

**Texas Department of Insurance**  
**FRAUD UNIT**



**FY 2011 Annual Report**

Prepared for Eleanor Kitzman, Commissioner of Insurance

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## Executive Summary

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### Annual Report Requirement

Texas Insurance Code, Section 701.101 (c) (1) and (2) requires the Insurance Fraud Unit to report annually in writing to the Commissioner the number of cases completed and any recommendations for new regulatory and statutory responses to the types of fraudulent activities encountered by the Insurance Fraud Unit.

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### FY 2011 Statistics

Fraud reports received	11,124
Calls received via toll-free Insurance Fraud Hotline	4,410
Cases opened for investigation	577
Cases referred for prosecution	187
Amount of fraud identified in referred cases	\$23,814,341
Indictments resulting from investigations	116
Convictions from cases referred	112
Restitution assessed by courts on Fraud Unit cases	\$6,527,227
Subpoenas issued	553
Open records requests processed	99

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### Noteworthy Accomplishments

In Fiscal Year 2011, the Insurance Fraud Unit:

- Renewed a memorandum of understanding (MOU) for an insurance fraud prosecutor and established a second MOU for an insurance fraud investigator with the Dallas County District Attorney's Office. The fraud prosecutor achieved 51 convictions for insurance fraud with \$569,598 in restitution and \$66,900 in fines.
  - Hosted the 13th Annual Fraud Conference with 254 fraud investigators from state government, law enforcement, and insurance industry attending.
  - Conducted 12 public presentations on insurance fraud.
  - Made 713 liaison contacts with state law enforcement agencies.
  - Participated in statewide task forces in several metropolitan areas, including Austin, Dallas, Houston, San Antonio, and McAllen.
  - Served on the Texas Committee on Insurance Fraud, the Texas Residential Mortgage Fraud Task Force, and the Medicaid and Public Assistance Fraud Oversight Task Force.
  - Completed attorneys and peace officers mandated training.
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## Executive Summary, continued

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**Top Adjudicated Cases** This report summaries ten investigations that resulted in criminal prosecutions and convictions. The fraud schemes are associated with agent fraud, mortgage fraud, health care fraud, provider fraud, and disaster fraud.

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## Fraud Unit Overview

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### **Fraud Unit Purpose and Organization**

Texas Insurance Code, Section 701.101(a) establishes that the purpose of the Texas Department of Insurance (TDI) Insurance Fraud Unit is to enforce laws relating to fraudulent insurance acts. The unit reviews reports of suspected fraud, initiates inquiries, and conducts investigations when TDI has reason to suspect insurance fraud has occurred or is about to occur. In addition, the unit actively seeks criminal indictments, makes arrests, and assists in prosecutions to deter insurance fraud in Texas. See Attachment A: Fraud Report and Case Flow Process.

The Fraud Unit receives reports of suspected insurance fraud from insurers and the public. The unit maintains a toll-free Insurance Fraud Hotline (888-327-8818) and an online fraud reporting system on the TDI Fraud website at <http://www.tdi.state.tx.us/fraud/index.html>. Investigations may occur inside or outside of Texas and typically involve one of the following types of fraud:

- claim fraud committed against an insurer
- fraud by TDI licensees against their company or the public
- insurance application fraud
- unauthorized business of insurance, including operating without proper authority or the sale of fraudulent insurance products
- workers' compensation, premium, claim and provider fraud, and
- mortgage fraud committed by a person licensed by TDI.

