



**INSURANCE FRAUD BUREAU  
OF MASSACHUSETTS**

**1991 Annual Report**





# INSURANCE FRAUD BUREAU OF MASSACHUSETTS

## INSURANCE FRAUD BUREAU OF MASSACHUSETTS

### 1991 ANNUAL REPORT

This is the first Annual Report of the Insurance Fraud Bureau of Massachusetts (IFB) covering the activities of the IFB for the fiscal year ended December 31, 1991.

A non-profit association created by Chapter 338 of the Massachusetts Acts of 1990 and recently amended by Section 99 of Chapter 398 of the Massachusetts Acts of 1991, the IFB was created and empowered to detect, investigate and prevent fraudulent insurance transactions.

As of December 31, 1991, staffing of the IFB totaled 15 full-time employees.

The IFB Officers are:

Mr. Daniel J. Johnston	Executive Director
Mr. Daniel L. Skelly	Vice President, Chief of Investigations
Ms. Laura K. Krauss	Vice President, General Counsel
Dr. Richard A. Derrig	Vice President, Research
Mr. Thomas J. Simon	Vice President, Administration

Also, as of that date, the IFB Board of Governors included:

Mr. Robert Hanna	Aetna Casualty and Surety Company
Mr. William Finn	Amica Mutual Insurance Company
Mr. John Mooney	Arbella Mutual Insurance Company
Mr. Arthur Remillard, III	The Commerce Insurance Company
Mr. Dana Marchant	Commercial Union Insurance Company
Mr. Fran Delage	Hanover Insurance Company
Mr. James Jensen	Liberty Mutual Insurance Company
Mr. Vincent Castaldo	Metropolitan Property & Casualty Insurance Company
Mr. Paul Cotter	Sentry Insurance A Mutual Company
Mr. Edwin Rinehimer	The Travelers Insurance Company

#### Public Members

Ms. Kay Doughty	Commissioner of Insurance
Mr. Phillip Tortorella	Assistant Secretary of Public Safety
Mr. Jerold Gnazzo	Registrar of Motor Vehicles

As a result of the enactment of the workers' compensation reform legislation, the IFB Board of Governors has added two additional public members and members of the Workers Compensation Rating and Inspection Bureau Governing Committee in 1992.



Below are highlights of Bureau activities during fiscal year 1991.

#### FORMATIVE ACTIVITIES

On January 14, 1991 the IFB Board of Governors ratified the Constitution of the Insurance Fraud Bureau of Massachusetts. In May of 1991 the IFB became fully operational and opened its current headquarters on the fifth floor of 101 Arch Street in Boston.

#### IFB FOCUS OF ACTIVITIES

The IFB was created and authorized to investigate suspected fraudulent transactions involving all lines of insurance. Initially the investigative efforts of the IFB were directed to the area of automobile insurance claims as that area was thought by the IFB Board of Governors to have a significant beneficial impact on insurance costs in the Commonwealth.

With the amendment of the statute creating the IFB, the Board of Governors has recently made a corollary amendment to the mission statement of the IFB to specifically include a focus on the investigation of fraud involving automobile and workers' compensation insurance claims.

#### 331 IFB REFERRALS IN 1991

In 1991, 238 reports of suspected fraudulent insurance transactions were received by the IFB from insurance companies, insurance agencies, professional associations, individual professionals servicing the insurance industry, regulators and law enforcement authorities.

Also, a toll-free telephone hotline was made available to encourage consumers to report suspected fraudulent insurance claims by dialing 1-800-32FRAUD. Ninety-three (93) additional reports of suspected insurance fraud were received via the IFB hotline in 1991.

In total, 331 referrals on cases with an estimated value of \$4,360,583 were received by the IFB during 1991. A detailed report of referrals is attached as Appendix A.

Potential cases for prosecution are built on one or more of the referrals. The 331 referrals during 1991 were consolidated in 126 cases. Most cases contain one referral, the rest contain several referrals. One case opened during 1991 contained a total of 23 referrals. As of 12/31/91, a total of 24 cases were transmitted to the Attorney General's Office for potential prosecution. A summary of the investigative activity for 1991 is attached as Appendix B.

