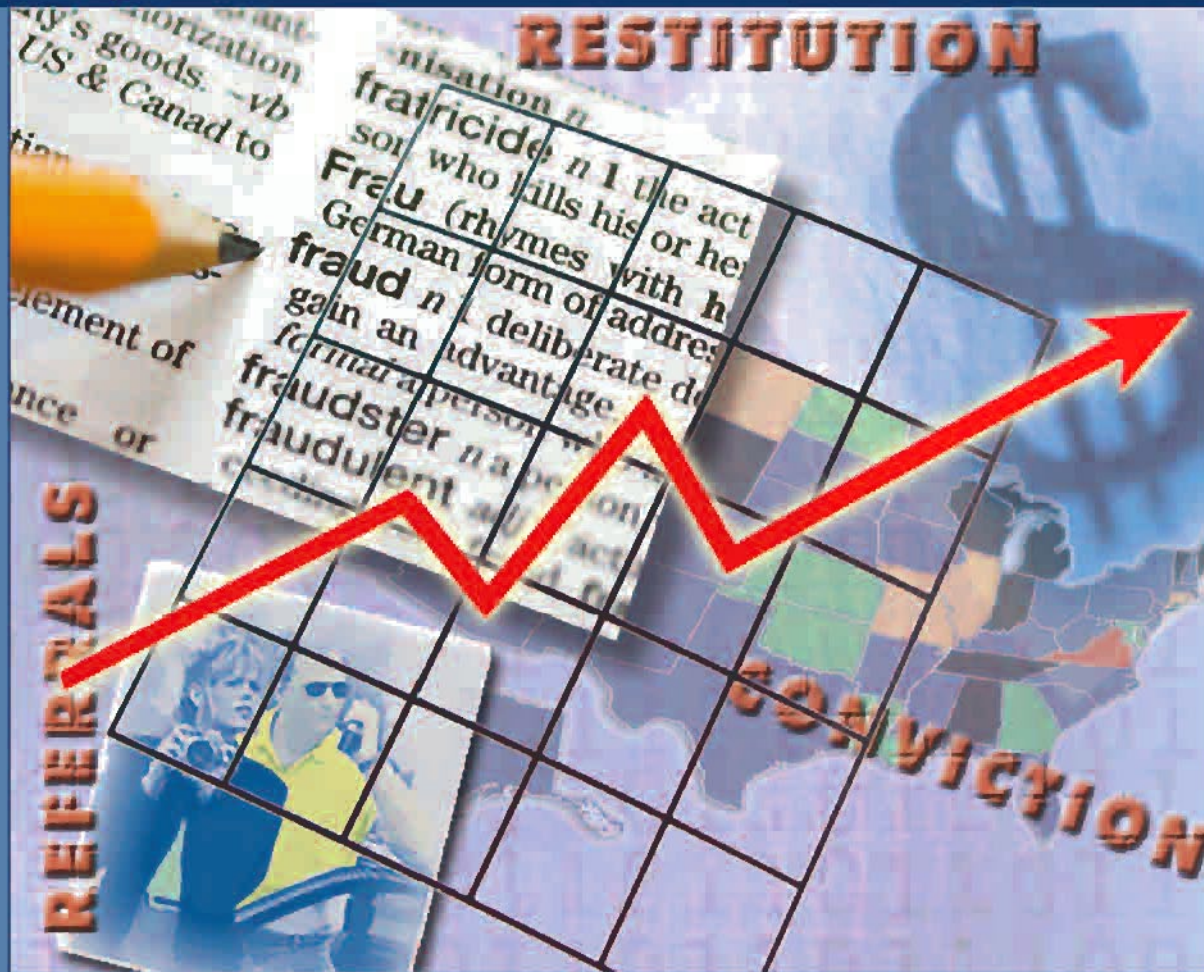


# STATE INSURANCE FRAUD BUREAUS

A Progress Report: 2001 to 2006



## COALITION AGAINST INSURANCE FRAUD

February 2007

Insight  
Series

Abbreviated pdf version. Contains no appendices  
or individual state statistical snapshots.



Coalition Against  
Insurance Fraud

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## INTRODUCTION

This study is a snapshot of the state agencies charged with deterring, detecting, investigating and, in some cases, prosecuting insurance fraud. The purpose of this research is to achieve a greater understanding of the structure, responsibility and overall activity of insurance fraud bureaus across the United States.

This study focuses mainly on insurance fraud bureaus that were established mostly through legislation in 40 states. Seven states have more than one agency that focuses on insurance fraud. The 48 bureaus surveyed represent more than 82 percent of the U.S. population. To obtain the information in this report, written and electronic survey forms (see Appendix 7) were sent to 48 state fraud units in mid 2006. A total of 47 completed surveys were returned.

For most of the quantitative questions, survey recipients provided data as of January 1, 2006. Budget and staffing data reflect 2006 while most other data are for the full year of 2005. Information requested was similar to previous surveys conducted by the Coalition Against Insurance Fraud since 1994 to allow meaningful comparisons from year to year.

The charts and tables allow easy comparison of fraud bureaus from state to state. However, since structure, focus and capability of fraud bureaus differ greatly, some of the tables may not be fair comparisons as far as results and capabilities of each fraud bureau.

Comparing the operations of large fraud bureaus — California, New York, New Jersey and Florida — with small agencies also proved challenging. Some charts contain per-capita ratios to provide another perspective on comparing activity from state to state based on the population size.

Ten fraud bureaus in this report were created solely to combat workers compensation fraud. Those bureaus are grouped together in most charts and tables for easy comparison. Some bureaus also have enforcement responsibilities beyond fraud, most notably enforcing laws that require businesses to carry workers compensation coverage. In some cases, the data provided by those bureaus may include statistics involving budget, staffing levels and caseloads that encompass non-fraud activities.

The final section of this report contains a one-page statistical snapshot of each fraud bureau.

The Coalition Against Insurance Fraud urges policymakers and others dedicated to combating fraud to look behind the numbers and help make these state bureaus even more effective and efficient forces in combating insurance fraud.