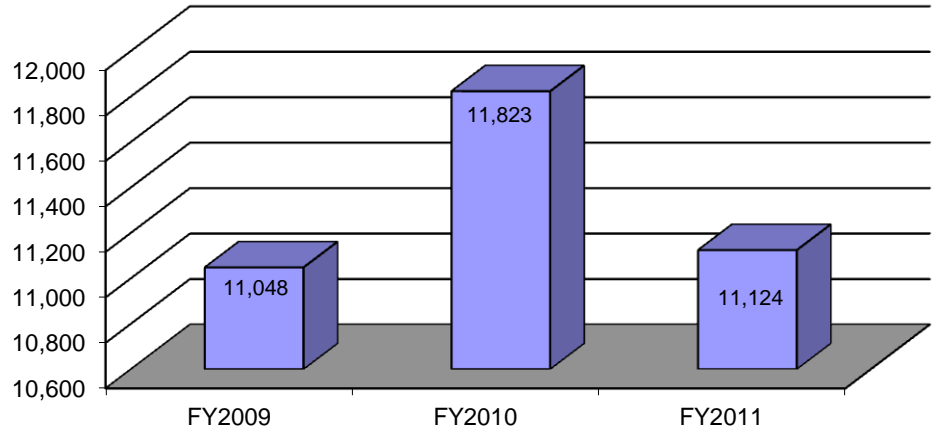
The Fraud Unit is comprised of management, fraud counsel, special prosecutor, investigators, and administrative support. Investigative positions are staffed with commissioned peace officers and civilian investigators. Under Texas Insurance Code, Section 701.104(b), the Chief Investigator supervises and directs all peace officers and coordinates and oversees all investigations conducted by the Fraud Unit. See Attachment B: Fraud Unit Organizational Chart.

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## Fraud Reports

### Reports Received

FY 2009 - FY 2011 Fraud Reports Received

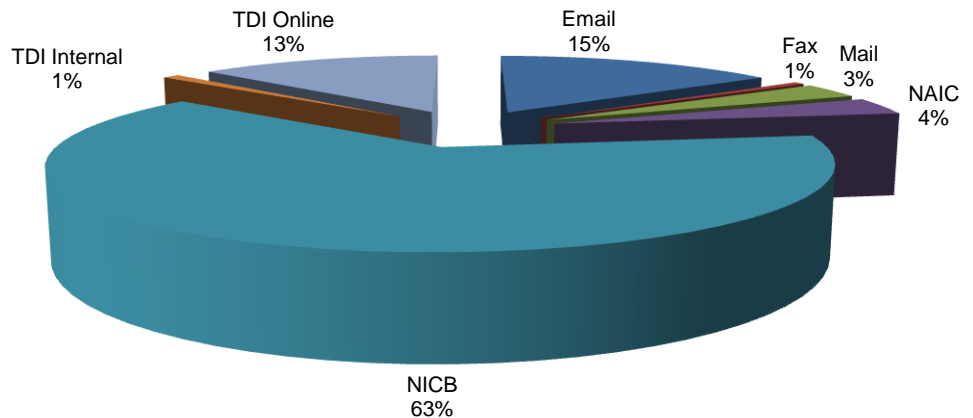


### Analysis of Trends

The increase in the number of reports in FY 2010 is attributable to fraudulent insurance acts driven by the economic downturn. The Fraud Unit continues to promote investigator and consumer outreach liaison activities to encourage insurers and the public to report insurance fraud.

### Method Reported

FY 2011 Fraud Reports Received by Method Reported  
 11,124 Total Reports



NICB – National Insurance Crime Bureau  
 NAIC – National Association of Insurance Commissioners