### CRIMINAL OFFENDER RECORD INFORMATION

The IFB was certified to receive Criminal Offender Record Information (CORI) by the Criminal History Systems Board of the Commonwealth in accordance with the enabling statute of the IFB. CORI is defined as records and data in any communicable form compiled by a criminal justice agency which concerns an identifiable individual and relates to the nature or disposition of a criminal charge, an arrest, a pre-trial proceeding, or other judicial proceedings, sentencing, incarceration, rehabilitation or release. (M.G.L.c. 6, Section 167, 1988 ed.). Dissemination of CORI to any party not certified by the Criminal History Systems Board is strictly prohibited by statute and may subject the offending agency or individual to a fine and/or imprisonment, civil penalties along with potential loss of CORI certification. Generally, contemporaneous disclosure of CORI information through press releases, etc. permits identification of those indicted or convicted, however historical references to CORI information held by the IFB must delete identifying information of the CORI subject.

### INVESTIGATIVE OVERVIEW

In 1991, IFB investigators have conducted or continue to conduct fraud investigations in a variety of areas:

- o Large ring conspiracy cases involving hundreds of names and more than 50 staged accidents comprising claims with multiple carriers involving non-existent bodily injury claimants and inflated or duplicate property damage claims;
- o Identical vehicles involved in multiple claims many with the same loss data;
- o Workers' compensation claims;
- o Recruitment and training of runners by legal service providers;
- o Claimants using identical methods of operation in apparent complicity with health care providers;
- o Glass claims filed to avoid policy deductibles;
- o Multiple property claims against multiple carriers alleging similar losses with duplicate receipts;
- o Numerous auto arson claims where the vehicle is last reported seen after recovered in another location;
- o Improper billing by health care providers;
- o Duplicate and inflated automobile property damage claims;
- o A maritime investigation alleging owner involvement in the destruction of the insured's vessel;

- o Automobile property damage claims alleging body shop involvement;
- o Claims personnel issuing fraudulent payments; and
- o Agents issuing authorized and unauthorized coverages with premium billed and retained by the agent.

#### CRIMINAL CHARGES

In December of 1991 a subject was indicted on four counts of commercial bribery and three counts of larceny over \$250. The charges relate to the period from June 1990 to February 1991, during which the subject was a claims adjuster for Liberty Mutual Insurance Company. The subject would allegedly gain increased workers' compensation permanent disfigurement settlements for claimants if they paid him in return. Through such payments - or "kickbacks" - the subject allegedly received approximately \$1,800 in cash and a check for \$2,000 which was later canceled. He allegedly accepted such kickbacks on six separate occasions. If convicted, the subject faces a maximum of six years in prison or a fine of \$25,000 for each charge of larceny. He also faces a maximum of five years in state prison and a fine of \$10,000 for each charge of commercial bribery. The subject was arraigned in December of 1991.

Charges were also filed against another subject alleging one count of filing a fraudulent insurance claim, one count of concealment of a motor vehicle with intent to defraud and one count of filing a false police report. The subject had arranged to have his 1987 Chevrolet conversion-style van stolen, driven to New Jersey and then burned in January, 1989. After filing a report with the local police, the subject submitted a claim to Hanover Insurance of Worcester. A January 1992 trial date was scheduled. At the trial, the case was continued without a finding, subject to the individual making payment to the insurance company he defrauded and contributing \$1,500 to the Insurance Fraud Bureau. The Commonwealth had recommended a one-year House of Correction sentence, with 30 days to be served and the balance suspended, in addition to probation and restitution.

In the fall of 1991, a grand jury was empaneled to hear testimony and review documents regarding the activities of a third subject. In early 1992, the subject who is currently serving time in a federal prison on similar charges, was indicted on 16 counts of larceny over \$250, and 42 counts each of forgery and uttering forged surety bonds between 1987 and July, 1991.