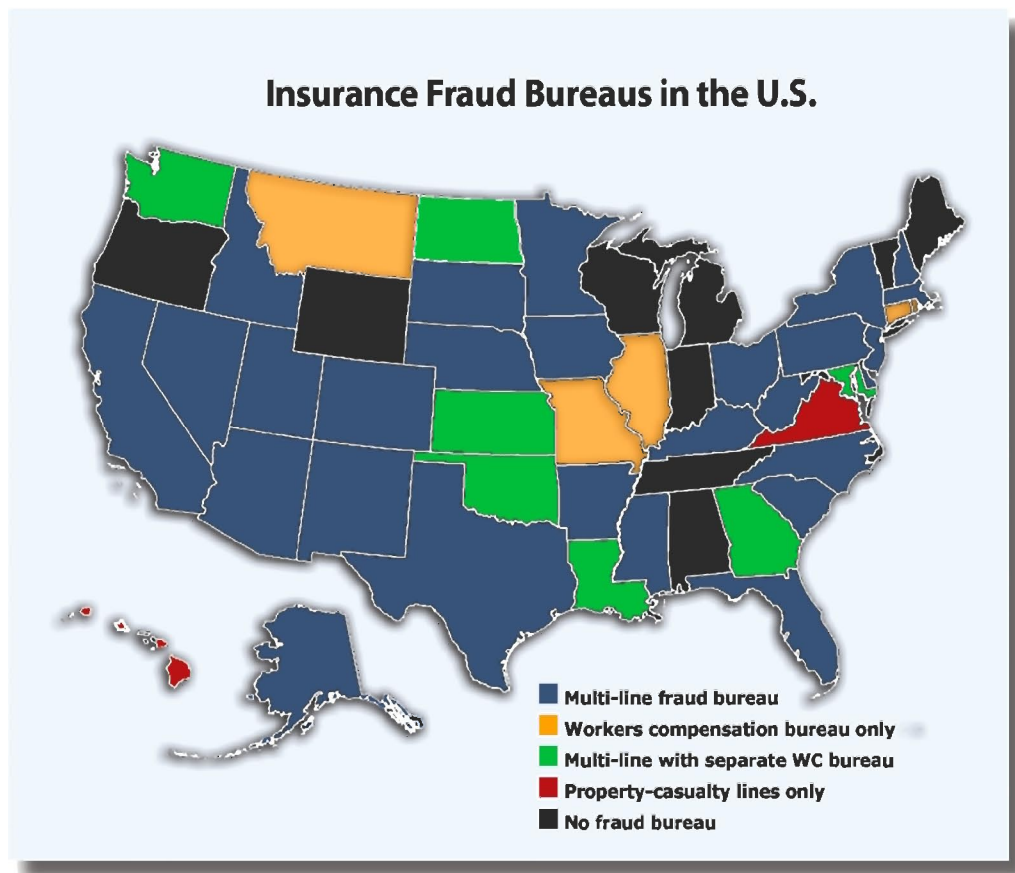
## EXECUTIVE SUMMARY

**B**udgets for state insurance fraud bureaus increased more than \$15 million from 2004 to 2006, allowing these agencies to add more than 280 new investigators, analysts and lawyers to tackle schemers. Has the increased firepower translated into better fraud-fighting results?

The answer seems to be yes and no. Key measurements of success — criminal convictions, cases opened, referrals received, cases presented for prosecution and restitution ordered — all increased in 2005, but some appear to have plateaued in recent years.

This suggests that, for the most part, fraud fighters are delivering better results and are priming the pipeline with fresh cases that should result in a new generation of prosecutions and convictions in coming years. Still, the lack of growth in convictions and cases opened in the last three years is a concern. Of 47 bureaus, 18 saw convictions decline from 2004 to 2005. Nebraska dropped from 89 to 7 during the period, and other significant declines were reported by California (59), and Pennsylvania (26).

All told, fraud bureaus logged 4,459 criminal convictions in 2005. This represents an increase of 6.4 percent from 2004, but the average number of convictions per agency dropped from 105 to 93.



Still, the growth in anti-fraud budgets suggests that fraud fighters are succeeding in educating legislators and other decisionmakers that insurance fraud is a severe and draining crime — and one that can increase insurance costs for consumers and businesses.

Insurer investigative units also logged a productive year. SIUs and other fraud fighters referred nearly 125,000 suspected scams to fraud bureaus. This record total is a spike of nearly 19 percent over 2004. Though two new fraud bureaus opened their doors in 2005 and helped boost the total, referrals also grew an average of 14 percent per bureau.

The encouraging surge in case referrals may signal that insurers are getting better at detecting fraud. Some states also may be more aggressively enforcing mandatory reporting requirements on insurers. Involving the public by promoting telephone hotlines to report fraud may help as well; the 39 fraud bureaus that track hotline calls received more than 9,800 phone tips.

A key harbinger of future success is the increased number of fraud investigations that were opened in 2005. The 29,000 probes represent a 6.5-percent increase over the previous year. This larger caseload should result in more prosecutions and convictions when the coalition tallies the 2006 numbers. From 2001 to 2006, though, the number of cases open is relatively flat.

The data reveal wide-ranging capabilities and effectiveness among anti-fraud agencies. A handful of fraud bureaus appears to be highly

### Statistics at a Glance

#### Fraud bureaus with...

- police powers **28**
- civil fining authority **22**
- reporting hotlines **29**
- websites **44**
- assigned prosecutors **24**
- public awareness programs **27**

#### Fraud bureaus that investigate ...

- property/casualty insurance **35**
- health insurance **32**
- life insurance **33**
- workers compensation **44**
- disability **34**
- insider/insurer fraud **37**

#### Averages

Budget per resident: **53 cents**

Cost per conviction: **\$60,907**

Budget: **\$3.19 million**

Number of employees: **33**

Number of referrals: **2,809**

Number of cases opened: **674**

Investigator caseload per year: **87**

% annual increase in investigations: **12.8**

% annual increase in cases presented for prosecution: **6.5**

% annual increase in convictions: **6.4**

#### States without a fraud bureau

Alabama  
 Illinois \*  
 Indiana  
 Maine  
 Michigan  
 Oregon  
 Vermont  
 Wisconsin  
 Wyoming

\* Created a workers compensation unit that opened in 2006

effective, another handful of resource-starved units aren't putting much of a dent in fraud, and the majority of units fall somewhere in between.

But overall, the lean years between 2000 and 2003 when most fraud bureaus saw flat budgets, declining referrals and stagnant caseload may be ending. As more fraud units continue maturing through growth in staff, better technology and improved working relationships with insurer SIUs, the future looks promising.

## Other Findings

**Prosecutions.** While the total cases presented for prosecution — 5,467 — rose 6.5 percent, most of the growth appears to come from newer fraud bureaus as their early cases wind through the pipeline. Fraud bureaus with dedicated prosecutors, such as Florida, had the largest growth in cases.

**Convictions.** California continues to convict more insurance swindlers than any other state— one of every three insurance fraud convictions in the U.S. The Golden State's fraud bureau logged a record 1,546 convictions, ahead of runnersup Florida (493), New York (450) and New Jersey (354).

**Referrals.** Nearly three of four fraud units reported increases in referrals received. A half dozen fraud bureaus each received an increase of 50 percent or more in referrals of suspected frauds. California reported the most referrals at 27,687.

**Cases opened.** The total number of cases opened increased 6.5 percent after remaining relatively flat between 2001 and 2004. Much of the increase stems from the Rhode Island workers comp bureau — whose caseload soared nearly two thirds to 5,100 cases in 2005.

**Civil actions.** Civil and administrative actions against fraudsters fell by 9.5 percent to 2,266, with only slightly more than a third of states reporting civil suits. Even that total may be artificially high: New Jersey's Office of Insurance Fraud prosecutor tallied more than 40 percent of all civil actions.

**Budgets.** A total of \$134 million was budgeted for 42 bureaus in 2006. California is the richest with a \$36.8-million budget. New Jersey is second with \$29.7 million. Nearly three of four budget dollars were spent by just five states.

**Employees.** A total of 1,559 fulltime employees were reported by 47 state fraud bureaus, and nearly two thirds were investigators. California is the largest employer with 298 staffers, followed by New Jersey at 270.

