001 In response to the events of 9/11, the Bureau institutes a dedicated hotline and fax line, establishes a procedure for fast-tracking World Trade Center-related claims, and staffs an emergency center 12 hours a day, 7 days a week. *In this, our 20th year of operation, 26,028 reports of suspected insurance fraud were received, and arrests totaled 554, an all-time high.*

Insurance Frauds Bureau 2001 Highlights

- The Frauds Bureau, with a total of 554 arrests, set a new record in 2001, topping last year's total of 503 by 10%.
- In response to the attack on the World Trade Center on 9/11, the Bureau instituted a dedicated hotline and fax line for reporting potential fraud, established a procedure for fast-tracking WTC-related fraud claims, and staffed an emergency center 12 hours a day, 7 days a week.
- The Bureau participated in the Governor's "Capital-for-a-Day" initiative in Batavia in July, the first of many such visits planned to bring government to the people. As a result, Bureau staff were requested to conduct a training session for DAs and local law enforcement staff in Genesee County.
- We expanded our outreach program. We now conduct training for the NYPD Auto Crime Division once or twice a month. We also conducted a Fraud Awareness Course for recruits at the NYPD and Rockland County Police Academies. The course is aimed at police officers, who are often the first to respond to auto accidents.
- The first statewide sweep ever conducted in New York led to the arrest of more than 40 suspects in May for workers' compensation and no-fault fraud, as well as various other types of insurance fraud. In August, 67 individuals were indicted and 55 arrested for their involvement in one of the largest no-fault fraud rings ever to operate in New York. This investigation is ongoing.
- Working with Consumer Services and Public Affairs, the Bureau prepared "A Handbook for Livery Drivers." The brochure, available in English and Spanish, offers tips to help livery drivers avoid becoming victims of insurance fraud as they seek to obtain insurance coverage.
- In September, our Training Officer initiated a schedule of educational seminars under the auspices of the Department of Criminal Justice Services' Executive Development Program, designed to familiarize senior law enforcement staff with the resources of the Frauds Bureau.
- The Bureau sponsored an all-day conference in May, focusing on no-fault insurance fraud which now accounts for almost 60% of all reports of suspected insurance fraud received. The conferences have become increasingly popular with members of the industry and law enforcement as a forum for education, networking, and honing investigative skills.
- In accordance with Governor Pataki's Executive Order naming the Attorney General as Special Prosecutor to coordinate efforts to combat auto insurance fraud, the Bureau and the AG's no-fault team developed a strategy for partnership and cooperation in the investigation and prosecution of auto fraud cases. By year-end, two joint investigations were in process.

III. The Insurance Frauds Bureau

Last year at this time, as we looked forward to 2001, we could not have foreseen the tragic events of September 11. Yet they loom large now as we look back on the past year. Both the Department and the Bureau acted swiftly in the wake of the attacks to provide assistance to consumers, insurers, and staff. The Department's New York City headquarters, located in the heart of the financial district, reopened on 9/17 to continue to service the needs of the New York insurance community. The Department's Insurance Emergency Operation Center was activated. We established a toll-free telephone hotline and a dedicated fax line. We set up an off-site insurance service center open 12 hours a day, 7 days a week. We sent a strong and clear message: the Insurance Department is up and running and open for business.

In viewing the year as a whole, we accomplished the tasks we set for ourselves 12 months ago. We devised a statewide approach to combating insurance fraud and we carried it through step by deliberate step.



*We hosted an off-site fraud conference with 225 members of the insurance and law enforcement communities in attendance. Pictured is former Director George L. Johansen addressing the conference participants.

*We continued our efforts to build a cohesive fraud-fighting team.

*We strengthened our relationships with insurers and with law enforcement agencies on the federal, state and local levels.

*We monitored insurer Special Investigations Units to ensure their effectiveness.

*We encouraged public awareness programs.

*We conducted 60 training sessions for more than 3,900 members of insurance companies and law enforcement agencies.

A particular focus during the past year was the training of police recruits, since, as police officers, they are often the first to respond to the scene of an accident. The training centered on how to recognize staged accidents and fraudulent identification cards and how to deal with these situations when they arise. As a result of our efforts, federal and state law enforcement agencies regularly seek our assistance in the investigation and preparation of their cases.

- **Joint Investigations** – We pooled resources to conduct multi-agency operations to a greater degree than at any time in the past, including a five-county Capital Region sweep, the first such case of its kind in the State. We worked with the District Attorneys of Rensselaer, Albany, Saratoga, Schenectady and Washington Counties in this investigation that led to charges against 81 upstate residents for workers' compensation, no-fault, auto, and homeowners fraud. We recorded several successful workers' compensation fraud investigations in conjunction with the Workers' Compensation Inspector General's Office and the State Insurance Fund. We teamed up with the NYPD Auto Crime Division on many no-fault fraud cases, including two major sweeps that together resulted in charges against 179 persons involved in two large-scale no-fault fraud rings that staged accidents, created phony

automobile accident reports and filed phony medical claims. In the larger of the two investigations, which alone led to charges against 112 individuals, the Queens District Attorney's Office, and the State Police also lent their services. The Bureau worked side by side with District Attorneys' Offices and local Police and Sheriffs' Departments in every corner of the State, where we are increasingly called upon to provide our experience and investigative expertise.

- **Cooperative Enforcement Efforts** – The Bureau is an active participant in several task forces and working groups designed to encourage cooperation among fraud-fighting agencies in the State. Our membership in these groups provides us with the opportunity to team up with the many agencies that share similar goals. With each successful multi-agency investigation, we are reminded of the value of such cooperative enforcement efforts. Among the groups in which the Bureau participates are the following:
 - The Western District of New York Health Care Task Force;
 - The Capital District Health Care Fraud Working Group;
 - The Northern District of New York Health Care Investigators' Group;
 - The Oneida County Arson Task Force/Strike Force; and
 - The Fraud Insurance Strike Team.

The Fraud Insurance Strike Team, or FIST, was newly established in 2000. FIST is sponsored by the Onondaga County District Attorney's Office and includes the State Insurance Fund and the Workers' Compensation Inspector General's Office. We met in December with the Onondaga County District Attorney's Office to discuss methods by which we can support an Assistant District Attorney and an investigator who will spearhead investigations into all types of auto insurance fraud, *e.g.*, no-fault, auto theft, unscrupulous body shops, etc. The program is being underwritten by a grant from the Department of Criminal Justice Services.

- **Data Sharing** – The Bureau is committed to taking full advantage of the tools of technology to bring greater efficiency to the detection of insurance fraud.

***Electronic Fraud Reporting System** – The Bureau's current system, available to all insurers since March 2000, allows insurers to submit data online, making fraud reporting more efficient and effective. More importantly, the system provides valuable cross-references. Once a report has been transmitted, the Bureau's database provides the insurer with information on all other reports that share information with the report just transmitted, *e.g.*, the same name and/or address of the suspect, the vehicle identification number (VIN) in cases of auto insurance fraud, or other matching data. Insurers can also access the details contained in these cross-reference reports and are provided with the name and telephone number of a contact person at any other company on the cross-reference list. About 300 insurers were hooked into the system at the end of 2001. We are pursuing ways to shift to an all-electronic reporting system as soon as is practicable. The number of reports of suspected insurance fraud received by the Frauds Bureau reached 26,028 in 2001, an increase of 17% over the 22,247 reports received in 2000.

***NYPD Accident Report Database** – The number of reports of no-fault insurance fraud has soared over the past decade, increasing from 489 in 1992 to 15,219 in 2001, and now representing nearly three of every five reports of suspected fraud received by the Bureau. We have declared war on no-fault fraud. In an innovative program initiated in 2000, the Bureau has direct access to the New York City Police Department’s accident report database. When an insurer reports an incident of suspected auto insurance fraud that occurred in any of the five boroughs of New York City, Bureau investigators can access the NYPD system and view pertinent information related to the accident online. Comparison of the data enables investigators to identify any discrepancies, *e.g.*, other “victims” added to the report submitted to the insurer. In addition, the Bureau supports insurer efforts to collect data through on-site review of medical facilities in order to more quickly identify medical mills. A comprehensive, industry-wide database would be an invaluable tool in the investigation of cases where such facilities begin operating, make a few million dollars, and then move on to a new location using a new name. The Bureau also supports a bill to make it a crime for third parties, know as runners, to recruit clients, patients or customers for health care providers and attorneys that file fraudulent insurance claims. Currently, while the fraudulent activity of runners can be prosecuted, no statute explicitly sanctions this insidious practice that fuels fraud rings, bilking consumers of millions of dollars.

IV. The Staff

Our Training Officer is developing a Frauds Bureau Training Manual. The Manual will consist of both an Entry-Level and an In-Service Training Program, including lesson plans addressing the training needs of both new and seasoned staff. The Manual will also incorporate the procedures outlined in the Insurance Frauds Bureau Manual of Procedures, as well as any additional training that may be appropriate.