The subject was a principal of an insurance agency in existence from 1970 to July, 1991. The business consisted primarily of the sale of surety bonds. The defendant allegedly sold fraudulent surety bonds to minority-owned and women-owned businesses, using three different schemes. Prosecutors allege that the subject (1) sold surety bonds written by non-existent companies; (2) sold forged surety bonds of a legitimate company; and (3) required customers to post "collateral" for surety bonds, which was never returned. The amount of money

### TRAINING AND EDUCATION

In May of 1991 Arbella Mutual Insurance Company sponsored a claims training seminar for the entire IFB staff. Additionally, various IFB staff attended continuing education seminars covering substantive areas which included: automobile bodily injury fraud, staged automobile accidents, analytical investigative methods ("link analysis"), arson investigation, automobile accident reconstruction, financial and tax fraud, social security fraud, criminal trial preparation, Criminal Justice Information and Registry of Motor Vehicles, computer applications and systems.

### RESEARCH

The Research Department devoted its efforts to defining a database and designing tools which will aid Investigations. Working jointly with ISD and Investigation, Research defined the IFB Fraud Intelligence Database (Phase 1) and the requirements for the IFB Information System. Research also introduced Link Analysis and other analytical investigative tools supporting Research and Investigation in the detection and prosecution of organized fraud rings.

Phase I of the Fraud Intelligence Database will support the tracking of all persons involved in an IFB investigation. This includes insureds, claimants, body shops, medical providers and attorneys, along with vehicles, information surrounding the nature of the loss, its location, the type of insurance, type of fraud and the value of the loss. Additional information supports the tracking and management of referrals from submission to closure.

The IFB Information System, CONTROL, supports the addition, maintenance and retrieval of information contained in the IFB Intelligence Database. Research participated in the design of CONTROL and the reports produced by CONTROL.

### SYSTEMS

AIB's Information Systems Division (ISD) initially used a microcomputer-based system on which IFB was able to enter, track and report fraud referral statistics. This system was supplanted during fourth quarter 1991 by an ISD-developed mainframe system which featured on-line entry of referrals, tracking and assignment of cases, research analysis and executive reporting.

ISD also worked with IFB to provide access to a variety of data bases that were available from external agencies; these included the Registry of Motor Vehicles licensing database (ALARS), a pre-inspection database (CARCO) and several directory-type files, e.g. licensed appraisers, physicians, chiropractors, attorneys, physical therapists and body/glass shops. Where possible, disciplinary histories of the various professional licensees will also be accessed. Separate systems are available to track a subject's financial, credit and geographical location.

ISD anticipates working with IFB personnel to extend the mainframe system to more fully support the investigative process and to expand external access of data to include the National Insurance Crime Bureau (NICB), the Central Index Bureau (CIB), the Department of Industrial Accidents (DIA), the Department of Public Welfare (DPW), the Department of Employment and Training (DET) and the Department of Revenue (DOR) databases.

FINANCIAL ACTIVITIES

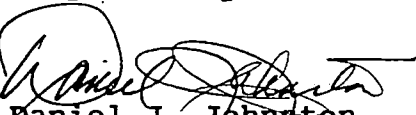
AIB's Accounting Department managed the Bureau's financial activities during 1991, including budgeting, cash management and financial reporting. The Bureau ended 1991 with operating expenditures of \$1,100,423, including management and information service fees paid to AIB.

\* \* \* \* \*

During the period covered by this report, the Executive Director, as required by the Constitution, has preserved records of all proceedings of the IFB and has received, disbursed and accounted for all funds of the IFB.

We gratefully acknowledge the accomplishments and dedicated efforts of IFB staff, industry personnel and law enforcement officials whose commitment contributed to the achievements included in the report.