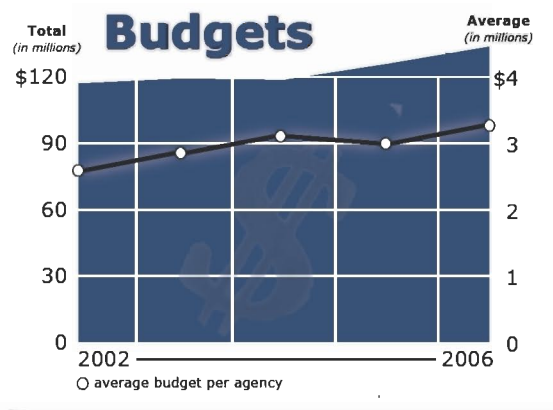
**Restitution.** Fraud-bureau cases resulted in \$298 million in court-ordered restitution for 2005. But this figure is skewed by a few high-dollar cases. Still, most fraud bureaus reported increases for 2005.

## ANNUAL BUDGETS

A total of 42 of 47 agencies participating in the study submitted budget data. Several agencies reported they do not have separate budgets for their units, and that their funding was provided by a parent department or agency. Funding overall for 2006 rose more than \$15 million from 2004 — \$134 million versus \$119 million. This is an increase of 6.3 percent over 2005. Average budgets increased slightly from \$3 million to \$3.2 million per agency, also a 6-percent increase.

California, New Jersey, Florida, Pennsylvania and Massachusetts — states all deemed to have high volumes of fraud — continued to have the highest budgets, from \$36.8 million in California to \$7.1 million in Massachusetts. Fifteen other states had budgets in excess of \$1 million.

On a per-capita basis, New Jersey again led the nation in spending with \$3.44 for every resident. Thirteen states spent less than 25 cents per year per resident to fund their fraud bureaus, with Texas dedicating only 9 cents per capita. Overall



### Largest Percent Change in Budget — 2005 to 2006 —

South Carolina	227.6%	Louisiana	-21.1%
Colorado	165.8%	Arizona	-12.8%
District of Columbia	49.9%	Idaho	-5.6%
Iowa	22.5%		
Connecticut (wc)	25.0%		
Ohio	20.2%		

### Budget

— 2006 —

California	\$36,786,912
New Jersey	29,700,000
Florida	12,817,686
Pennsylvania	10,380,721
Massachusetts	7,100,000
Virginia	4,056,070
Nevada	2,803,959
Georgia	2,803,036
Louisiana	2,107,695
Texas	1,900,000
Maryland	1,806,476
North Carolina	1,774,847
Minnesota	1,500,000
Nevada	1,473,659
New Mexico	1,400,000
Kentucky	1,338,400
Arkansas	1,233,440
Utah	1,200,000
Ohio	1,190,000
Arizona	1,124,900
District of Columbia	900,880
Delaware	750,000
Colorado	607,950
Louisiana	582,684
South Carolina	579,835
Mississippi	389,231
Iowa	383,974
Nebraska	304,097
South Dakota	296,266
Idaho	283,121

### Workers Compensation bureaus

Nevada	1,260,657
Maryland	1,200,000
Georgia	890,000
Rhode Island	700,000
Oklahoma	641,503
Connecticut	500,000
Louisiana	350,000
Montana	216,243
<b>Average</b>	<b>\$3,192,228</b>

<b>Budget Per Capita</b>					
— 2006 —					
New Jersey	\$3.44	South Dakota	0.39	Iowa	0.13
District of Columbia	1.60	Maryland	0.33	Louisiana	0.13
Nevada	1.25	Kentucky	0.33	Ohio	0.10
Massachusetts	1.10	Georgia	0.32	Texas	0.09
California	1.04	Minnesota	0.30	<b>Workers Comp bureaus</b>	
Delaware	0.92	North Carolina	0.21	Nevada	0.66
Pennsylvania	0.84	Idaho	0.21	Rhode Island	0.65
Florida	0.75	Arizona	0.20	Maryland	0.22
New Mexico	0.75	Nebraska	0.17	Oklahoma	0.18
Virginia	0.55	South Carolina	0.14	Maryland	0.14
Utah	0.51	Mississippi	0.14	Georgia	0.10
Arkansas	0.45	Colorado	0.13	Louisiana	0.08
				<b>Average</b>	<b>0.53</b>

per capita spending was up slightly from 2004 to 2006 after plateauing for several years beginning in 2000.

From 2005 to 2006, several bureaus reported significant increases in funding, including South Carolina (227 percent), Colorado (166 percent), District of Columbia (50 percent). Only three agencies reported budget declines during the period — Louisiana’s State Police (21 percent), Arizona (12.8 percent) and Idaho (5.6 percent).

## STAFFING

The increased funding provided to fraud bureaus in the last two years has mostly been used to increase staff. The number of fraud bureau

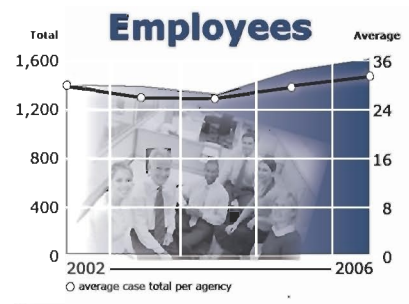
employees has increased by nearly 300 — from 1,279 in

2004 to 1,467 in 2005 to 1,561 in 2006. The opening of two new fraud bureaus helped increase the aggregate total, but the average number of employees per agency also rose slightly, from 28 to 33 during the two-year period. New funding in South Carolina allowed the attorney general there to triple staff from four

### Largest Percent Change in Staffing

— 2005 to 2006 —

South Carolina	200%	Missouri (wc)	-12%
Minnesota	200%	Louisiana*	-8%
Arizona	46%	New Jersey	-5%
Missouri	43%	North Carolina	-4%
Idaho	40%		
New York	35%		*State police



to 12 from 2005 to 2006. New York added 17 positions and Florida increased staff by a dozen. The only significant decline reported was by New Jersey’s Office of Insurance Fraud Prosecutor, which lost 15 staffers in 2006. California (298 employees), New Jersey (270 employees) and Florida (171 employees) led in this category, as

**Total Number of Employees**

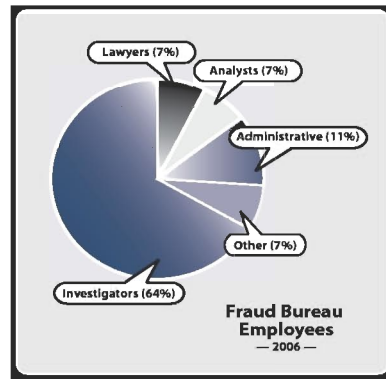
— 2006 —

California	298	Arizona	19	Hawaii	8	<b>Workers Comp Bureaus</b>	
New Jersey	270	Arkansas	16	Georgia	7	Washington	63
Florida	171	Kentucky	16	Idaho	7	Maryland	16
Pennsylvania	98	Utah	13	Alaska	5	Georgia	15
New York	66	Nevada	12	Iowa	5	Missouri	15
Massachusetts	53	New Mexico	12	Mississippi	5	Oklahoma	13
Virginia	43	Ohio	12	Nebraska	5	Nevada	12
West Virginia	42	South Carolina	12	Kansas	5	Rhode Island	11
Texas	41	Louisiana	11	New Hampshire	4	Louisiana	7
Louisiana	34	District of Columbia	10	South Dakota	3	Connecticut	6
Maryland	25	Missouri	10	Colorado	2.5	Kansas	5
Nevada	24	Delaware	9			Montana	5
North Carolina	22	Minnesota	9				
				<b>Total</b>	<b>1,561</b>	<b>Average</b>	<b>33</b>

they have for several years. These states employed nearly half of all fraud bureau employees. However, this percentage is down significantly from 59 percent in 2004. This suggests that the gap between large fraud bureaus and smaller ones is shrinking. The breakdown of positions held in fraud bureaus includes:

- Investigators 1,006
- Lawyers 111
- Analysts 115
- Administrative 220
- Other 113

The position of analyst continues to be a growth area, with nearly a 70-percent increase between 2004 and 2006.