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## Fraud Reports, continued

**Fraud Report  
Schemes**

<b>Fraud Scheme</b>	<b>FY 2009 % 11,021 reports</b>	<b>FY 2010 % 11,823 reports</b>	<b>FY 2011 % 11,124 reports</b>
Adjuster Fraud	0.47	0.26	0.16
Agent Fraud	3.71	2.52	2.83
Arson for Profit	1.94	1.67	1.54
Auto Body Shop Fraud	0.78	0.79	0.58
Auto Burglary	N/A	1.33	1.55
Auto Theft	8.83	7.81	7.40
Company Employee Fraud	1.02	1.22	0.22
Company Officer Fraud	0.57	0.58	0.05
Disaster Adjuster Fraud	0.21	0.04	0
Disaster Agent Fraud	0.69	0.03	0
Disaster Claim Fraud	3.91	0.63	0.15
Escrow/Fee Attorney	0.17	0.10	0.01
Faked Death	0.03	0.01	0.02
False Billing	0.04	0.10	0.55
False Claim Documents	44.02	44.12	46.08
Fictitious Insurance Card	0.56	0.16	0.14
Fictitious Insurance Certificate	2.81	0.21	0.21
Identity Theft <sup>①</sup>	NA	NA	0.28
Inflated Claim	0.02	4.90	4.42
Mortgage Fraud	3.12	2.87	1.86
Owner Give Up	3.52	4.68	3.70
Paper Accident	1.06	2.76	1.62
Policy Application Fraud	4.57	5.99	6.05
Premium Fraud	1.08	1.09	1.10
Provider Billing Fraud	7.96	6.59	6.65
Runner/Capper	1.45	1.80	0.89
Slip & Fall	1.47	1.52	1.46
Soft Tissue Injury	0.94	0.97	0.47
Staged Accident	2.72	3.53	2.90
Theft	0.69	0.85	4.77
Theft from Elderly	0.03	0.03	0.11
TPA Fraud	0.01	0.01	0.02
Undetermined	0.75	0.14	0.90
Unlicensed Agent	0.27	0.30	0.24
Unlicensed Company	0.28	0.09	0.14
Viatical	0.04	0.04	0.03
Water Damage - HO	0.29	0.28	0.31
Working & Drawing <sup>① ②</sup>	NA	NA	0.56

<sup>①</sup>Data was not captured before FY 2011

<sup>②</sup>Working and drawing represents workers' compensation and disability claim fraud

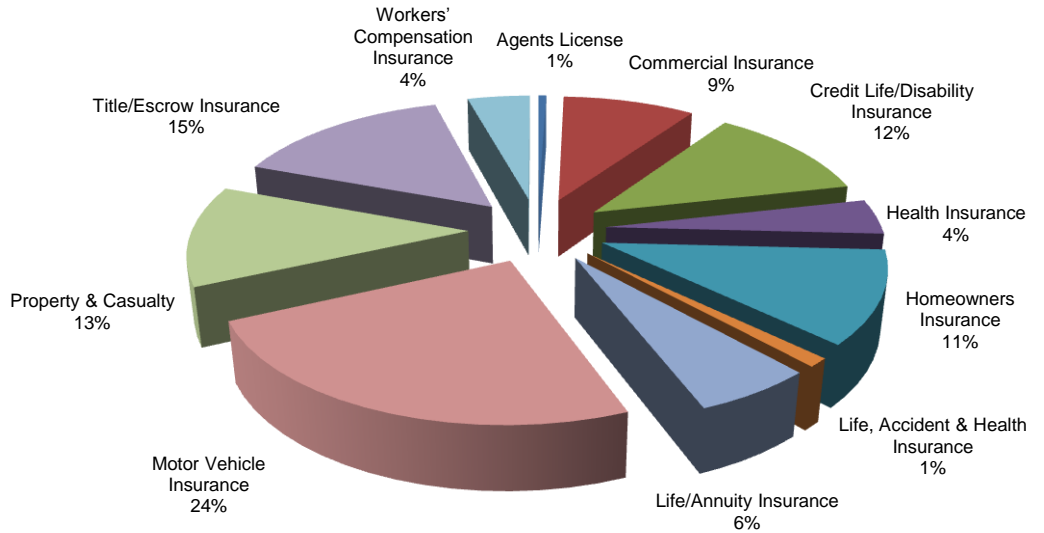
**Analysis of  
Trends**

The increase in the number of theft reports in FY 2011 is attributable to an increase in reports associated with suspicious losses in homeowners' claims.

## Referrals by Fraud Type

### FY 2011 Referrals by Fraud Type

**FY 2011 Referrals for Prosecution by Fraud Type**  
 187 Total Referrals



### FY 2009-2011 Referrals by Fraud Type

Fraud Type	FY 2009% 206 Referrals	FY 2010% 208 Referrals	FY 2011% 186 Referrals
Agents License	2	0	1
Casualty Insurance	0	1	0
Commercial Insurance	12	5	9
Credit Life/Disability Insurance	7	11	12
Health Insurance	9	6	4
Homeowners Insurance	18	11	11
Life, Accident & Health Insurance	1	1	1
Life/Annuity Insurance	1	2	6
Motor Vehicle Insurance	22	30	24
Property & Casualty	7	6	13
Title Insurance	7	16	15
Unauthorized Property & Casualty Insurance	0	1	0
Workers' Compensation Insurance	14	10	4

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## Referrals by Fraud Type, continued

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### Analysis of Trends

Three fraud types had significant variances between FY 2010 – FY 2011.