All members of our investigative staff participate in the Bureau’s In-Service Training Program. The program complies with the standards and curriculum established for professional police officers by the Bureau of Municipal Police of the New York State Department of Criminal Justice Services. Our investigators conform to and often exceed these high standards.

Our Training Officer completed a 12-day course presented by the NYPD that qualifies him as a Certified Firearms Instructor. Rather than having to hire an outside vendor, the Training Officer will provide our investigators with the appropriate instruction for their annual recertification in firearms proficiency. While the Department of Criminal Justice Services requires annual recertification, we require all investigators to recertify semi-annually, reflecting the high degree of importance we attach to the use of firearms by investigators in the performance of their duties.

Bureau staff also take part in training sessions provided within the Department, such as Valuing Diversity, Defensive Driving and Sexual Harassment Prevention. In addition to the training provided in-house, investigators, examiners and support staff routinely attend continuing education/training courses sponsored by the American Management Association, the National Insurance Crime Bureau, John Jay College of Criminal Justice and the National Association of Insurance Commissioners, among other groups.

V. The Year in Review

A. Major Cases

The Frauds Bureau was involved in a number of major investigations during 2001. For example, our investigators carried out several multi-agency sweeps, including the first statewide sweep ever conducted in New York. Some of the cases that contributed to the record number of arrests chalked up in 2001 are summarized here.

January

DEER, DEER

- A teacher from upstate New York was charged with attempting to defraud her auto insurer of more than \$1,000. On December 20, 1999, she was involved in an accident in which her car overturned. When she reported to her insurance agent that the accident was caused by slippery roads, the agent informed her that since she had dropped the collision coverage from her policy, the accident would not be a covered loss. The defendant, after learning that an accident involving a deer would be reimbursed even without collision coverage, changed her story and reported that the accident involved a deer. Following an investigation by the Frauds Bureau and the New York State Police, she was arrested on 1/9/01 and charged with insurance fraud in the 4th degree.

ONE, TWO, THREE, YOU'RE OUT

- An investigation conducted jointly by the Frauds Bureau and the Nassau County District Attorney's Office led to the arrest on 1/11/01 of a Long Island man accused of submitting fraudulent claims to two health insurers for the services he received from participating providers in a third health service plan of which he was a member. The defendant had health insurance coverage through these three insurers, each of which was unaware of the coverage provided by the others. In a typical scenario, he would visit one of his plan's participating providers and pay the required co-pay. The plan would then pay the provider directly for the services rendered. The defendant would somehow convince the doctor's office staff that he needed a copy of the bill for tax purposes or on some other pretext. He would then alter the bill to indicate that he, not the plan, had paid the doctor, and submit the altered bill to the other two insurers with whom he had coverage. In some instances, he used his computer to produce duplicate bills and again submitted these phony bills to the two unwitting insurers. As a result of these fraudulent claims, he received \$190,970 to which he was not entitled.

February

SWEEP NETS UNLUCKY 13

- An arrest sweep in Rensselaer County on 2/1/01 captured 13 suspects charged with various counts of insurance fraud, workers' compensation fraud and welfare fraud. The operation was a cooperative effort coordinated by the Frauds Bureau and the Rensselaer County District Attorney's Office. The Workers' Compensation Board, the State Police and the Troy, East Greenbush and Rensselaer Police Departments also participated in the sweep. Among those arrested was a Colonie resident charged with collecting more than \$20,000 in disability

benefits while working as the owner of a moving company that earned nearly \$200,000; a Troy man charged with claiming total disability and receiving \$12,000 while working as a bartender; and an Albany resident accused of submitting inflated theft claims in a scheme to defraud her insurer.

REVOKED BROKER BUSTED

- A joint undercover operation by the Frauds Bureau and the NYPD Auto Crime Division led to the arrest on 2/27/01 of a former insurance broker on charges that he was engaged in the sale of phony auto insurance identification cards. A Frauds Bureau investigator, working undercover, visited the office of the revoked broker and requested an identification card. A broker usually provides a temporary card to be used to register the vehicle, as well as a permanent card in case the car is stopped by the police. The broker quoted a price of \$600 and the investigator purchased the cards. The investigation later revealed that there was no insurance policy covering the investigator's car. The broker was arrested at his place of business and a search warrant turned up evidence that he had issued at least 56 other fraudulent cards, netting him \$33,600 in illegal proceeds. In an interesting endnote, the broker himself was driving without insurance (his vehicle was impounded). In addition, to lend an air of legitimacy to his operation, he had on display a broker's license with current effective dates. However, the license listed the name of a former Superintendent of Insurance who left the Department in December 1996.

March

TAKE MY CAR, PLEASE

- The subject in this case submitted a claim to his insurer, together with an affidavit of vehicle theft that allegedly contained false information. The affidavit stated that his car, valued at \$7,425, had been stolen while he was shopping at a local mall. However, an investigation by the Frauds Bureau and the Depew, NY, Police Department revealed that the defendant had in fact arranged the theft. The vehicle was recovered totally burnt by the Buffalo Police Department and the arrest was executed on 3/14/01 on a warrant obtained by the Frauds Bureau. The Bureau and the Buffalo Police Department were looking into possible arson charges.

BUSINESS AS USUAL

- An investigation by the Frauds Bureau and the Yonkers Police Department led to the arrest of a former insurance broker whose license had been revoked by the Insurance Department based on numerous complaints that he had collected insurance premiums but failed to remit them to the appropriate insurers. However, this revoked broker continued doing business as usual and was arrested on 3/15/01 and charged again with failing to remit insurance premiums. In addition, he was charged with selling fraudulent auto insurance identification cards.

April

A BANG-UP JOB

- Two auto body shop owners and two employees were arrested on 4/4/01 in connection with a scam in which they allegedly increased the damage to already-damaged cars so they could collect more money from insurers. Three auto body shops with which they were connected were also charged. Two Fraud Bureau investigators worked undercover to expose the scam. At various times during the course of the investigation, the investigators, acting as ordinary drivers who needed their cars repaired, placed six damaged vehicles with the three auto body shops. In each case, the extent of the damage and the cost of repairs were estimated beforehand by a certified Insurance Department appraiser. The defendants instructed the “drivers” to contact their respective insurers and leave the cars in the shops to be inspected by the insurers’ appraisers. However, before the insurers had the opportunity to inspect the cars, the defendants allegedly did enough additional damage to hike the repair estimates by more than \$19,000 above the original estimates. The investigation was conducted by the Frauds Bureau and the Queens District Attorney’s Office.

STOW IT

- Following a fire in his home, the suspect in this case placed some property in a storage facility. He was accused of presenting to the storage facility a document purported to be from an insurance company indicating he had insurance to cover the storage fees of nearly \$4,300. Based on the fraudulent document, the storage facility moved the property to the defendant’s new residence. An investigation by the Frauds Bureau and the Rotterdam Police Department led to his arrest on 4/16/01 on charges of grand larceny and criminal possession of a forged instrument.

May

STATEWIDE SWEEP CLEANS UP

- More than 40 suspects were arrested on 5/17/01 in the first statewide sweep ever conducted by the Frauds Bureau. In the downstate area, Frauds Bureau investigators assisted with the execution of search warrants at 11 auto body shops that netted more than 20 arrests for auto-related fraud in Kings, Queens, Nassau and Richmond Counties. The Frauds Bureau, the Brooklyn District Attorney’s Office and the NYPD carried out the investigation. Among those arrested in the downstate sweep were 18 individuals who allegedly routinely stole vehicles, dismantled them and sold the parts to customers. In some cases, the used parts were sold as new to unsuspecting buyers. On the same day, Frauds Bureau investigators conducted sweeps in Syracuse and other upstate areas that resulted in the arrest of 21 individuals for various crimes of insurance fraud. The joint efforts of the Frauds Bureau, the Onondaga County District Attorney’s Office, the State Insurance Fund, the State Police, the Syracuse Police Department and the Workers’ Compensation Inspector General’s Office led to these arrests. The majority of those arrested during the upstate sweep were charged with workers’ compensation fraud for systematically defrauding the insurance system by collecting benefits to which they were not entitled, fraudulently claiming they were eligible for insurance coverage when they were not, and/or fraudulently stating they had obtained insurance coverage when in fact none existed.