**Investigators Per 100,000 State Residents**

— 2006 —

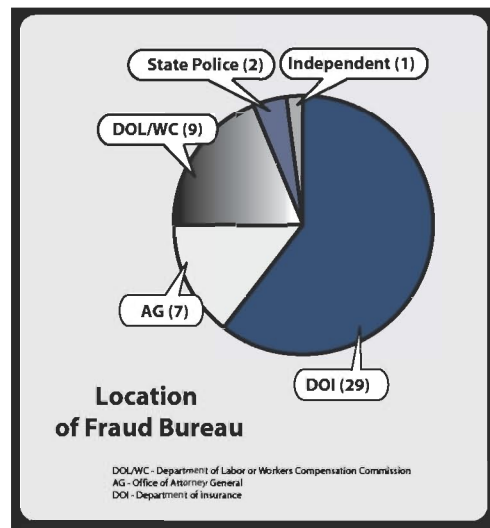
New Jersey	20.03	Utah	3.40	Louisiana	1.78	Ohio	0.44
District of Columbia	12.42	New Mexico	3.20	Nebraska	1.72	Colorado	0.22
Delaware	9.79	Nevada	3.12	Maryland	1.63	<b>Workers Comp Bureaus</b>	
West Virginia	8.84	Arkansas	2.94	Missouri	1.40	Washington	7.83
Massachusetts	6.22	Arizona	2.87	Minnesota	1.38	Nevada	3.12
Alaska	6.17	Virginia	2.71	Texas	1.13	Rhode Island	2.28
Florida	5.93	Kentucky	2.67	Mississippi	1.04	Oklahoma	2.28
California	5.92	New York	2.66	Iowa	1.02	Connecticut	1.15
Hawaii	4.77	South Dakota	2.62	South Carolina	0.96	Kansas	1.10
Pennsylvania	4.37	New Hampshire	2.33	Kansas	0.73		
Idaho	3.66	North Carolina	2.14	Georgia	0.69	<b>Average</b>	<b>3.53</b>

## DIRECTOR TENURE

For many years, the job of heading up a fraud bureau usually was not a lasting one, with frequent turnover, especially as political changes occurred in top positions in government. As with most government agencies, bureau directors' tenure often is linked with election cycles of governors, insurance commissioners and attorneys general. The 33 fraud bureau chiefs in the coalition's 1997 study averaged less than three years. But more stability has come to the job in the last 10 years. Even with several new bureaus created in recent years, the average tenure inched up to 4.7 years by the end of 2006. In fact, seven directors now have more than 10 years on the job as of January 2007. Daniel Johnston, head of Massachusetts' independent fraud bureau, remains the dean of fraud bureau chiefs with more than 16 years on the job. Longtime directors from the departments of insurance in New Hampshire and Louisiana left their positions in 2006, which also had an impact in depressing the average number of years directors were on the job.

## WHERE HOUSED

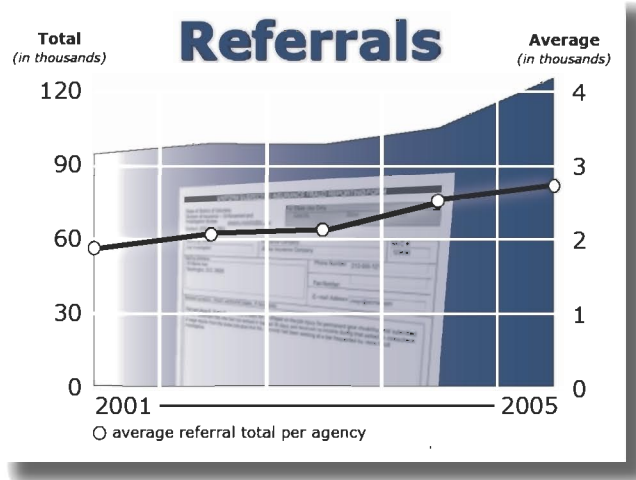
Departments of insurance continue to be the primary home to state fraud bureaus, housing 29 of the 48 bureaus in this study. The total increased to 30 in 2007 when the newly created bureau in Washington State began operation. Nine of 10 workers compensation units are housed in either a department of labor or a workers compensation commission. Offices of attorney general oversee investigating and prosecuting fraud in seven states. Two states — Virginia and Louisiana — have placed their anti-fraud efforts within their state police departments, and Massachusetts continues to be the sole entity that is independent and not under any state-sponsored agency.



## REFERRALS RECEIVED

Fraud bureaus received nearly 125,000 referrals or complaints about suspected frauds in 2005 — a 20-percent increase over the previous year. Just three bureaus — New York, California and Florida — accounted for 52 percent of all referrals. Referrals came from insurance companies, consumers and other government and law-enforcement agencies. Referrals ranged from a simple telephone call from consumers who say they witnessed fraud, to complete files from insurance company special investigation units, with ample evidence included.

The average number of referrals received per agency also rose by 319 from 2004 to 2005. However, a dozen bureaus reported declines in referrals, led by New Jersey which saw referrals drop from 8,236 to 6,193. New Jersey's referrals have declined 39 percent since 2003. The study also tracked referrals received per capita. They range widely, from Rhode Island (one referral for every 210 residents) to Georgia's fraud bureau in the insurance department (one referral for every 50,000 residents). Across the 43 fraud bureaus that supplied data in this category, the average was 43 referrals per 100,000 residents.



Referrals Received							
— 2005 —							
California	27,687	West Virginia	1,695	Louisiana	380	<b>Workers Comp Bureaus</b>	
New York	25,945	Virginia	1,638	Arkansas	356	Washington	6,851
Florida	11,068	Kentucky	824	New Hampshire	319	Rhode Island	5,121
Texas	6,810	Nevada	811	Nebraska	303	Louisiana	4,500
New Jersey	6,193	Missouri	661	District of Columbia	244	Nevada	811
Massachusetts	3,422	Utah	650	Mississippi	223	Kansas	578
Louisiana	2,539	South Carolina	569	Idaho	196	Georgia	556
Arizona	2,346	Minnesota	511	Hawaii	176	Maryland	550
Maryland	2,257	Kansas	500	Georgia	174	Montana	516
North Carolina	1,936	Colorado	460	South Dakota	103	Oklahoma	395
Pennsylvania	1,825	Iowa	437	Alaska	87	Connecticut	120
Ohio	1,740	Delaware	408				
				<b>Total</b>	<b>124,680</b>	<b>Average</b>	<b>2,834</b>

The number of referrals received differs greatly from state to state and, in some cases, from year to year for the same bureau. Several factors influence the level of referrals. Among them are mandatory reporting laws, immunity laws, technical abilities, staffing levels and public-outreach efforts to solicit tips and complaints about suspected fraud. More fraud bureaus also accept referrals electronically from insurers, helping make reporting easier. The National Insurance Crime Bureau, for example offers its member companies the ability to forward reports to fraud bureaus through its systems and the National Association of Insurance Commissioners has developed a uniform online reporting system that insurers can use to send reports to one or many fraud bureaus.

