The Community Insurance Fraud Initiative (CIFI)
The Use of a Unique Insurance Database
A 5 Year Retrospective

Daniel J. Johnston
President, Automobile Insurers Bureau of Massachusetts;
Executive Director Insurance Fraud Bureau of Massachusetts

Richard A. Derrig, Ph.D.
President. OPAL Consulting LLC
Visiting Professor, Temple University

CAS Annual Meeting
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Boston, Massachusetts

Agenda

- What Is Fraud? Hard v Soft
- The Mass. Detail Claim Database
- The CIFI Hard Fraud Details
- The $$$ Effects of Investigations
- Questions and Comments

Fraud Definition

PRINCIPLES

- Clear and willful act
- Proscribed by law
- Obtaining money or value
- Under false pretenses

Abuse: Fails one or more Principles

Derrig Top Five Fraud Ideas

- 1. "FRAUD" is ambiguous, ill-defined.
- 2. "FRAUD" should be reserved for criminal behavior (Hard Fraud). "Abuse" (Soft Fraud)
- 3. "FRAUD" ambiguity muddles the discussion and responsibility. Criminal Justice v Claim Management. Both are necessary (CIFI)
- 4. Criminal Fraud is several orders of magnitude less than popular estimates.
- 5. Fraud and Systematic Abuse can and should be mitigated by computer-assisted trained adjusters and special investigators.

Fraud Types

- Insurer Fraud
  - Fraudulent Company
  - Fraudulent Management
- Agent Fraud
  - No Policy
  - False Premium
- Company Fraud
  - Embezzlement
  - Inside/Outside Arrangements
- Claim Fraud
  - Claimant/Insured
  - Providers/Rings

Non-Criminal Fraud

- General Deterrence – Ins. System, Ins Dept + DIA, Medical & Bar Associations, Other Government Oversight, Fraud Bureaus (CIFI)
- Specific Deterrence – Company SIU, Auditor, Data, Predictive Modeling for Claims and Underwriting.

ABUSE DEFINITION
PRINCIPLES

- Not (Criminal) Fraud
- Unwanted, Unintended, Unnecessary Claims
- Disputable Damages
- Civil Matter
- Company's Problem
- Regulator's Problem

HOW MUCH CLAIM FRAUD?