SEVEN SUSPECTS SWEEP UP

- An arrest sweep in Nassau County on 5/23/01 captured seven suspects charged with workers' compensation fraud, employee insurance fraud and filing fraudulent claims. The operation was a cooperative effort by the Frauds Bureau, the Nassau County District Attorney's Office, the State Insurance Fund and the Workers' Compensation Inspector General. Among those arrested were a Wyandanch woman accused of collecting \$14,300 in workers' compensation benefits while working off the books for \$500 a week and a former insurance company claims representative charged with stealing more than \$22,000 from her employer over a period of more than six years. She allegedly issued insurance company checks to pay credit card bills and other expenses. She was also accused of issuing checks payable to her husband. Similar charges made by a second insurance company at which she was formerly employed were referred to the Suffolk County District Attorney's Office. Also arrested in the sweep was a former life insurance agent who, after leaving employment on disability following heart surgery in 1993, continued to sell new policies, processing them through a fellow agent. In all, 49 policies based on fraudulent applications were sold, from which the suspect collected thousands of dollars in unearned commissions. In some instances, he would forge the signature of an existing client on new applications. In another scheme, he allegedly requested a disbursement of dividends on a client's account, then forged the client's endorsement and cashed the check. In addition, he stole in excess of \$34,000 by improperly collecting dividends and policy loans that should have been paid to policyholders.

June

A TRIO OF CHEATERS

- An investigation by the Frauds Bureau, the Manhattan District Attorney's Office and the New York City Department of Investigations led to the arrest of three individuals on 6/6/01 for their involvement in a no-fault insurance fraud scheme. They were accused of trying to cheat New York City out of \$3 million by falsely claiming they had been seriously injured in a collision with a Fire Department Ladder Truck. The investigation revealed that one of the defendants was driving alone when the accident occurred. However, he later falsely claimed that his wife and her friend were in the car when he collided with the Ladder Truck. The two women also allegedly lied on several occasions – once in sworn testimony – stating they were in the car at the time of the accident. The three claimed injuries and received medical treatment exceeding \$38,000.

BUY, BUY, BABY

- The Frauds Bureau and the NYPD pooled resources in an investigation that resulted in the arrest on 6/29/01 of a licensed insurance broker on charges of selling fraudulent insurance identification cards. On two separate occasions, an undercover investigator was provided with license plates, registration, a ten-day inspection sticker and a fraudulent insurance card at a cost of \$270 per buy. A search warrant was obtained for the defendant's place of business and among the items seized was a broker's license in the defendant's name, one in the name of his business and a third in the alias he used; a loaded .38 caliber revolver; 433 vehicle titles; 244 vehicle registrations; 10 registrations with plates and fraudulent ID cards; a \$50 bill used in one of the buys; and other documents.

July

THIS IS CUSTOMER SERVICE?

- A New Lisbon, NY, woman was arrested on 7/18/01 and accused of using stolen credit cards for personal purchases. While working as a customer service representative at a telecommunications company in Utica, the defendant obtained customer credit card numbers which she then used to purchase auto insurance for her two cars. She also made a number of purchases through a home shopping network with the stolen cards. Her arrest followed an investigation by the Frauds Bureau and the Otsego County Sheriff's Department.

LICENSE REQUIRED

- The indictment in this case charged that the defendant, acting as an insurance broker without a license, collected premium payments from clients but failed to remit them to the appropriate insurers. In addition, he is accused of issuing a fraudulent insurance identification card with intent to defraud. The investigation was conducted by the Frauds Bureau and the Westchester County District Attorney's Office.

MILES TO GO

- The defendant in this case was accused of submitting documents to his insurer in which he inflated the mileage traveled for medical appointments. As a result, he was reimbursed more than \$1,000 to which he was not entitled. The investigation leading to his arrest was carried out by the Frauds Bureau and the Kirkland Police Department.

August

NO LICENSE

- An unlicensed insurance broker was accused of selling bogus auto, general liability and workers' compensation insurance totaling more than \$50 million over a 15-month period. The case was initiated when the Insurance Department received complaints from individuals who had paid premiums to the broker, received what they believed to be legitimate insurance cards, then subsequently learned that no policy existed. The Workers' Compensation Board, in routine checks, also came across companies that had been sold bogus policies. Both agencies immediately teamed up with the NYPD Auto Crime Division and the Queens District Attorney's Office to investigate the complaints. The broker, whose license had been revoked in 1991, allegedly collected anywhere from \$250,000 to \$500,000 from small businesses and individuals, running a cash only business. A search warrant executed at the broker's place of business turned up 28 boxes of records and files. He was arrested on 8/2/01.

67 INDICTED; 55 ARRESTED

- Charges were brought against 67 individuals involved in one of the largest no-fault fraud rings ever to operate in New York; 55 were arrested on 8/15/01 and the investigation will continue. The ringleader, by his own admission, had been staging accidents for more than 20 years. Other participants indicted were two New York City police officers, the manager of a medical clinic, a police officer with the Health and Hospitals Corporation and an NYPD school safety officer. The fraud scheme worked in two ways. In the first scenario, two cars generally driven by knowing participants in the scheme deliberately collided. The drivers

called the police who filed accident reports based on the false information provided to them. The indictment charged seven of these staged accidents; several others were also under investigation. In one such accident, one of the indicted New York City police officers allowed his car to be used to deliberately collide with a second car. After inspecting the damage, the two drivers decided to collide again, causing further damage. Only then did they notify the police. In the second scenario, this same New York City police officer accepted bribes to fabricate accident reports. The indictment charged that seven accidents where the police officer filed an accident report, involving 37 people claiming to have been in the cars, were fabricated for the purpose of fraud. Another four accidents mentioned in the indictment are currently under investigation. Integral to the success of the scheme was the participation of the supposed occupants of the cars, 58 of whom were charged in the indictment. In all but one case, these occupants refused medical attention at the scene, but later claimed to have been injured in order to allow fraudulent billing to no-fault insurers. After the alleged accidents – whether staged or fabricated – the defendants went to one of several medical clinics, which paid the ringleader a cash fee per patient. The manager of one such clinic was charged with complicity. Many of the defendants were accused of seeking “treatment” – ranging from chiropractic to acupuncture to psychiatry – at that one clinic. The passenger-defendants would claim soft-tissue injury, which produces pain but no objective evidence. The clinics would prescribe additional forms of therapy including large amounts of durable medical equipment and would bill the insurance carriers for the services and equipment. The multiple visits allowed the clinics to bill as much as possible, typically between \$5,000 and \$25,000 per patient up to a maximum of \$50,000 allowed under New York State no-fault insurance law. In addition, these multiple visits gave the defendants a better chance to obtain a fraudulent personal-injury settlement after they retained lawyers. Some were paid hundreds of dollars per accident, while others were promised the prospect of an insurance settlement at a later time for alleged pain and suffering. This major, multi-agency investigation was conducted by the Frauds Bureau, the U.S. Attorney’s Office, the FBI, the NYPD and the New York City Department of Investigations. Five search warrants were executed during the sweep.

September

RECORD BREAKER IN SUFFOLK COUNTY

- On 9/11/01, a 129-count indictment charged nine individuals and four businesses in a criminal enterprise that staged accidents, created “paper” accidents and enhanced damage claims primarily involving motorcycles. In a typical scenario, a person known as a “hitter” would report that he had an accident with a “claimant,” *i.e.*, the person who would submit a claim for payment. The hitter would accept full responsibility for the accident. Then the defendants would put damaged parts on the claimant’s motorcycle and submit false repair bills, estimates and towing and storage receipts. In some cases, actual damage was caused to the motorcycles. The investigation uncovered over 200 suspicious claims involving payments by insurers of approximately \$2 million. More than 140 arrests have been made in this ongoing investigation which is the largest insurance fraud case in Suffolk County history.

THIS IS BUSINESS?

- The defendant in this case was accused of fraudulently obtaining liability insurance for his manufacturing business and later causing a fire that destroyed the business. He defrauded his insurer of \$323,700 in damages to his property. Among the other charges against this defendant are changing the name of his business to defraud its creditors, using a false name to engage in mail fraud and engaging in a pattern of fraudulent conduct at his business in the years before the fire. He faces decades in prison and \$1 million in fines. The investigation was conducted by the Frauds Bureau, the Broome County Sheriff's Office, the Broome County Bureau of Fire Investigation and the U.S. Attorney's Office.

A FAMILY AFFAIR

- A two-year investigation conducted jointly by the Frauds Bureau, the Oswego County District Attorney's Office and the Oswego County Sheriff's Department led to the arrest on 9/18/01 of a family of five accused of defrauding an insurance company of more than \$40,000 in medical and disability benefits. The parents and their three grown children allegedly forged the signature of a physician on claim forms, submitted the forms to their insurer and collected the benefits to which they were not entitled. They were charged with insurance fraud, criminal possession of a forged instrument and grand larceny. On 11/27/01, the mother pleaded guilty. An Oswego County Court judge will sentence this defendant on 1/15/01 to six months in jail and five years' probation. The judge will return the cases of the other family members to town court where a judge will decide whether to dismiss the charges against them.

October

FIVE-COUNTY FRAUD SWEEP NETS 81

- A major sweep covering five upstate counties led to the filing of criminal charges against 81 residents of the Capital Region on 10/2/01. The Frauds Bureau worked closely with the District Attorneys of Rensselaer, Albany, Saratoga, Schenectady and Washington Counties, as well as other State agencies and state and local law enforcement agencies, on the five-month investigation.