**Referrals Received  
Largest Percent Change  
— 2004 to 2005 —**

Louisiana (wc)	113%	Georgia	-34%
Kansas (wc)	90%	Utah	-27%
Nevada	84%	New Jersey	-25%
Rhode Island (wc)	71%	Idaho	-23%
Montana (wc)	62%	Nebraska	-20%
Minnesota	55%	Hawaii	-14%
Florida	49%	Delaware	-14%

The enactment of immunity laws in most states, which help shield insurers and others from lawsuits when reporting suspected fraud in good faith, also appears to encourage more referrals. Insurers are reluctant to report suspected fraud without adequate immunity protection. But not all

**Telephone Hotline Activity  
— 2005 —**

Virginia	2,155	Hawaii	30
Texas	1,878	Arkansas	12
New Jersey	1,331		
West Virginia	790	<b>Workers Comp Bureaus</b>	
Pennsylvania	750	Washington	600
Massachusetts	643	Missouri	441
California	409	Maryland	150
Maryland	251	Montana	40
Utah	221		
Delaware	131	<b>Total</b>	<b>9,832</b>

immunity laws are equal. Some provide narrow protection, such as covering only reporting exclusively to the fraud bureau. Other laws are broader and cover reporting to any law enforcement agency, and even protect insurers when sharing fraud information with each other. The data suggest that bureaus in states with this broadest immunity receive substantially more referrals.

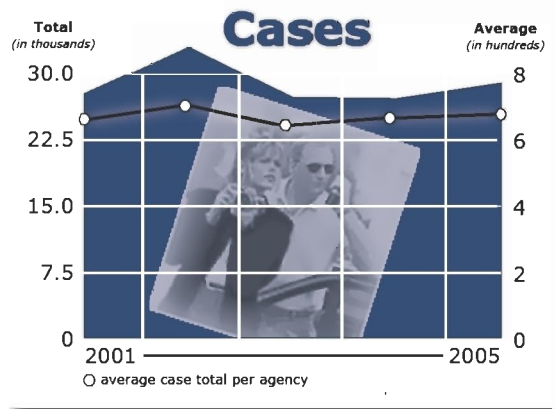
## OPEN INVESTIGATIONS

Once a referral is received, the bureau determines whether it warrants investigation. In many bureaus, this process contains several steps to weed out unworthy referrals and ensure resources are dedicated to viable cases. Criteria for opening an investigation may range from current investigator caseload to the dollar amount of the fraud, to the quality of evidence.

Caseloads are key indicators of activity level and the level of fraud overall within the state. However, cases can vary significantly. They can range from complex organized crimes involving several law enforcement agencies over several years, to simple administrative fines that are handled through the mail.

More than 29,000 investigations were opened in 2005 by 45 fraud bureaus. This suggests that approximately one of every four referrals led to an open investigation. Total investigations increased 6.5 percent over 2004, mostly because two new bureaus opened their doors for business. Average number of cases

opened per bureau — 650 — has been flat since 2001, even with the increased number of investigators. But this can be misleading. Anecdotal evidence suggests that as fraud bureaus mature, they are increasingly opening more complex cases in addition to the routine “low-hanging fruit.” Rhode Island’s workers



Cases Opened — 2005 —							
New Jersey	2,977	Arkansas	356	Idaho	196	<b>Workers Comp Bureaus</b>	
Louisiana	2,539	Delaware	314	Kentucky	161	Rhode Island	5,092
Pennsylvania	1,701	Nebraska	303	Louisiana	160	Louisiana	2,865
Florida	1,643	New Mexico	300	Mississippi	130	Kansas	578
California	1,250	Arizona	298	Ohio	118	Georgia	556
New York	1,179	Texas	294	Minnesota	109	Maryland	471
Nevada	809	South Carolina	290	South Dakota	103	Montana	420
Maryland	537	Massachusetts	279	North Carolina	90	Washington	222
Kansas	500	District of Columbia	244	Colorado	60	Connecticut	120
Iowa	437	Georgia	232	Alaska	47	Oklahoma	92
Utah	389	West Virginia	207	Hawaii	40		
Virginia	357	New Hampshire	200				
				<b>Total</b>	<b>29,265</b>	<b>Average</b>	<b>650</b>

compensation unit reported opening the largest number of new cases in 2005 — 5,092. New Jersey’s Office of Insurance Fraud Prosecutor opened the next highest at 2,977.

Three workers compensation fraud units — in Kansas, Rhode Island and Louisiana — reported the highest percentage increase in cases opened (91 percent, 70 percent and 42 percent, respectively). The Virginia State Police reported a growth of nearly 30 percent in cases, from 282 in 2004 to 357 in 2005. Twenty-three bureaus, however, reported opening fewer cases in 2005 than in 2004. The biggest declines were in North Carolina (from 304 to 90), Massachusetts (from 922 to 279) and Hawaii (108 to 40).

Average caseload per investigator for 2005 was 84 cases, an increase of nine cases since 2002. Caseload ranged from a staggering 849 in Rhode Island to five in North Carolina.

Fraud bureaus spent approximately \$4,900 for every case they opened, which is a slight increase over recent years. California spent the most — approximately \$28,700 per case — while Louisiana’s workers compensation unit spent the least per case — \$122. The ratio of cases to budget may not accurately reflect the true cost per case, however, because some budget funds are dedicated to non-investigative expenses. Also, comparing this ratio from state to state doesn’t consider the larger expenses incurred with more-complex cases.

<b>Open Investigations Largest Percent Change — 2004 to 2005 —</b>			
Kansas (wc)	91%	Massachusetts	-70%
Rhode Island (wc)	72%	North Carolina	-70%
Louisiana (wc)	42%	Hawaii	-63%
Montana (wc)	32%	New Jersey	-36%
Virginia	27%	New Hampshire	-34%
Ohio	26%	Utah	-32%
Mississippi	21%	Kentucky	-30%
Minnesota	21%	Louisiana	-26%
New Mexico	20%	Idaho	-23%

<b>Cases Per Investigator Per Year — 2005 —</b>							
Louisiana*	317	Arkansas	45	Florida	16	<b>Workers Comp Bureaus</b>	
Kansas	250	Mississippi	43	Minnesota	16	Rhode Island	849
Iowa	146	Delaware	39	Kentucky	15	Louisiana	716
Nebraska	101	Idaho	39	West Virginia	13	Montana	210
South Carolina	73	Georgia	39	Texas	12	Kansas	193
New Hampshire	67	District of Columbia	35	Alaska	12	Georgia	111
Nevada	62	Pennsylvania	32	Massachusetts	7	Maryland	36
Colorado	60	Ohio	24	Hawaii	7	Connecticut	30
Maryland	60	New York	23	California	6	Oklahoma	12
South Dakota	52	Arizona	19	Louisiana	5	Washington	5
New Mexico	50	Virginia	18	North Carolina	5		
Utah	49	New Jersey	17	* state police		<b>Average</b>	<b>84</b>