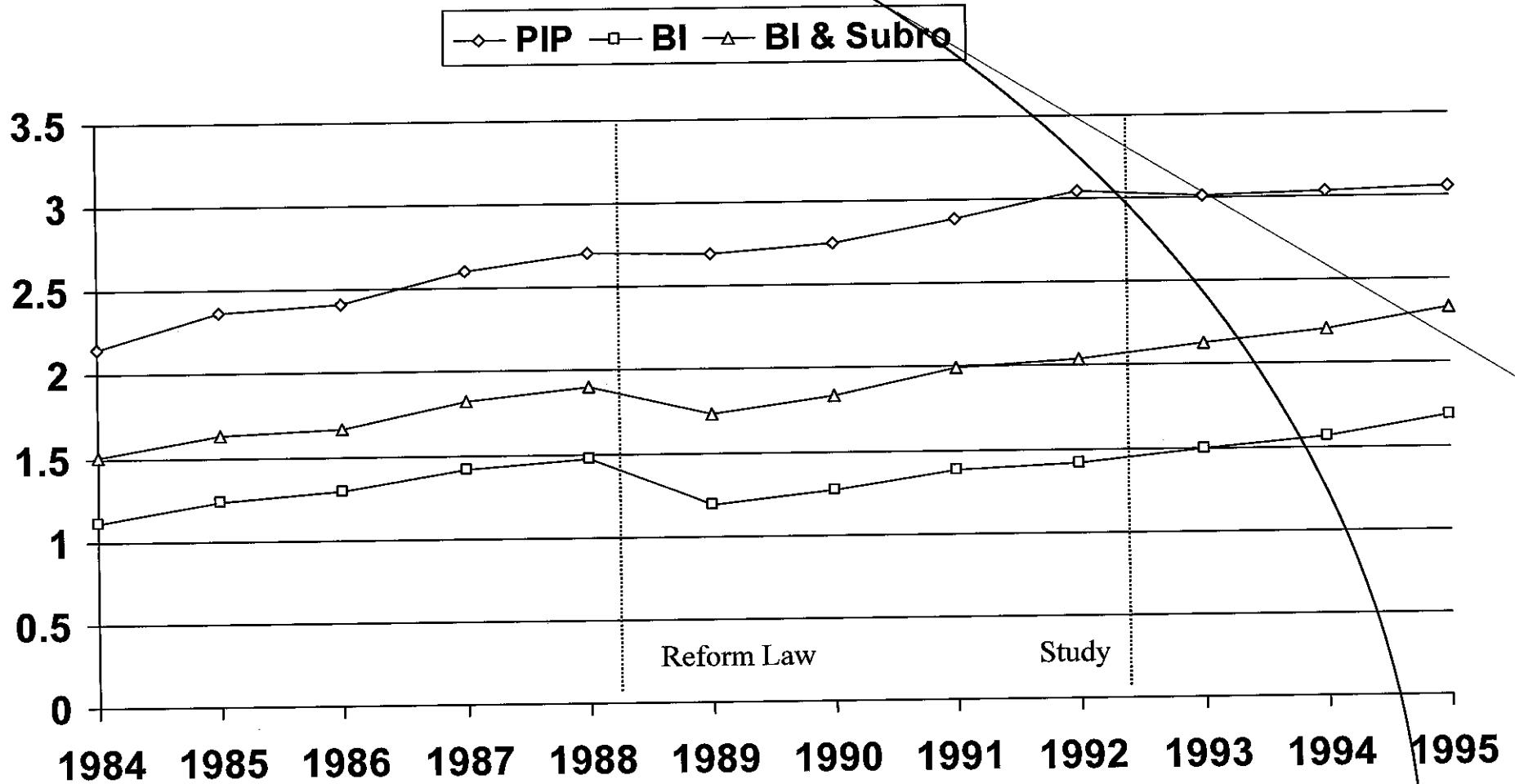# 10% Fraud

Some PP Auto History
1984 - 1995 Claim Frequencies

Legend: PIP — BI — BI & Subro

3.5											

Reform Law

Study

1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995

Source: AIB Study of 1993 BI and PIP Claims

Insurance Fraud Bureau of Massachusetts

- Statutory, P&C lines, Established 1991
- Mandatory reporting by insurers; toll-free for public reporting of fraud
- Confidential access to records, such as Registry, Insurers, Criminal Justice
- Access to dedicated AG prosecutors
- Immunity from civil liability
- Seek Restitution
- Auto and WC Insurers assessed for costs

About insurance companies...

"They pay stupidly on claims. They don't know when to fight claims or how to fight claims. They accept the wrong claims or they don't accept the right claims. They don't know what they're doing," he said.

"They're outmatched. I beat their heads in. I'm not the greatest lawyer in the world. But I win because I'm prepared and they're not."

James N. Ellis, Jr.

10/08/91

Lawyer James N. Ellis Jr. posed outside his Worcester offices with a sledgehammer like the one that Ellis says State Police used to force their way in. Ellis and his brother, Nicholas, are awaiting trial on fraud charges. Ellis contends that the attorney general's office is being influenced by the insurance industry.

'This defendant's crimes call for this degree of punishment." Insurance fraud offenses "are not victimless crimes.'

DAVID R. MARKS
ASSISTANT ATTORNEY GENERAL

Ellis brothers sentenced

Lawyers get jail time in fraud case

By Gary V. Murray
TELEGRAM & GAZETTE STAFF

WORCESTER — Suspended lawyers James N. Ellis Jr. and Nicholas J. Ellis were sentenced to jail yesterday after pleading guilty to insurance fraud-related charges.