In Rensselaer County, 18 were charged including three people allegedly involved in a scam at a Club in Troy. One of the participants, injured on the job in 1993, began bartending at the Club in 2001 and fraudulently collected \$4,500 in benefits by having her paycheck made out to her husband. Her husband and the Club secretary were also charged.

A mechanic who allegedly worked at an auto body shop while collecting benefits and a man accused of testifying at a workers' compensation hearing that he was unable to work when in fact he was caught on videotape at work over a 12-month period were among 18 people charged in Schenectady County.

Charges were brought against 26 people in Albany County, including a Department of Motor Vehicles employee who allegedly collected \$3,000 in unemployment benefits to which he was not entitled, and several others who were accused of fraudulently collecting unemployment insurance benefits while employed at local nonprofit agencies.

In Saratoga County, charges were filed against seven people, one of whom allegedly worked five construction jobs while collecting \$4,600 in unemployment benefits.

PHANTOM TREATMENTS

- A self-employed psychologist was arrested on 10/29/01 and charged with billing an insurer a total of \$191,985 for services never rendered to 29 of her patients. She fraudulently collected more than \$65,000 in benefits on the claims. Her arrest came as a result of an investigation by the Frauds Bureau and the Westchester County District Attorney's Office.

November

CANADIAN DEER CAPER

- An investigation by the Frauds Bureau and the defendant's insurer uncovered evidence that the suspect in this case hit a deer while traveling in Canada on 5/4/01. At the time of the accident, she was driving a loaner vehicle owned by an auto repair shop near her Amherst, NY, home. The shop was repairing damages to her car sustained in a previous accident. The investigation further revealed that on 4/22/01, her insurer had canceled her policy due to the earlier accident. When the repair shop informed the defendant that she was responsible for the damages to the loaner car – estimated at \$5,099 – she obtained coverage from a new insurer on 5/10/01 and on 5/12/01 filed a claim stating she had struck a deer in Canada. But when investigators checked with U.S. Customs, they were informed that the only date the defendant's vehicle crossed into Canada was 5/4/01. She was arrested on 11/1/01 and charged with insurance fraud and attempted grand larceny.

COVERAGE TOO LATE TO COUNT

- The defendant in this case was involved in a one-car accident on 8/26/01 that totally demolished her car. At the time, she had only liability coverage. So on 9/5/01, she added collision and comprehensive coverage to her policy and reported to her insurer that the accident occurred on 9/18/01. Her attempt to defraud her insurer of \$7,953 to cover the loss was discovered during an investigation by the Frauds Bureau, the Oswego County Sheriff's Department and the insurer's Special Investigations Unit.

CANDID CAMERA

- A Bronx man was issued a check on 7/24/01 for \$948 in settlement of an auto insurance claim. He subsequently reported to the insurer that he never received the check and submitted a notarized document stating that the signature on the check was not his. The insurer issued a second check which the defendant cashed. An investigation by the Frauds Bureau and the NYPD revealed that both checks were cashed by the defendant at a Pay-O-Matic check-cashing location in the Bronx. He was observed by a routine surveillance camera set up at the check-cashing facility.

December

DOCTORS, LAWYERS, MEDICAL CLINICS, ALL SWEEPED UP

- Superintendent Serio, at the microphone, and Queens District Attorney Richard A. Brown, in the foreground, announced on 12/5/01 the conclusion of a massive undercover investigation



conducted by the Frauds Bureau, the Queens District Attorney's Office, the NYPD and the New York State Police. The investigation led to charges against 112 individuals and four corporations in connection with the operation of a multi-million dollar automobile insurance fraud ring in the New York metropolitan area. Seven individuals and one corporation were charged under the State's Organized Crime Control Act with operating one of the largest no-fault fraud rings every uncovered in the State. Among those charged were three

medical doctors, two medical clinics, two chiropractors, a physical therapist, an acupuncturist, two lawyers, and an NYPD Administrative Aide. The 14-month investigation, dubbed "Operation Whiplash," uncovered an organized network of individuals and corporations engaged in a systematic scheme to defraud insurers by filing false accident reports and fictitious claims of physical injury. In many instances, fraudulent accident reports, doctors' records, prescriptions and affidavits were created as part of the scheme. The scheme involved staged accidents, bogus accident reports allegedly generated by the NYPD Administrative Aide, and the use of runners to steer "victims" to medical providers and facilities that were part of the scheme. Thus far, 92 persons have been arrested and the investigation is ongoing.

ALL WASHED UP

- Nine persons and a laundry were arrested on 12/12/01 and charged with defrauding the State workers' compensation system of nearly \$250,000 over a nine-year period that extended from 1991 to 2000. The arrests came as a result of a nine-month investigation by the Frauds Bureau, the Queens District Attorney's Office, the State Insurance Fund and the Workers' Compensation Inspector General's Office. Those arrested included both employers who allegedly defrauded the system and their own employees by under-reporting the number of persons they employed or by claiming that they had workers' compensation insurance when in fact no coverage existed. The two owners of the now-defunct laundry allegedly claimed they had four employees when they actually employed at least 15. They were accused of stealing nearly \$40,000. Three other defendants in this case were charged with collecting workers' compensation benefits as a result of injuries sustained on the job, while at the same time they were employed elsewhere. They were accused of stealing more than \$83,000.

A MILLION HERE, A MILLION THERE

- An investigation by the Frauds Bureau, the Westchester County District Attorney's Office and the North Castle Police Department led to the arrest on 12/13/01 of an Armonk resident and a licensed insurance agent for their involvement in a life insurance scam. The Armonk

man allegedly filed applications with numerous insurers seeking whole life and/or universal life insurance for a relative who was 70 years old at the time. In all but one of the applications, the defendant was named beneficiary of \$20 million in life insurance benefits on the life of his elderly relative. He presented false documentation in support of his claim of insurable interest and allegedly provided false net worth and income information about the relative. He received the assistance of the insurance agent in filing the fraudulent applications. The agent was also arrested and charged as an accomplice. The indictment also accused the defendant, working alone, of filing similarly false applications with similarly false supporting documents to insure the life of an acquaintance for \$7 million.

B. Response to September 11

In the immediate aftermath of the attack on the World Trade Center, the Department activated the Insurance Emergency Operation Center staffed by Insurance Department personnel and representatives from insurance companies and industry trade groups. The Center was connected by videoconferencing and data links with the State Emergency Management Office (SEMO), the Insurance Department's command center in Albany, and the Office of the Director of State Operations within the Governor's Office.

In response to the tremendous loss of life and the resulting delay in obtaining death certificates, the Governor announced on 9/24/01 that all life insurers were required to accept a uniform affidavit in lieu of a death certificate on life insurance claims arising out of the events of 9/11 when a death certificate was not available. In addition, a streamlined process was initiated for issuing temporary adjuster permits. A dedicated disaster hotline was established to assist all New Yorkers and the insurance community with questions on claims, procedures, and general insurance concerns. Satellite offices were opened in Westchester County and on Long Island to meet the needs of consumers in those areas. In addition, an insurance service center was opened at Pier 94 in Manhattan staffed by representatives from insurance companies to assist New Yorkers with filing claims. Staff from the Department's Consumer Services Bureau were also on site at the Pier to answer insurance-related questions.

The Department formulated a comprehensive insurance fraud-fighting plan specifically designed to combat any incidents of insurance fraud resulting from 9/11. As a preemptive and preventive measure, the Frauds Bureau instituted specific coding to promptly identify World Trade Center fraud reports. In addition, a dedicated hotline and fax line were established for reporting suspected fraud surrounding the 9/11 disaster. For several months, the Bureau staffed its New York City office from 8:00 a.m. to 8:00 p.m. during the week and from 8:00 a.m. to 4:00 p.m. on weekends to answer questions and provide assistance to consumers and insurers.

Although we have not seen evidence yet, we anticipate a spike in the number of fraudulent claims, given the scope of the disaster, the easing of normal requirements in order to expedite payments to victims, and the amount of money available from insurers, federal and state emergency management offices and private charities.

C. Capital for a Day

Members of the Frauds Bureau were among Insurance Department specialists and members of other State agencies that participated in the Governor's "Capital For a Day" initiative in July. The program was designed to bring government closer to the people of New York. The first stop was Batavia in Genesee County on 7/25/01, where a booth was set up and staff were available to provide the citizens of Batavia and its surrounding area with an opportunity to ask questions, to obtain consumer brochures and file consumer complaints. The booth was also equipped with a computer for access to the Department's Web site. In the photo, Governor Pataki greets the people of Batavia. Accompanying him (pictured at the far left) is Superintendent Serio.



Expanding on the initiative, the Department operated out of Buffalo from 8/6-8/9. The Superintendent and Department staff met with consumers, area business leaders, elected officials, insurance agents, insurers, doctors and various fraud-fighting agencies to discuss Western New York issues and how best to work together to provide insurance services to residents of the area. While there, Superintendent Serio delivered a Proclamation from Governor Pataki to the Sheriff of Erie County declaring August 5-11 Fraud Awareness Week in the Empire State. In response to concerns brought to light during these trips, follow-up visits by Department specialists were scheduled.