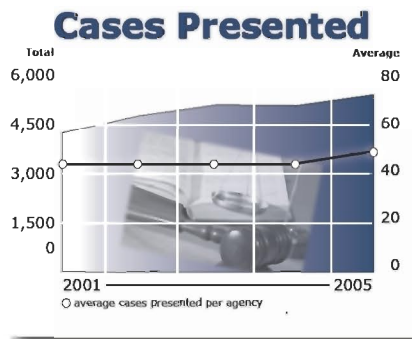
## CASES PRESENTED FOR PROSECUTION

The typical fraud bureau receives case referrals, evaluates them, investigates some and then, after gathering enough evidence, presents the case to a prosecutor. Prosecutors may enter the picture earlier in some cases, and may even direct the investigation, especially for fraud bureaus housed in attorneys general offices. As with referrals and open investigations, the methods vary greatly for determining which cases a fraud bureau sends to prosecutors.

Many bureaus send only the strongest cases that have a high probability of being accepted for prosecution. Other bureaus forward virtually all cases containing any evidence of insurance fraud.

The total number of cases presented for criminal prosecution in 2005 by the 46 fraud bureaus reporting this statistic was an all-time high — 5,467, an increase of 6.5 percent over the previous year. Yet, the average number of cases — 122 — has remained essentially flat for the last four years, even as the number of prosecutors dedicated solely to fraud cases has increased.

Florida continues to lead the nation, as it has for several years, in the number of cases (773) referred for prosecution in 2005. California and New Jersey also logged a significant number of cases presented, (754 and 493, respectively). Three states — West Virginia, New Mexico and Nebraska — posted triple-digit increases in cases presented for prosecution from 2004 to 2005. In all, 17 states sent more cases to prosecutors while 16 bureaus sent fewer in 2005.



Cases Presented for Prosecution — 2005 —							
Florida	773	Massachusetts	102	Delaware	20	<b>Workers Comp Bureaus</b>	
California	754	South Carolina	89	Colorado	20	Missouri	552
New Jersey	493	Virginia	87	Iowa	19	Oklahoma	56
Pennsylvania	465	North Carolina	83	South Dakota	12	Nevada	45
Nevada	253	Arizona	81	Kansas	12	Georgia	35
New York	224	Nebraska	52	Mississippi	11	Maryland	28
Texas	190	Nevada	45	New Hampshire	10	Montana	25
Louisiana	171	West Virginia	44	Minnesota	9	Washington	23
New Mexico	150	Hawaii	40	Alaska	8	Connecticut	20
Maryland	144	Ohio	38	Idaho	7	Louisiana	12
Kentucky	128	Arkansas	37			Rhode Island	5
Utah	114	District of Columbia	22			Kansas	1
				<b>Total</b>	<b>5,467</b>	<b>Average</b>	<b>122</b>

**Cases Presented for Prosecution  
Largest Percent Change**  
— 2004 to 2005 —

New Mexico	329%	Idaho	-78%
Nebraska	271%	Alaska	-65%
Delaware	122%	Arizona	-50%
Hawaii	38%	District of Columbia	-27%
Nevada	32%	Maryland	-27%
Missouri (wc)	31%	Ohio	-27%
Massachusetts	19%	Iowa	-24%
Pennsylvania	17%	New York	-23%

Overall, approximately one of five investigations was presented for prosecution in 2005, a lower percentage than in recent years. Investigations and prosecutions may not occur in the same year, so the ratio of investigations to cases presented may not be a true indicator of activity in all instances. But it is still a measure worthy of review in the context of overall fraud bureau activity. Louisiana's State Police presented more cases for prosecution than it opened in 2005, which likely is explained by the number of cases in the pipeline prior to 2005. Other bureaus with high cases opened-to-prosecution ratios are Hawaii (100 percent), North Carolina (92 percent) and Kentucky (80 percent). A dozen fraud bureaus posted ratios of 10 percent or less. Some cases opened for investigation also may have been settled civilly, which would artificially lower this ratio.

**Dedicated Prosecutors**  
— 2006 —

New Jersey	39
Pennsylvania	23
Massachusetts	11
South Carolina	5
Arkansas	3
Hawaii	3
Louisiana	3
Maryland	3
Nevada	3
Utah	3
Florida	2
New Mexico	2
Arizona	1
Colorado	1
District of Columbia	1
Idaho	1
Mississippi	1
South Dakota	1
Texas	1
<b>Workers Comp Bureaus</b>	
Oklahoma	3
Connecticut	1
Nevada	3
Kansas	1
Missouri	1
Rhode Island	1
<b>Total</b>	<b>114</b>

**Ratio of Cases Opened to Cases Presented for Prosecution**  
— 2004 to 2005 —

Louisiana	107%	Nevada	31%	Alaska	17%	Idaho	4%
Hawaii	100%	South Carolina	31%	New Jersey	17%	Kansas	2%
North Carolina	92%	Utah	29%	South Dakota	12%		
Kentucky	80%	Pennsylvania	27%	Arkansas	10%	<b>Workers Comp Bureaus</b>	
Texas	65%	Arizona	27%	District of Columbia	9%	Oklahoma	61%
California	60%	Maryland	27%	Mississippi	8%	Connecticut	17%
New Mexico	50%	Virginia	24%	Minnesota	8%	Washington	10%
Florida	47%	West Virginia	21%	Delaware	6%	Georgia	7%
Massachusetts	37%	New York	19%	New Hampshire	5%	Montana	6%
Colorado	33%	Nebraska	17%	Iowa	4%	Maryland	6%
Ohio	32%						
<b>Average</b>							<b>27%</b>

## CRIMINAL CONVICTIONS

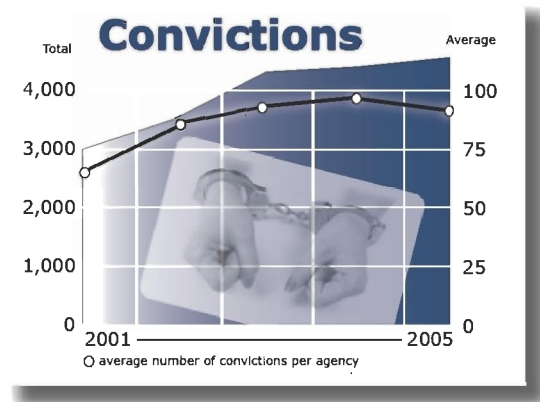
The bottom line for many fraud fighters is the number of convictions. Criminal convictions resulting from fraud bureau investigations rose 6.4 percent, from 4,113 in 2004 to 4,377 in 2005. This is the one area that has seen consistent growth since the coalition began analyzing

fraud bureau statistics in the 1990s. California's fraud bureau continues leading the nation with 1,546 convictions in 2005, representing 35 percent of all convictions reported. The high rate of successful prosecutions in California reflects the aggressive investigative prowess of the fraud bureau in the state's insurance department, and is a testament to having prosecutors in district attorney offices who work exclusively on insurance cases. Florida, which now has two

dedicated prosecutors for staged auto accident cases, logged 943 convictions, an increase of 27 percent over the previous year. Other significant increases from 2004 to 2005 include New York, which netted 65 more convictions in 2005, and South Carolina, which saw its totals jump from 59 to 90.