The two brothers, both of Shrewsbury and former partners in the Worcester law firm of Ellis & Ellis, also were ordered to resign from the practice of law as part of a plea-bargained agreement with prosecutors.

In addition, James N. Ellis Jr. was ordered to pay $150,133 in restitution and $100,000 in fines. His 74-year-old father, James N. Ellis Sr., who has charges pending against him, must retire from the practice of law by Jan. 1 under the agreement.

James N. Ellis Jr., 44, was sentenced to three to five years in Walpole State Prison with one year to be served after pleading guilty in Worcester Superior Court to 23 indictments alleging motor vehicle insurance fraud, larceny, workers' compensation insurance fraud, conspiracy, attempted larceny, running an unlicensed loan business and issuing small loans with fees and interest in excess of the amounts permitted by law.

Judge Robert H. Bohn Jr. accepted the sentence recommended by Assistant Attorney General David R. Marks and defense lawyer Max D. Stern.

In order to give James N. Ellis Jr. time to recover from recent back surgery and injuries suffered in a fall at his home, Judge Bohn stayed execution of the sentence until Dec. 15. The judge also placed James N. Ellis Jr., who appeared in court in a wheelchair yesterday, on probation for five years.
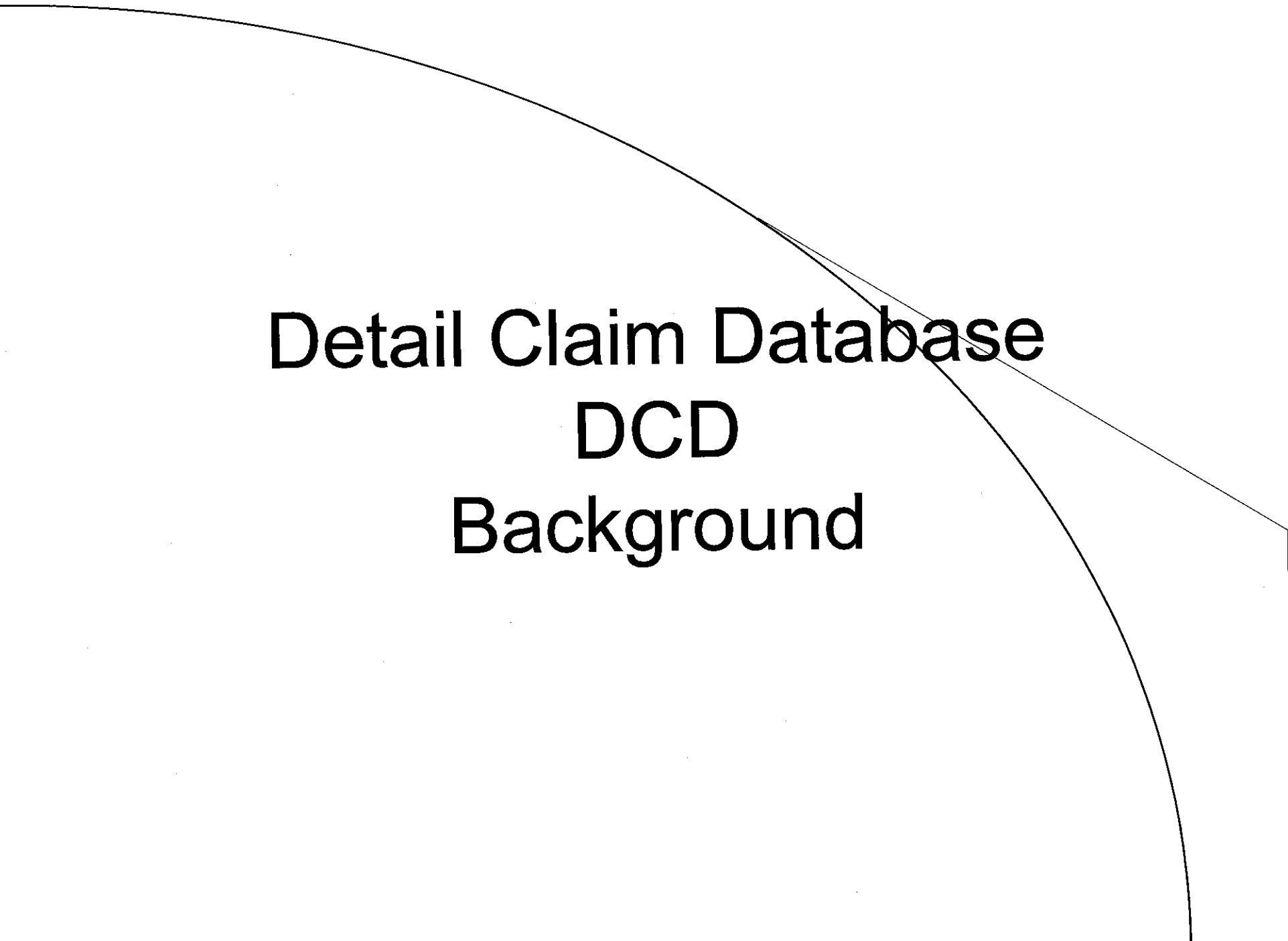
As conditions of probation,