As a result of the visit to Batavia, the Frauds Bureau conducted a training session for the District Attorney's Office and local law enforcement in an effort to expand insurance fraud prosecutions in the Genesee County area. The training session was set up in response to a specific request for such training by Genesee County representatives during the July and August trips to the area. The session, conducted on 10/18, focused on how to prepare a strong fraud case for prosecution, and provided details on how to make the best use of Department resources and how the Frauds Bureau can help with local insurance fraud investigations. The Bureau continues to meet with prosecutors and State and local law enforcement agencies from around the State because coordinated efforts have proven to result in more successful investigations.

D. No-Fault Fraud

As part of the most comprehensive overhaul of auto insurance in New York State in almost 30 years to combat fraud and reduce auto insurance premiums, the Governor issued an Executive Order naming the Attorney General as Special Prosecutor to coordinate auto fraud investigation and prosecution efforts at the State level. The Executive Order directed the Frauds Bureau to authorize the Special Prosecutor to undertake investigations and prosecutions directly. The Special Prosecutor will also work with local prosecutors and law enforcement officials to augment their efforts to stop fraud and abuse.

In response to this directive, the Bureau's No-Fault Unit began meeting with members of the Attorney General's staff to coordinate these investigation and prosecution efforts. Several investigators from the Attorney General's Office visited to the Bureau's New York City Office to receive training in the intake and triage procedure we use for fraud reports. In addition, we have referred several complaints to the Attorney General's staff and are assisting them in the initial stages of investigation. Investigators from the Frauds Bureau and the Attorney General's Office have begun joint investigations on two cases thus far.

E. Director's Award



The New York Insurance Frauds Bureau pays special tribute to certain individuals for their achievements in the field of insurance fraud investigation. We chose Assistant District Attorneys Gerard Brave and Peri Kadanoff of the Queens District Attorney's Office as recipients of the 2001 Director's Award in recognition of their significant contributions to the successful completion of "Operation Stadium." The case involved organized crime and illegal activities in the scrap metal industry. Former Director Charles DeRienzo presented the awards to these two outstanding Assistant District Attorneys at our Frauds Conference on May 9, 2001.

VI. Operational Overview

A. Administration

The Frauds Bureau was established by an act of the Legislature in 1981 as a law enforcement agency within the New York Insurance Department. The Bureau's primary mission is the detection, investigation and referral for prosecution of individuals and groups that commit insurance fraud. The Bureau has headquarters in New York City and six additional offices in Albany, Buffalo, Mineola, Oneonta, Rochester and Syracuse. A complete list of office locations, including addresses, telephone numbers and fax numbers, appears in the Appendices.

Bureau staff consists of 38 investigators organized into eight specialized Units – Arson, Automobile, No-Fault/Organized Fraud, Medical, Fraudulent Cards, Workers' Compensation, General and Upstate. Each Unit is headed by a Supervising investigator. General oversight of the investigative staff is the responsibility of a Chief Investigator with the assistance of a Principal Investigator.

The Bureau has a staff of three insurance examiners who work under the supervision of a Principal Examiner. An Assistant Director of Research and a Frauds Bureau Counsel report to the Director and the Deputy Director and a Senior Training Officer reports to the Principal Investigator. In addition, five support staff members report to the Secretary to the Director. A list of staff members by title and office location appears in the Appendices.

B. Investigations

The Frauds Bureau received 26,028 fraud reports in 2001. Of these, 25,999 were received from licensees required by New York Insurance Law to submit such reports to the Department and 29 were from other sources such as consumers and anonymous tips. A total of 939 new investigations were opened during the year, while numerous investigations continued in cases pending from prior years. Although only 939 new cases were opened in 2001, they resulted in more effective investigations and a record number of arrests.

The new investigations led to the referral of 150 cases to prosecutorial agencies for criminal prosecution and 29 for civil settlement or referral to the Department's Office of General Council for civil proceedings. A comparison of the number of fraud reports received and investigations initiated for the period 1996 through 2001 appears in the Appendices.

C. Arrests and Prosecutions

The Frauds Bureau participated in investigations that resulted in the arrest of 554 individuals for insurance fraud and related crimes during 2001, outpacing last year's performance by 10%. The number of arrests posted in 2001 sets a new record for the Bureau and represents an increase of more than 380% since Governor Pataki took office. Criminal convictions obtained by prosecutors in Frauds Bureau cases totaled 210 at year-end. Moreover, 194 individuals were sentenced in connection with Frauds Bureau cases.

Frauds Bureau activities led to stiff fines against 57 individuals who were sentenced to more than \$6.6 million in court-ordered restitution in 2001. Individuals made voluntary restitution totaling almost \$1.8 million in 34 cases during the year. In another 9 instances, insurers were able to achieve savings of nearly \$4.4 million in connection with fraudulent claims under investigation by Bureau staff.

The strong support provided by the Governor and the Legislature enabled the Bureau to build a solid fraud-fighting team with members of the insurance industry and law enforcement agencies throughout the State. The Bureau's accomplishments during the past year are due in no small way to these efforts.

D. Civil Enforcement

Under the provisions of Section 403 of the New York Insurance Law enacted by the Legislature in 1992, the Insurance Department is authorized to impose civil penalties of up to \$5,000 plus the amount of the claim on individuals who commit fraudulent insurance acts. In addition, Section 2133 of the Insurance Law permits a fine of up to \$1,000 for possession of a fraudulent automobile insurance identification card and up to \$5,000 for each additional card possessed. These civil penalties give the Bureau the authority to impose sanctions in cases where the monetary value is not sufficient to justify criminal prosecution, or in which the extremely high burden of proof required in criminal cases cannot be met. In 2001, civil fines imposed

amounted to \$182,191 in 16 cases and \$180,013 in fines was collected. In 2000, a total of \$314,718 was imposed in 72 cases, with \$305,718 collected.*

E. Fraud Prevention Plan Implementation

The Second Amendment to Regulation 95 requires all insurers that meet certain criteria to submit to the Department a Fraud Prevention Plan that includes establishing a Special Investigations Unit. All required plans have been submitted; 145 plans representing 416 insurers were active as of year-end 2001. An additional 37 plans representing 58 insurers were withdrawn because the insurers fell below the threshold of 3,000 policies written in New York State.

In order to best implement the provisions of Regulation 95, we developed a Request for Proposal (RFP) for an outside vendor to conduct on-site audits to monitor insurers' compliance with the Regulation. The vendor will also audit any outside contractor (not licensed by the Department) hired by an insurer to provide such services, as permitted by the Regulation. The audits will include but not be limited to a review of all major segments of the fraud plans, such as a random review of closed claims, a review of fraud detection and procedures manuals, and an examination of in-service training programs for investigative, underwriting and claims staff for identification and evaluation of suspected fraud. We received five proposals, we reviewed each one thoroughly and gave our recommendations to the Taxes & Accounts Unit in Albany which awarded the contract to the accounting firm of Watson Rice. This vendor will conduct between six and ten audits in the first year as a pilot project. Once we have established firm guidelines for the audits, we anticipate an audit of each plan every two years.

Chapter 509 of the Laws of 2000 modified the requirements for employment as an investigator in an insurance company Special Investigations Unit. The Insurance Department initiated the Third Amendment to Regulation 95 in order to bring the Regulation into conformity with the provisions of Chapter 509 of the Laws of 2000. The Governor's Office of Regulatory Reform has reviewed and approved the Third Amendment. Following the 12/26/01 printing date, there will be a 45-day public comment period before final promulgation of the Amendment.

F. Public Awareness Programs

The Frauds Bureau is responsible for enforcement of Regulation 95, including the provision that requires insurers to develop a public awareness program focused on the cost and frequency of insurance fraud. Major advertising campaigns, using newspapers, radio, television and outdoor billboards, are carried out several times a year by the New York Alliance Against Insurance Fraud and the National Health Care Anti-Fraud Association, as well as Allstate and State Farm Insurance Companies. The programs must be geared to reach a wider audience than an insurer's policyholders. One measure of the success of these campaigns is the volume of calls to the Bureau's fraud hotline which increases from a normal average of fewer than 20 calls per week to more than 60 per week during campaign time. We have provided strong support to the industry in this initiative and closely monitor the campaigns for effectiveness.

*A change in philosophy in 2001 directed the Frauds Bureau to focus more resources on criminal rather than civil cases. As a result, the Bureau pursued civil fines only in those cases with a clear potential for monetary settlements. Thus the number of cases and the amount of civil fines

imposed declined over the year. However, as a result of this new philosophy, the Frauds Bureau set a record high 554 arrests in 2001.