The average number of convictions per agency, however, dropped from 98 to 93. Eighteen fraud bureaus reported declines in convictions from 2004 to 2005. Nebraska reported the largest net decline — 82 convictions. Fraud bureaus in Idaho, Louisiana and Pennsylvania also saw significant declines.

The ratio of convictions to cases presented for prosecution provides another measurement of prosecutorial success. California and New York reported twice as many convictions as cases presented



Criminal Convictions — 2005 —							
California	1,546	Virginia	72	Kansas	12	<b>Workers Comp Bureaus</b>	
Florida	493	Texas	65	Minnesota	8	Oklahoma	42
New York	450	Louisiana	61	Nebraska	7	Missouri	37
New Jersey	364	Massachusetts	44	New Hampshire	7	Maryland	22
Pennsylvania	200	Nevada	42	Alaska	6	Connecticut	16
Nevada	160	Hawaii	32	South Dakota	5	Montana	14
Kentucky	105	Ohio	31	Colorado	5	Louisiana	5
South Carolina	90	Arkansas	29	Georgia	5	Rhode Island	3
Utah	85	New Mexico	25	Idaho	5	Washington	2
North Carolina	83	West Virginia	17	District of Columbia	3		
Maryland	78	Iowa	13			<b>Total</b>	<b>4,377</b>
Arizona	76	Mississippi	12			<b>Average</b>	<b>93</b>

for prosecution. This is a seemingly statistical anomaly, but most likely this means some cases involve multiple defendants whereas convictions are counted on an individual basis. Overall, fraud bureaus had a ratio of 64 percent of cases presented to convictions. Again, because of the lag time in taking cases, this ratio is not an exact measurement of true success. Some convictions in 2005 were presented for prosecution

in 2004 or earlier, and some cases presented in 2005 were not adjudicated until 2006 or later.

**Criminal Convictions  
Largest Percent Change**  
— 2004 to 2005 —

Alaska	100%	Delaware	-100%
Montana (wc)	100%	Nebraska	-92%
Iowa	86%	Idaho	-71%
Nevada	75%	Rhode Island (wc)	-57%
New Hampshire	75%	District of Columbia	-50%
South Dakota	67%	Louisiana (wc)	-44%
South Carolina	53%	Louisiana	-18%
Florida	27%	Ohio	-16%
New Jersey	19%	Utah	-12%
New York	17%	Pennsylvania	-12%

Another interesting ratio is the per-capita conviction rate. Overall, the 37 states that reported data averaged 1.1 convictions per 100,000 people. This rate has remained relatively steady over the last five years.

California — even with its high population — logged the top rate of 4.4 convictions per 100,000 residents. Other high conviction rates were reported in New Jersey (4.2) and Utah (3.6). Georgia reported the lowest conviction rate in the nation (.06).

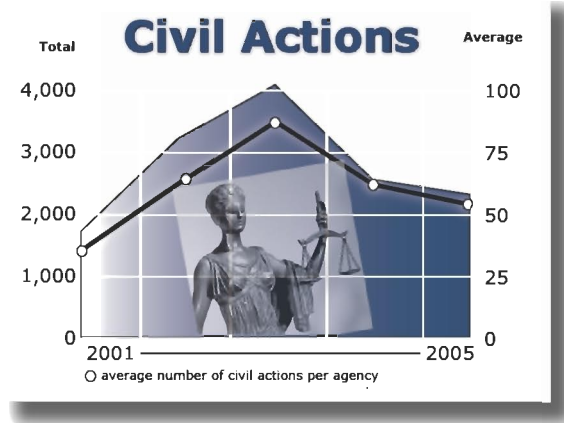
How much did fraud bureaus spend on average for each conviction? Dividing state budgets by the number of convictions logged — admittedly not an entirety fair measurement — produced a staggering sum: On average, each conviction cost \$60,900. The lowest cost was approximately \$6,400 in South Carolina, with Georgia the highest cost at \$560,000 per case. Investigative agencies often don't have control over the success of whether courts convict fraud defendants, and this ratio fails to take into consideration resources used for activities outside of pursuing criminal convictions, such as civil actions.

**Convictions Per 100,000 State Residents**  
— 2005 —

California	4.36	Maryland	1.42	New Hampshire	0.54	Colorado	0.11
New Jersey	4.21	Arizona	1.36	District of Columbia	0.53	Georgia	0.06
Utah	3.61	New Mexico	1.33	Iowa	0.44		
Florida	2.90	Arkansas	1.06	Kansas	0.44	<b>Workers Comp bureaus</b>	
Kentucky	2.55	North Carolina	0.99	Mississippi	0.42	Oklahoma	1.20
Hawaii	2.54	Virginia	0.97	Nebraska	0.40	Connecticut	0.46
New York	2.34	West Virginia	0.94	Idaho	0.37	Rhode Island	0.28
South Carolina	2.17	Alaska	0.92	Texas	0.29	Washington	0.03
Nevada	1.87	Massachusetts	0.68	Ohio	0.27		
Pennsylvania	1.62	South Dakota	0.65	Minnesota	0.16	<b>Average</b>	<b>1.09</b>

## CIVIL ACTIONS

Civil or administrative actions against fraud suspects are used by 17 fraud bureaus. In some cases, this may be the only action the fraud bureau is authorized to take against violators. In others, evidence may not rise to the level of a criminal charge. Many insurance departments also use administrative actions to issue cease-and-desist orders against agents and other regulated entities that may violate



insurance laws and regulations governing market practices and the handling of insurance premiums. The total civil actions reported in 2005 — 2,266 — declined by nine percent over 2004, mainly because the primary user of civil actions — New Jersey — reported a large drop during this period. The Garden State’s 933 civil actions accounted for 41 percent of all civil penalties reported in 2005, but still dropped 36 percent from the previous year. Civil actions reported by New Jersey have fallen by two-thirds since 2003.

Workers compensation units in Georgia (495), Rhode Island (270), Washington (129) and Kansas (119) also accounted for significant numbers of civil actions.

Civil Actions — 2005 —					
	Total	Change from 2004		Total	Change from 2004
New Jersey	933	-36%	California	2	***
Delaware	54	-17%	South Dakota	1	-67%
Utah	49	14%			
South Carolina	39	3%	<b>Workers Comp Bureaus</b>		
Arizona	37	***	Georgia	495	15%
West Virginia	37	NA	Rhode Island	270	120%
Minnesota	36	NA	Washington	129	***
New York	27	-29%	Kansas	119	750%
Louisiana*	17	***	Maryland	5	***
Alaska	12	9%	Nevada	4	***
Nevada	4	***	<b>Total</b>	<b>2,266</b>	

\*\*\* 2004 data not available

## RESTITUTION

While the central roles of most fraud bureaus and prosecutors are law enforcement and administering criminal and civil justice, many also seek to force fraud perpetrators to return any financial gains they received from their crimes. A total of 31 fraud bureaus reported they track restitution orders. Those units ordered nearly \$300 million in restitution in 2005, a significant increase over the \$55 million reported in 2004. The total is somewhat skewed, however, by a handful of multi-million-dollar settlements in a few states.