Respectfully submitted,



Daniel J. Johnston  
Executive Director  
Insurance Fraud Bureau of Massachusetts

Analysis of 1991 Referrals By Source and Type of Insurance

Referral Summary

Line of Insurance	Company Sourced		Non-Ins. Entity Source		Hotline Sourced		Combined Total	
	Number Referrals	Percent of Referrals	Number Referrals	Percent of Referrals	Number Referrals	Percent of Referrals	Number Referrals	Percent of Referrals
Auto	181	87%	24	83%	42	45%	247	75%
Bond	1	0%	1	3%			2	1%
Commercial	7	3%	1	3%	5	5%	13	4%
Health			1	3%	7	8%	8	2%
Life					1	1%	1	0%
Marine	1	0%					1	0%
Multi-lines					4	4%	4	1%
Other	1	0%	1	3%	5	5%	7	2%
Property	14	7%	1	3%	9	10%	24	7%
Workers' Comp	4	2%			20	22%	24	7%
<b>TOTAL</b>	<b>209</b>		<b>29</b>		<b>93</b>		<b>331</b>	

Referral Share                      63%                                      9%                                      28%

Loss Value Summary

Line of Insurance	Company Sourced		Non-Ins. Entity Source		Hotline Sourced		Combined Total	
	Loss Value	Percent of Loss Value	Loss Value	Percent of Loss Value	Loss Value	Percent of Loss Value	Loss Value	Percent of Loss Value
Auto	2,188,691	62%	52,295	19%	161,167	30%	2,402,153	55%
Bond	250,000	7%	153,435	56%			403,435	9%
Commercial	90,100	3%	15,000	5%	98,000	18%	203,100	5%
Health			11,000	4%	3,508	1%	14,508	0%
Life								
Marine	65,000	2%					65,000	1%
Multi-lines					800	0%	800	0%
Other	967	0%			800	0%	1,767	0%
Property	803,156	23%	42,000	15%	250,090	46%	1,095,246	25%
Workers' Comp	149,574	4%			25,000	5%	174,574	4%
<b>TOTAL</b>	<b>3,547,488</b>		<b>273,730</b>		<b>539,365</b>		<b>4,360,583</b>	

Appendix A



Analysis of 1991 Referrals By Source and Type of Insurance

Average Loss Value per Referral

Line of Insurance	Company Sourced	Non-Ins. Entity Source	Hotline Sourced	Combined Total
	Average Value	Average Value	Average Value	Average Value
Auto	12,092	2,179	3,837	9,725
Bond	250,000	153,435		201,718
Commercial	12,871	15,000	19,600	15,623
Health		11,000	501	1,814
Life				
Marine	65,000			65,000
Multi-lines			200	200
Other	967		160	252
Property	57,368		27,788	45,635
Workers' Comp	37,394		1,250	7,274
TOTAL	16,974	9,439	5,800	13,174

Appendix A

Investigative Activity as of 12/31/91

Status	Cases		Referrals	
	#	%	#	%
Accepted	126	100%	162	100%
Waiting	32	25%	32	20%
Assigned	37	29%	49	30%
Closed	33	26%	34	21%
Transmitted for Prosecution	24	19%	47	29%

Note: One case may contain multiple related referrals



**KPMG** Peat Marwick

Certified Public Accountants

**INSURANCE FRAUD BUREAU OF MASSACHUSETTS**

Financial Statements

December 31, 1991

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Governors  
Insurance Fraud Bureau of Massachusetts:

We have audited the accompanying balance sheet of Insurance Fraud Bureau of Massachusetts as of December 31, 1991 and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, the accompanying financial statements have been prepared in conformity with accounting practices generally utilized by insurance companies for regulatory purposes and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Insurance Fraud Bureau of Massachusetts at December 31, 1991, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in note 2.

*KPMG Peat Marwick*

January 14, 1992

# INSURANCE FRAUD BUREAU OF MASSACHUSETTS

## Balance Sheet

December 31, 1991

### Assets

Due from Automobile Insurers Bureau of Massachusetts	\$ <u>46,234</u>
Total assets	\$ <u><u>46,234</u></u>

### Liabilities

Accrued expenses	\$ <u>46,234</u>
Total liabilities	\$ <u><u>46,234</u></u>

See accompanying notes to financial statements.