VII. Directions for 2002

A. Web-Based Fraud Reporting

The Bureau's Electronic Fraud Reporting System has been available industry-wide since March 2000. The system allows insurers to submit data online, making fraud reporting more efficient and effective. As of the end of the year, about 300 insurers were reporting electronically. Now the Frauds Bureau is examining a Web-based system of fraud reporting for insurers whose computer systems are not compatible with the AT&T Global Network the Bureau uses for the current system. We have appointed a committee which is in the process of designing the Web site, establishing what will be available from Frauds Bureau files to those reporting via the Web, the need for Use and Dissemination Agreements and various server requirements. Our goal is to achieve 100% electronic reporting, whether AT&T or Web-based, thereby eliminating the more than 20,000 paper reports received each year.

B. Underwriting Insurance Fraud

The Frauds Bureau has partnered with a number of insurance companies to address no-fault insurance fraud issues on the underwriting level. This partnership, the Underwriting Insurance Fraud Working Group, meets on a regular basis to develop strategies for legislative and other solutions to the problem of underwriting fraud. In addition, members exchange ideas for improving the detection, investigation and prevention of underwriting fraud. The Bureau's No-Fault Unit Supervisor represents the Frauds Bureau on this Working Group. One of the tasks of the Group is to examine existing New York Insurance Law and policies currently available to insurers to combat underwriting insurance fraud. The group will meet next by teleconference in January 2002.

C. Multi-County Investigations

At the direction of the Governor and the Superintendent, the Frauds Bureau has initiated a program for the collaboration of efforts with district attorneys, other State agencies, and law enforcement officials on the federal, state and local levels to better marshal resources in our efforts to eliminate insurance fraud. The Frauds Bureau participated in a number of highly successful multi-agency investigations during the past year, proving that the pooling of resources and manpower gives more bang for our fraud-fighting buck. These efforts will be expanded in the coming year.

VIII. Legislation

The Frauds Bureau requests and/or supports the following legislative changes:

- Establishing minimum standards for the public awareness programs that insurers are required to develop under the provisions of Regulation 95;

- Making it a crime for third parties, known as runners, to recruit patients and clients for health care providers and attorneys in insurance fraud schemes;
- Establishing a TIPS program;
- Requiring a periodic certification of continued eligibility by recipients of workers' compensation or disability benefits;
- Creating a class D felony for unlicensed activity by certain previously licensed individuals and entities that are no longer licensed at the time of the violation;
- Creating a class E felony for unlicensed activity by any individual;
- Subjecting unlicensed activity to civil penalties after notice and hearing before the Insurance Department;
- Providing for automatic revocation of licenses under Article 21 of the Insurance Law for conviction of the licensee for felony larceny or felony insurance fraud;
- Requiring that life insurance policy applications include a permanent record of identification of the insured;
- Facilitating the collection of fraud data by providing that the Insurance Frauds Bureau shall act as the collection resource for such data;
- Increasing civil penalties for knowing possession, transfer or use of fraudulent insurance documents;
- Defining a new series of crimes relating to insurance fraud that involve false entries upon the books of account of insurers or in reports or documents submitted to regulatory officials or embezzlement from insurers, and also of new crimes involving threats or force or the use of threatening letters or communications to corruptly influence, obstruct or impede the proper administration of the Insurance Law.
- Prohibiting the participation in the insurance business of individuals who have been convicted of felonies involving dishonesty, breach of trust or other violations of Article 176 of the Penal Law unless such persons first obtain the written consent of the Superintendent of Insurance for such activities;
- Including the Superintendent of Insurance as a member *ex officio* of the Motor Vehicle Theft and Insurance Fraud Prevention Board and permitting State agencies to be eligible for grants from the fund administered by such Board;
- Amending Section 2111 of the Insurance Law to prohibit a revoked licensee from becoming employed in any capacity by an entity subject to the provisions of Article 21 without the prior written approval of the Superintendent;
- Increasing penalties in the Vehicle and Traffic Law to reduce the number of uninsured or unlicensed motorists driving in New York State;
- Requiring no-fault and workers' compensation insurers to provide explanations of benefits in response to claims filed for health care services under those programs; and
- Upgrading the status of Insurance Frauds Bureau investigators from peace officers to police officers, enabling them to act independently in the execution of such tasks as search and arrest warrants, court orders relating to electronic surveillance and summary arrests;
- Modifying the reporting date for the Annual Frauds Report (pursuant to Section 405 of the Insurance Law) from January 15 to March 15 of each year; and
- Modifying the reporting date for insurer Special Investigations Units annual reports (pursuant to Section 409 of the Insurance Law) from January 15 to February 15 of each year.

IX. Appendices

Comparative Statistics

FRAUDS REPORTS RECEIVED, BY TYPE
1996 - 2001

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Auto Theft	2,646	2,674	2,234	2,015	1,696	2,085
Auto Fire	268	253	262	310	313	374
Theft From Auto	165	130	119	119	65	88
Auto Vandalism	447	427	281	236	260	260
Auto Collision Damage	2,134	2,025	1,517	1,097	1,064	1,129
Auto Fraudulent Bills	43	55	45	28	33	58
Auto I. D. Cards	273	402	308	253	302	591
Auto Misc.	1,080	693	526	433	797	724
Fire – Residential	164	170	150	126	114	159
Fire – Commercial	67	49	57	58	34	25
Burglary – Residential	434	272	452	453	361	444
Burglary – Commercial	88	59	115	62	66	98
Homeowners	779	808	620	340	258	307
Larceny	206	304	67	34	12	25
Lost Property	21	45	59	77	74	112

FRAUDS REPORTS RECEIVED, BY TYPE
1996 – 2001 (Continued)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Robbery	26	3	11	16	15	19
Bonds	11	18	9	2	2	0
Life Insurance	32	68	66	95	65	79
Disability Insurance	173	91	70	102	82	93
Workers' Compensation	758	698	661	798	862	1,733
Health Accident Insurance	5,841	5,457	2,637	2,359	2205	1,572
No-Fault Auto Insurance	5,214	7,042	9,659	9,191	12,372	15,219
Ocean Marine Insurance	19	49	38	24	21	19
Reinsurance	1	0	0	0	0	2
Appraisers/Adjusters	11	27	6	10	12	12
Agents	50	63	49	50	36	42
Brokers	50	55	75	87	59	47
Ins. Company Employees	3	14	7	6	5	8
Insurance Companies	9	8	2	2	3	0
Miscellaneous	413	520	358	242	183	228
Unassigned	917	634	710	571	876	476
Totals	22,343	23,113	21,170	19,196	22,247	26,028