SEAN DOUGHERTY

James N. Ellis Jr., in wheelchair, and Max D. Stern, his defense lawyer, listen during yesterday's sentencing in Worcester Superior Court. Ellis was sentenced to Walpole State Prison, ordered to pay a fine and restitution and was ordered to resign from the practice of law by Monday.

Detail Claim Database
DCD
Background

DCD Background

In 1993, the Commissioner of Insurance mandated carriers to report to the DCD specific information on __all__ Closed Bodily Injury (BI), Uninsured Motorist (U1), Underinsured Motorist (U2), Medical Payments and Personal Injury Protection (PIP) claims on Massachusetts private passenger and commercial policies including claims closed with no payment with claim handling activity

OBJECTIVES

The Four primary objectives
of the DCD are:

- Claim Negotiation and Claim Denial.

- Assist Boards of Registration.

- Respond to Division of Insurance and the Legislature.

- Assist the Insurance Fraud Bureau.

DCD Background

The DCD:

- **contains a broad array of data on injuries, injury and treatment patterns, and the professionals involved in automobile insurance claims**

- **has become an important tool in claim review, cost containment, and the battle against insurance fraud**

- **is available to insurance company staff via online database searches and reports**

Data Elements

Company: Insured's auto insurance carrier.

- **Premium Town, Claimant/Insured Address.**
- **Claimant DOB, SSN, Coverage.**
- Injury Type (32): Minor, Strain/Sprain, Major
- Outpatient Providers (2) Individual & Org
- Attorney Individual & Organization
- Medical Bills; Medicals "Paid"
- Investigation: IME, Med Audit, SIU Outcomes

DCD PROVIDER FILE

- ⊕ Dynamic File of Currently Active Medical Providers and Attorneys.

- ⊕ File contains individual providers, organizations, and individuals linked to organizations.

- ⊕ File streamlines reporting by requiring only six digit codes instead of all name and address data.

- ⊕ File standardizes reporting - same file is used at each company which reduces errors.

DCD Provider File

- Providers on Auto Insurance Claims on Mass Auto Policies
- Automated Access by Companies
- October 2009: 126,813 Entries
- Medical 96,527; Attorney 30,286

DCD 2008 Closed Claims

138,000 Claims for $911 Million Paid

BI 34% , PIP 63% , UM+UIM 3%

Strain & Sprain 79%, $575 Million

Major & Fatal 15%, $319 Million

BI: Med 28%, Chiro 39%, PT 24%

PIP: Med 36%, Chiro 27%, PT 16%

BI: ATTY 88%, Avg $13,454, NA $5,460

PIP: ATTY 47%, Avg $ 4,150, NA $2,157

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