# INSURANCE FRAUD BUREAU OF MASSACHUSETTS

## Statement of Operations

Year ended December 31, 1991

### Income:

Automobile Insurers Bureau of Massachusetts assessments \$ 1,100,423

Total income 1,100,423

### Operating expenses:

Salaries 462,681

Data processing service fees (note 4) 135,000

Employee relations and welfare 112,964

Rent 42,864

Equipment 130,562

Printing and stationery 27,529

Postage and telephone 12,306

Legal, auditing and consulting 46,634

Taxes, licenses and fees 33,976

Travel 52,852

Miscellaneous 43,055

Total expenses 1,100,423

Excess of income over expenses \$ -

See accompanying notes to financial statements.

# INSURANCE FRAUD BUREAU OF MASSACHUSETTS

## Statement of Cash Flows

Year ended December 31, 1991

Cash flows from operating activities:	
Excess of income over expenses	\$ -
Adjustments to reconcile excess of income over expenses to net cash from operations:	
Increase in due from Automobile Insurers Bureau of Massachusetts	(46,234)
Increase in accrued expenses	<u>46,234</u>
Net cash from operations	-
Cash at beginning of year	<u>-</u>
Cash at end of year	\$ <u><u>-</u></u>

See accompanying notes to financial statements.

# INSURANCE FRAUD BUREAU OF MASSACHUSETTS

## Notes to Financial Statements

December 31, 1991

### (1) Organization and Formation

Insurance Fraud Bureau of Massachusetts (Bureau), a voluntary, nonprofit association, was formed by Automobile Insurers Bureau of Massachusetts (Automobile Bureau) and began operations effective January 1, 1991. The Bureau acts as an agency for the collection and research of data for the prevention and investigation of fraudulent insurance transactions and refers all matters involving potential violations of the laws concerning insurance fraud to the appropriate authorities.

The Bureau and the Automobile Bureau share common management personnel. In addition, the Automobile Bureau provides certain administrative services to the Bureau. Funding for the Bureau for the year ended December 31, 1991 was provided by the Automobile Bureau. Effective January 1, 1992, funding for the Bureau will be shared equally by the Automobile Bureau and The Workers' Compensation Rating and Inspection Bureau of Massachusetts.

### (2) Summary of Significant Accounting Policies

#### *(a) Principles of Presentation*

The accompanying financial statements have been prepared in conformity with accounting practices generally utilized by insurance companies for regulatory purposes. Such practices differ from generally accepted accounting principles in that: (1) certain assets, primarily furniture and fixtures, are charged to operations when purchased, rather than being capitalized and depreciated over their useful life and (2) rental costs associated with office space are charged to operations when paid, rather than being amortized ratably over the life of the lease. The effects of these differences on the financial statements have not been determined.

#### *(b) Member Assessments*

The Bureau derives its operating income from periodic assessments levied on the Automobile Bureau. All expenses are paid by the Automobile Bureau, on behalf of the Bureau. For the year ended December 31, 1991, the amount of assessments equalled the expenses incurred by the Bureau.

#### *(c) Income Taxes*

The Bureau is exempt from both Federal and state income taxes.

### (3) Pension Plan

The Bureau participates, jointly with the Automobile Bureau, in the Insurance Organizations' Pension Trust Employees Retirement Plan (Plan) which is a noncontributory pension plan. Pension expense for the year ended December 31, 1991 was \$20,410.

### (4) Data Processing Service Fees

Effective April 1, 1991, the Bureau began utilizing the Automobile Bureau to perform certain data processing functions. The Bureau was charged a monthly fee of \$15,000.

(Continued)



## INSURANCE FRAUD BUREAU OF MASSACHUSETTS

## Notes to Financial Statements

## (5) Lease Commitments

During 1991, the Bureau entered into a lease agreement for office space. Minimum rental payments of \$11,816 per month are required under the lease. The Bureau also entered into various leases for office equipment and automobiles during 1991.

The following is a schedule of minimum future rentals on noncancellable leases.

Year ending December 31:

1992	\$ 175,352
1993	173,899
1994	148,889
1995	133,469
1996	143,106
Thereafter	<u>429,816</u>
	\$ <u>1,204,531</u>

Total rental and lease expense for the year ended December 31, 1991 was \$63,055.