IFB INVESTIGATIONS OPENED, BY TYPE
1996 – 2001

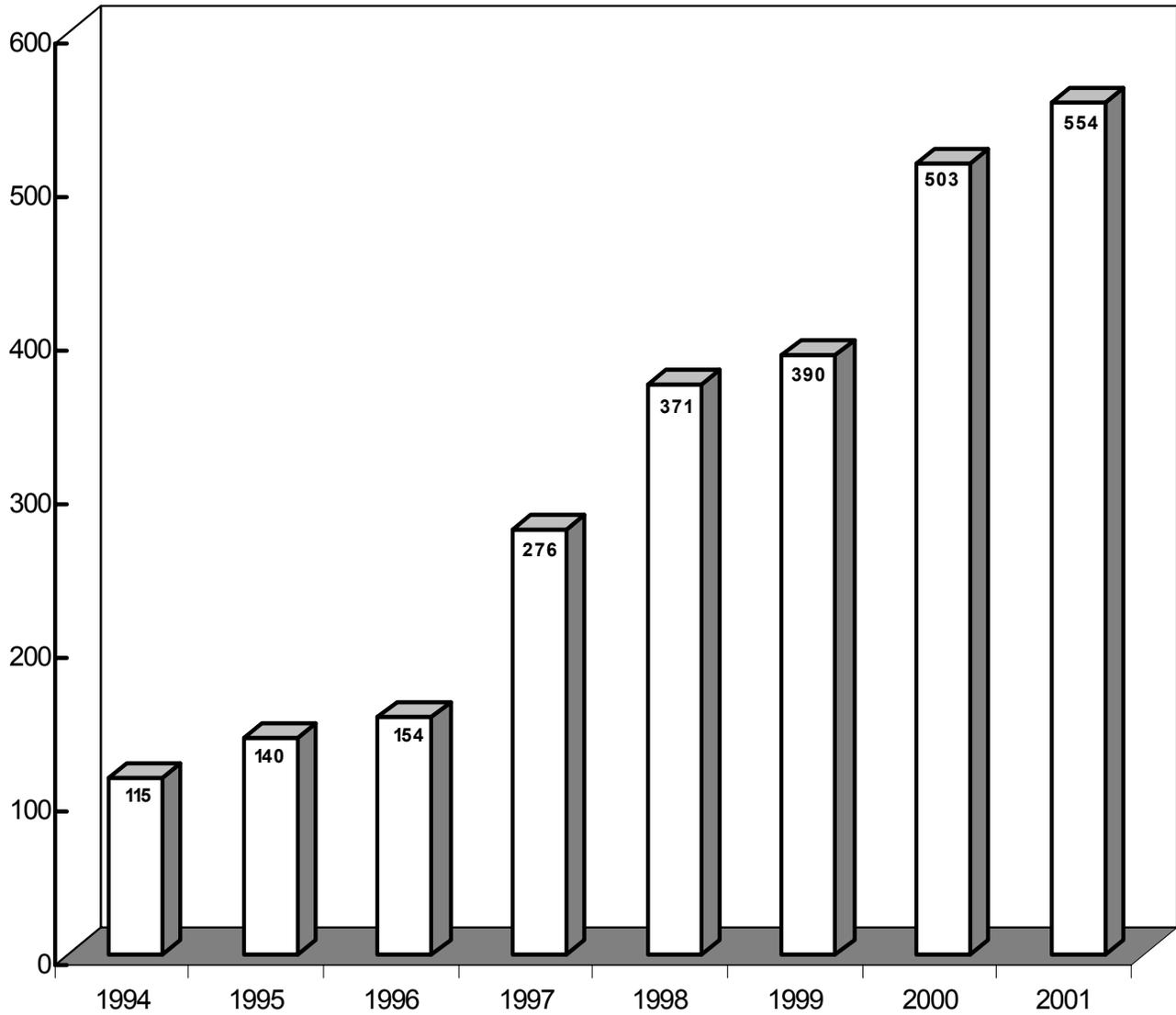
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Auto Theft	112	98	77	79	60	51
Auto Fire	12	10	12	12	10	8
Theft From Auto	9	5	12	7	2	8
Auto Vandalism	26	25	3	10	13	20
Auto Collision Damage	101	96	46	35	29	29
Auto Fraudulent Bills	9	5	4	5	7	7
Auto I.D. Cards	248	336	218	160	65	150
Auto Misc.	318	24	76	23	12	13
Fire – Residential	48	53	33	15	11	20
Fire – Commercial	30	17	15	16	5	2
Burglary – Residential	25	34	15	17	21	10
Burglary – Commercial	15	12	9	3	5	2
Homeowners	48	46	27	29	18	22
Larceny	21	22	8	6	4	4
Lost Property	1	4	5	0	0	1
Robbery	4	0	1	2	1	0
Bonds	9	11	8	0	1	0

IFB INVESTIGATIONS OPENED, BY TYPE
1996 – 2001 (Continued)

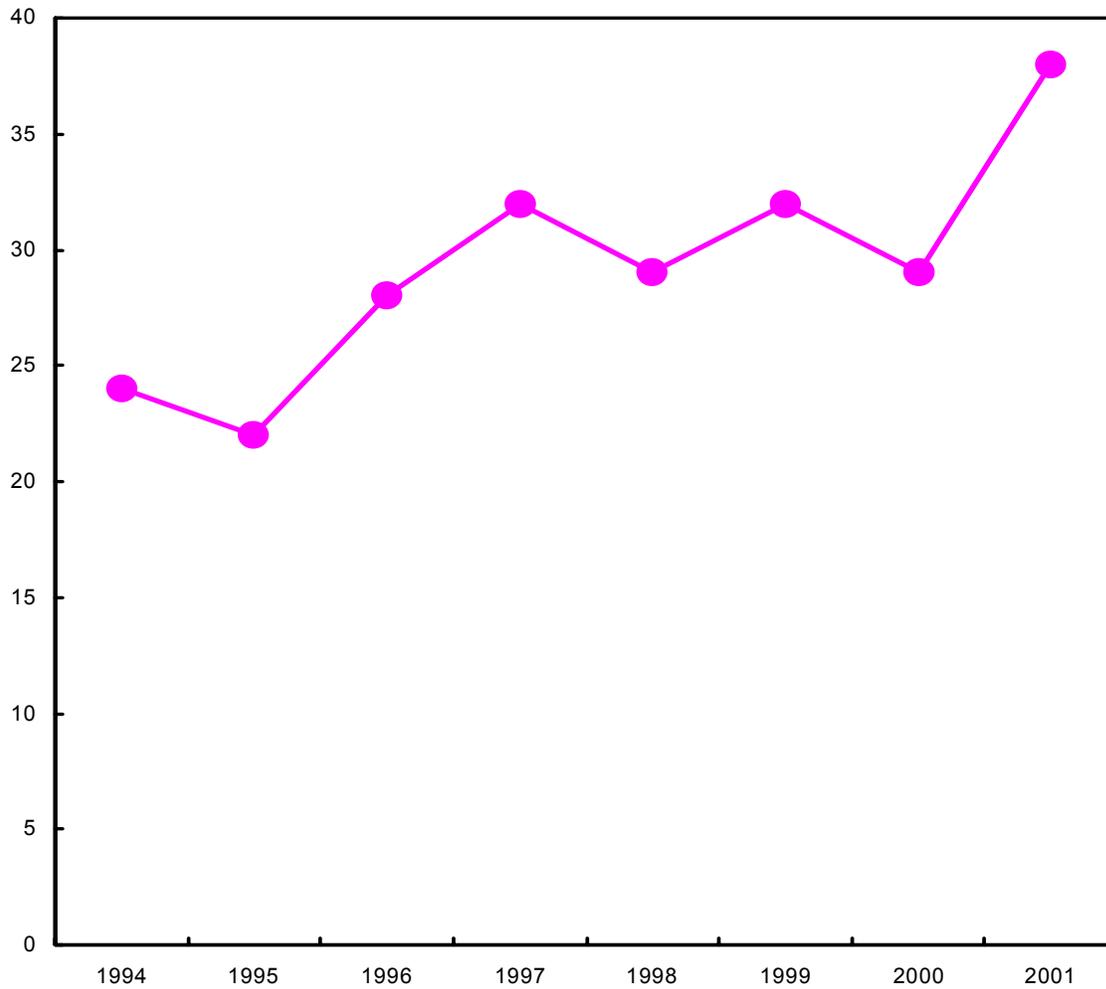
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Life Insurance	10	11	13	17	5	7
Disability Ins.	28	41	14	18	17	14
Workers' Compensation	105	408	415	527	527	409
Health Accident Insurance	462	161	97	65	55	44
No-Fault Auto Insurance	195	295	132	127	88	62
Ocean Marine Insurance	0	9	0	5	3	4
Reinsurance	0	0	0	0	0	0
Appraisers/Adjusters	8	18	3	2	4	0
Agents	30	26	26	18	6	12
Brokers	22	19	17	9	11	10
Ins. Company Employees	2	8	3	3	2	3
Insurance Companies	8	2	0	0	0	0
Miscellaneous	28	37	28	28	22	27
Totals	1,934	1,833	1,317	1,238	1,004	*939

* The Bureau established a Triage Unit that became fully operational in the first quarter of 2001. The Triage Supervisor promptly reviews all fraud reports and selects those cases with the greatest potential for successful prosecution. This procedure for better case management produced fewer but stronger cases opened in 2001 compared with 2000, which subsequently resulted in a record 554 arrests, up 10% over 2000.

ARRESTS 1994-2001



INVESTIGATIVE STAFF 1994-2001



Civil Enforcement Program:

	1998	1999	2000	2001
Fines Proposed	\$365,070.74	\$610,041.45	\$499,019.85	\$131,032.00
Settlements With IFB	\$ 93,904.12	\$230,096.54	\$305,718.06	\$180,013.00
Hearing Determinations	\$268,510.00	\$1,180,855.00	\$82,506.00	\$57,745.00
Total Fines Imposed	\$362,414.12	\$1,410,951.54	\$388,224.06	\$237,758.00
Cases*	97	135	41	32

* Number of Cases in which the Frauds Bureau collected civil penalties or Office of General Counsel imposed civil penalties.

Miscellaneous Statistics

A. Technical and Monetary Contributions

During 2001, the Bureau requested and received \$16,000 from various insurance companies. These funds were allocated in connection with joint investigations conducted under the supervision of local district attorneys.

B. Civil Penalties

Civil Penalties totaling \$129,332 were imposed in 19 cases under Section 403 of the Insurance Law in 2001, and \$1,700 in 3 cases under Section 2133.