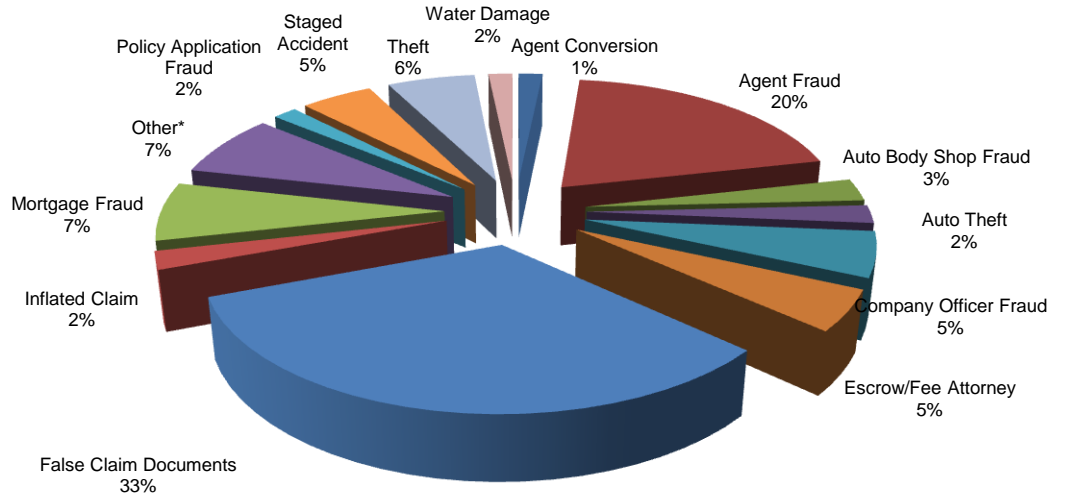
- **Motor Vehicle Insurance** – The number of investigations associated with motor vehicles declined this year as the Fraud Unit forwarded reports to the North Texas Auto and Burglary Theft Task Force to investigate. This allowed TDI investigators to focus on other claim fraud types.
  - **Property and Casualty Insurance** – Many of these referrals are associated with agent fraud, in which an agent diverted premiums for the agent's personal gain.
  - **Workers' Compensation Insurance** – There were fewer workers' compensation investigations that resulted in referrals because the evidence did not support the allegation of fraud.
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## Referrals by Fraud Scheme

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### FY 2011 Referrals by Fraud Scheme

FY 2011 Referrals for Prosecution by Fraud Scheme  
187 Referrals



\*Other category includes schemes 1 percent or less

- Adjuster Fraud
- Arson for Profit
- Auto Burglary
- Disaster Agent Fraud
- Disaster Claim Fraud
- False Statement(s)
- Owner Give Up
- Premium Fraud
- Provider Billing Fraud
- Slip and Fall

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## Referrals by Fraud Scheme, continued

**FY 2009-2011  
 Referrals by  
 Fraud Scheme**

<b>Fraud Scheme</b>	<b>FY 2009%</b> 206 Referrals	<b>FY 2010%</b> 208 Referrals	<b>FY 2011%</b> 186 Referrals
Adjuster Fraud	1	0	0.5
Agent Fraud	19	14	21.5
Arson for Profit	1	0.5	0.5
Auto Body Shop Theft*	NA	NA	3
Auto Burglary*	NA	NA	1
Auto Theft	1	2	2
Company Employee Fraud	4	1	5
Disaster Agent Fraud	5	2	1
Disaster Claim Fraud	6	4	1
Escrow/Fee Attorney	0	0.5	5
False Claim Documents	44	43	34
Inflated Claim*	NA	NA	2
License Application Misrepresentation	1	0	0
Mortgage Fraud	2	15	7
Owner Give Up	3	2	0.5
Policy Application Fraud	1	6	2
Premium Fraud*	NA	NA	1
Provider Billing Fraud	5	1	0.5
Runner/Capper	0	0.5	0
Slip & Fall	2	1	0.5
Staged Accident	0	3	5
Theft	3	3	6
Unlicensed Agent	1	1	0
Water Damage - HO	0	0.5	1.5

\* Data not captured before FY 2011.