Florida reported the highest restitution amount of \$131 million for 2005. The next-highest totals were reported by New Jersey (\$90 million) and North Carolina (\$25.8 million). The average restitution ordered for all 31 agencies was \$9.6 million.

The combined annual budget for the 31 fraud bureaus that provided restitution data is approximately \$124 million. Thus, if fraud perpetrators honor the restitution orders and settlements, the total collected would be more than twice the cost of operating those fraud bureaus.

Restitution Ordered — 2005 —	
Florida	\$131,484,179
New Jersey	89,910,527
North Carolina	25,840,980
California	24,100,000
New York	6,470,000
Massachusetts	2,832,901
Kentucky	2,176,011
Utah	2,079,690
Pennsylvania	1,890,022
District of Columbia	1,206,855
Kansas	750,000
Virginia	745,822
New Hampshire	491,000
Texas	479,602
Nevada	473,039
Arizona	318,170
Louisiana	311,486
South Carolina	224,603
Hawaii	159,000
Colorado	109,041
<b>Total</b>	<b>\$298,645,628</b>

## TOP CHALLENGES

Fraud bureau directors were asked to list the biggest challenges facing them in 2006. Despite rising budgets, the most-cited concern by far was lack of resources — funding, people and technology — they need to combat fraud effectively. However, the number of concern about resources isn't as pronounced as in recent years, when budgets were flat and some states froze hiring.

Other concerns included:

- Ability to deal with ever-increasing complexity of cases;
- The quality and quantity of referrals from SIUs;
- Recruiting and retaining experienced and dedicated investigators;

- Getting prosecutors interested in taking cases; and
- Judicial apathy toward white-collar crime.

A compendium of all comments is included in Appendix 5.

## FRAUD TRENDS

For the first time, the coalition asked fraud bureaus to cite trends they see in the cases they are pursuing. Several mentioned the rise in medical fraud, and their inability to blunt the perceived growth in criminal activity by medical clinics and diagnostic centers. Other responses included:

- “Doctor shopping” and diversion of prescription narcotics;
- Success of focused taskforces on specific high-fraud communities;
- Increase in fraud by body shops;
- Growth in workers compensation premium fraud by employers;
- Increased fraud by insurance agents; and
- Rising fraud by organized rings.

## CONCLUSIONS

State insurance fraud bureaus continue to play a vital role in the campaign to prevent, detect, investigate and prosecute this white-collar crime. The increasing numbers of referrals received, cases opened and criminal convictions suggest that, overall, fraud bureaus are stepping up their pressure on swindlers. The rising numbers of states that sponsor fraud bureaus also signal that more policymakers are getting serious about combating this persistent and costly crime.

While overall most numbers are up, should the statistics be even higher, and if so, how much? Is this a realistic expectation, given that fraud bureaus have more budgets, more staff, more prosecutors to work with, and that there are more bureaus in operation? It is difficult to make broad conclusions about agencies that differ greatly in focus and structure, and in some cases, work in very different environments.

A more-useful goal might be to compare individual bureaus with their counterparts and ask the hard question whether each is pulling its weight.

An analysis likely will reveal a handful of adequately funded and well-managed agencies, a similar number that likely are making little difference, and in between, a broad middle class of fraud bureaus with mixed results.

From year to year, nearly all fraud bureaus appear to be making at least small improvements in performance. But are such incremental enhancements enough to keep pace with a crime that many fraud fighters contend continues to grow in size, in reach and complexity?

The answer is beyond the scope of this study, but it's an issue that legislators, regulators, insurers and others in the fraud-fighting community should address. Policymakers need a more-qualitative and critical analysis of the performance of most fraud bureaus, and must decide what level of funding is needed to make a true dent in insurance fraud in each state. People argue that the dollars spent on fraud bureaus are a good investment in combating this crime, but at what level of funding might we see diminishing returns?

Policymakers should ask hard questions about the reported decline in referrals, cases opened and convictions, and decreases in staffing and budgets in some states. The biggest deviation appears to be occurring in New Jersey, which after leading the nation in fraud fighting for many years, appears to be on the decline. Anti-fraud efforts there have been credited with applying downward pressure on auto premiums and even encouraging some insurers to begin writing business in the state after leaving due to excessive fraud losses. It would be a shame to see a reversal of this good fortune.

A handful of states — New Jersey included — saw significant drops in referrals from 2004 to 2005. This prompts the question whether insurers in those states are experiencing a reduction in suspicious claims, or perhaps are just failing to report them. Ten fraud bureaus reported opening at least 20-percent fewer cases in 2005. Are fraud-fighters turning the corner on fraud in those states, or is something else happening here?

Analyzing statistics from just one year to the next often doesn't present the whole picture. For that reason, this study's appendix includes five years of data on each fraud bureau. The Coalition Against Insurance Fraud also maintains data on some bureaus going back 10 years, and offers to share the data with any fraud bureau or policymaker looking to conduct a longer trend analysis.

One statistic that likely will never be captured by a study such as this is the number of frauds that did not happen because of the existence of fraud bureaus. This is their potentially high deterrent value. The high profile that many bureaus maintain undoubtedly helps ethically challenged people think twice about committing a criminal act involving the claiming, buying and even selling of insurance. Whether that amount is a little or a lot is unknown.

The role of fraud bureaus in educating consumers about this crime also should be explored in greater detail. Most bureaus say they conduct public outreach, but a recent review of state-sponsored programs suggests most efforts are unfocused and minimal in nature. There are exceptions such as the outstanding advertising programs in Pennsylvania, Virginia and New York.

Another potential development that needs monitoring is the changing political environment in the United States, its potential impact on fraud fighting and whether states will continue to view fraud fighting as a priority. In 2007, the four largest fraud bureaus — California, New Jersey, Florida and New York — all will work under either new governors or insurance commissioners. Their emphasis on combating insurance fraud — or lack thereof — will have a lasting effect on how much success fraud bureaus and others experience.

Despite the encouraging results and promising future, the question remains whether most fraud bureaus are turning the corner in their decades-long pursuit of swindlers. A key unknown is how much of a dent fraud bureaus are making in the overall fraud problem. How much fraud is never detected? How much is detected but not pursued? Is the steady growth in America's population also adding more fraud, thus offsetting gains by fraud fighters?

Nor is it clear that the welcome budget gains are enough to help fraud fighters decisively turn the corner. States on average still spend only 53 cents per resident to combat a crime that likely costs hundreds of dollars each per year.

Fraud bureaus don't rise and fall solely on their own efforts, nor does fraud itself. Success in combating fraud depends on all players in the fraud-fighting chain — insurers, fraud bureaus, prosecutors, lawmakers who pass (or fail to pass) tough laws, supportive citizens, etc. It's an interdependent web. Thus falls — and rises — in fraud bureau statistics often reflect trends beyond their immediate control. They shouldn't necessarily be blamed for declines in statistics, or given excessive accolades for success. To some degree, this report reflects the progress of the entire anti-fraud community, from street-level investigators as well as upper-management.

Though fraud bureaus show encouraging gains on several important fronts, fraud fighters should be wary of too much celebration. The sobering truth is that America's problem may be much larger than many people realize.

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February 2007



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