**Insurance Frauds Bureau
Continuing Education Program
Insurers, Law Enforcement and Department Staff
2001**

Date	Group	Location	Number of Attendees
12/18/01	State Farm Insurance Company	White Plains, NY	20
12/13/01	NYS Police Academy Recruits	Albany, NY	79
12/06/01	Blue Cross/Blue Shield of Rochester	Rochester, NY	38
12/05/01	NY Anti Car Theft & Fraud Association	Pomona, NY	125
11/28/01	Rochester Area Police Departments/ Executive Staff	Rochester, NY	61
11/20/01	Southern Tier Workers' Comp. Coalition	Binghamton, NY	19
11/16/01	CGU Insurance Company SIU	Melville, NY	10
11/13/01	Suffolk County Police Academy	Brentwood, NY	52
10/31/01	Downstate County District Attorneys	Elmsford, NY	60
10/31/01	Infinity Insurance Company	Hauppauge, NY	9
10/22/01	State Farm Insurance Company	Albany, NY	15
10/22/01	NYSID Property Bureau Conference	New York, NY	100
10/20/01	Monroe County College/Recruit Police Officers School	Rochester, NY	23
10/18/01	Genesee County DA/State Police/Five County Sheriffs' Offices	Batavia, NY	28
10/18/01	State Farm Insurance Company	Uniondale, NY	50
10/16/01	Upstate County District Attorneys	Albany, NY	85
09/25/01	Syracuse Area Senior Law Enforcement	Syracuse, NY	55
09/06/01	NYPD Frauds/Accident Unit	Brooklyn, NY	15
09/04/01	NY Anti Car Theft & Fraud Association	Albany, NY	75
08/23/01	Atlantic Mutual Insurance Company	Morristown, NJ	20
08/16/01	NYPD Auto Crime Training School	Queens, NY	13
08/16/01	SBLI Claim Representatives/Auditors	Newark, NJ	51
08/15/01	SBLI Executives/Managers	New York, NY	75
08/13/01	Blue Cross & Blue Shield of Rochester	Rochester, NY	16
07/26/01	NYPD Auto Crime Training School	Queens, NY	33
07/12/01	Summer College for Judges	Ryebrook, NY	90
07/17/01	NY Anti Car Theft & Fraud Association	Syracuse, NY	85
07/19/01	Summer College for Judges	Ryebrook, NY	90
06/22/01	NYPD Auto Crime Training School	Queens, NY	25
06/11/01	NYS Office of Fire Prevention & Control	Montour Falls, NY	16
05/25/01	NYPD Auto Crime Training School	Queens, NY	30
05/24/01	Blue Cross & Blue Shield of Rochester	Rochester, NY	36
05/23/01	NYPD Police Academy Recruits	New York, NY	600
05/23/01	New York Claim Association	New York, NY	160

05/22/01	NYS Office of Fire Prevention & Control	Montour Falls, NY	28
05/18/01	NYPD Police Academy Recruits	New York, NY	600
05/18/01	NYS Association of Fire Investigators	Ellicottville, NY	60
05/15/01	Automobile Insurance Plans Service Org.	Providence, RI	100
05/11/01	NYPD Auto Crime Training School	Queens, NY	25
05/09/01	IFB Frauds Conference	New York, NY	225
04/27/01	NYPD Auto Crime Training School	Queens, NY	25
04/24/01	NYS Division of Criminal Justice Services	Albany, NY	20
04/24/01	Summer College for District Attorneys	Poughkeepsie, NY	100
04/06/01	Columbia Mutual Life Insurance Co.	Vestal, NY	30
04/06/01	NYPD Auto Crime Training School	Queens, NY	29
04/05/01	NY Association of Independent Adjusters	Montour Falls, NY	15
04/03/01	Hempstead Police Department	Hempstead, NY	25
03/30/01	NYPD Auto Crime Training School	Queens, NY	23
03/21/01	Amica Insurance Company	Pittsford, NY	60
03/16/01	NYPD Auto Crime Training School	Queens, NY	39
03/07/01	Otsego County Office of Emergency Services	Cooperstown, NY	24
02/28/01	Otsego County Office of Emergency Services	Cooperstown, NY	24
02/21/01	Otsego County Office of Emergency Services	Cooperstown, NY	24
02/15/01	Blue Cross & Blue Shield of Rochester	Rochester, NY	22
02/13/01	New York Insurance Association	Albany, NY	100
02/07/01	Otsego County Office of Emergency Services	Cooperstown, NY	13
01/30/01	Otsego County Office of Emergency Services	Cooperstown, NY	13
01/24/01	Otsego County Office of Emergency Services	Cooperstown, NY	13
01/17/01	Liberty Mutual Insurance Company	Latham, NY	20
01/12/01	NYPD Auto Crime Training School	Queens, NY	32

TOTAL 60

3,948

**Approved Fraud Prevention Plans – as of
12/31/01**

Aetna	Empire Insurance Company
AFLAC	Erie Insurance Group
Agway	Eveready
AIG	Farm Family
Allianz/Preferred	FICO
Allmerica Financial	Fireman’s Fund
Allstate	First Ameritas
Allstate Life	First Fortis Life
Amalgamated Life	First Rehabilitation
American Bankers—Assurant	First Reliance
American General	First United American
American Medical	Fremont
American Progressive	GEICO Direct
American Transit	Gerber
AMEX Assurance	GHI
Amica Mutual	Great American
Anthem Blue Cross & Blue Shield	Great Western
Atlantic Casualty	Guardian
Atlantic Mutual	Harleysville
AUSA	Hartford Life
Balboa	Health First
Blue Cross—Rochester	HealthCare Plan
Blue Ridge	Highlands
Capital District Physicians	HIP Health
Central Insurance	Horizon
CGU	IDS Life
Chubb Group	Independent Health
CIGNA	Infinity/Leader
CIGNA—ACE USA	Integrity-Plus (United Health Care of NY)
CIGNA—INA LIFE	Integrity Plus (United Health Care-Upstate NY)
Clarendon	Integrity (Empire Plan)
CNA	Interboro
Colonial Penn	ITT
Combined Life	John Hancock
Conseco	Kemper
Country-Wide	Lancer
Crum & Forster Insurance	Legion
CUNA Mutual	Liberty Mutual (Three Parts)
Dairyland (Sentry)	a) Personal Lines
Delta Dental	b) Disability
Eagle (Robert Plan)	c) Commercial
Electric Insurance	Mass Mutual
Empire Blue Cross	

Massachusetts Casualty	Prudential Insurance
MDNY	PSM
Merchants & Business Mens	Provident
Merchants Insurance	Provident Washington
MetLife	Reliaster Life
MetLife Property	Response
Metroplus	Royal & Sunalliance
Michigan Millers	Safeco
MSI—Mutual Service Life	SBLI
Mutual of Omaha	Security Mutual
MVP Health	Selective Insurance
National Benefit Life Insurance Company	St Paul
National General	Standard Security
National Grange Mutual	State Farm
Nationwide	State Fund
New York Care Plus- B/C B/S Western NY	State-Wide
New York Central Mutual	Sun Life
New York Life	Teachers
North Star	TIG Specialty
Northwestern Mutual	Travelers
Nova	Tri-State Consumer
Ohio Casualty	Trustmark
Oxford Health	UNICARE/WellPoint
Peerless	Union Fidelity
Phoenix American Life	Union Labor Life (ULLICO)
Physicians Health Service	USSA
Preferred Care	Utica Mutual
Preferred Mutual	VYTRA
Princeton Insurance Companies	WellCare
Principal Life	Windsor
Progressive Casualty	XL Specialty Insurance
	Zurich U.S.

Total: 145 Plans

Insurance Frauds Bureau Staff – December 31, 2001

NEW YORK CITY OFFICE

Director

Assistant Director

1 Chief Investigator
1 Principal Investigator
6 Associate Investigators
9 Senior Investigators
8 Investigators

1 Principal Insurance Examiner
1 Senior Insurance Examiner
2 Insurance Examiners

1 Senior Training Officer

1 Frauds Bureau Counsel

1 Assistant Director of Research

1 Secretary I

1 Calculations Clerk 2

4 Keyboard Specialists

ALBANY OFFICE

5 Investigators

BUFFALO OFFICE

2 Senior Investigators

ROCHESTER OFFICE

1 Senior Investigator
1 Investigator

SYRACUSE OFFICE

1 Associate Investigator
2 Investigators

ONEONTA OFFICE

1 Senior Investigator
1 Investigator

MINEOLA OFFICE

1 Associate Investigator
5 Senior Investigators
3 Investigators

Insurance Frauds Bureau Offices

NEW YORK CITY OFFICE

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Suite 542
New York, NY 10004
(212) 480-6074
FAX #(212) 480-6066

ALBANY OFFICE

Agency Building 1
The Gov. Nelson A. Rockefeller
Empire State Plaza
Albany, NY 12257
(518) 474-2632
FAX #(518) 473-0369

BUFFALO OFFICE

Walter J. Mahoney State Office Bldg.
65 Court Street - Rm. 7
Buffalo, NY 14202
(716) 847-7622 or 7618
FAX #(716) 847-7925

ROCHESTER OFFICE

189 North Water Street
Rochester, NY 14604
(716) 325-1857
FAX #(716) 325-1857

SYRACUSE OFFICE

620 Erie Blvd., West
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(315) 423-1102
FAX#(315) 423-1102

ONEONTA OFFICE

Homer Folks Facility
28 Hill Street, Room 210
Oneonta, NY 13820
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