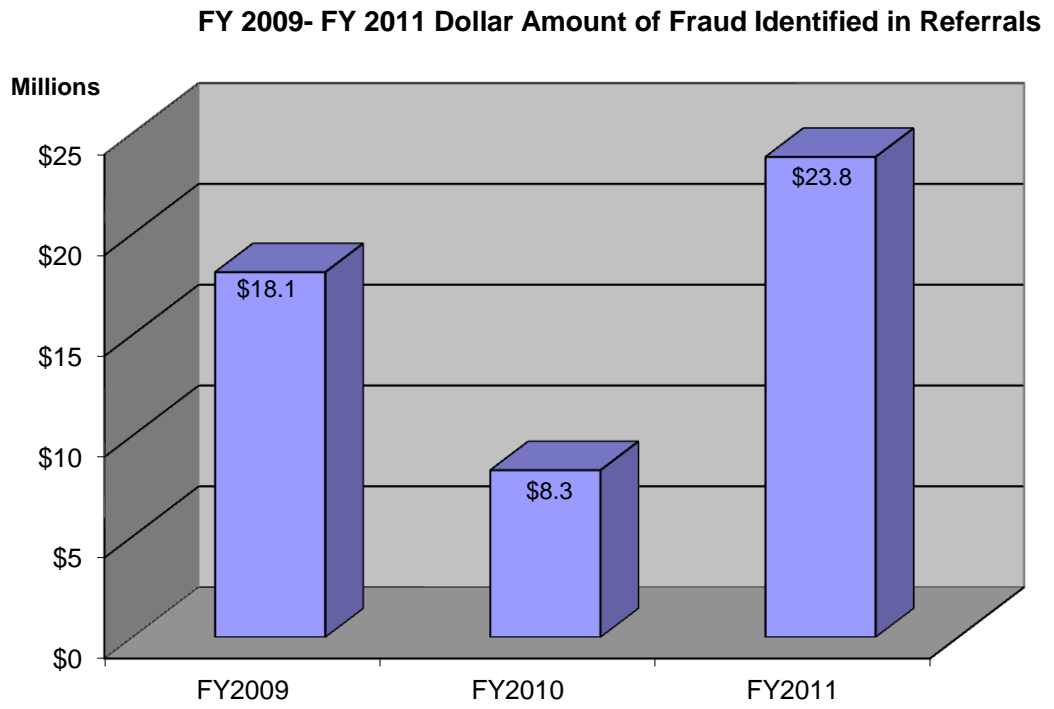
**Analysis of  
 Trends**

Two fraud schemes had significant variances between FY 2010 – FY 2011.

- **Agent Fraud** – There has been an increase in the number of cases associated with agents diverting premiums for their personal gain.
- **False Claim Documents** – Investigation resources have focused on other more egregious claim fraud types, such as those involving auto body shop theft, auto burglary, and auto theft.

## Amount of Fraud Referred for Prosecution

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### Analysis of Trends

The size of an insurance fraud investigation and the dollar amount of fraud referred for prosecution may vary from one fiscal year to another. The dollar amount of fraud referred is limited to the total amount of fraud committed in conjunction with a scheme or continuing course of conduct for all persons involved in an insurance fraud case.

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## Referrals and Court Actions

<b>FY 2011 Referrals and Court Actions by County and Federal Agency</b>	<b>County<sup>①</sup></b>	<b>Referrals</b>	<b>Indictments</b>	<b>Judgments</b>
	Atascosa	1	0	0
	Bee	1	0	0
	Bell	1	0	0
	Bexar	23	4	6
	Bowie	1	0	1
	Brazoria	1	2	2
	Brazos	0	1	0
	Cameron	1	0	0
	Chambers	0	1	1
	Collin	1	1	1
	Comal	0	1	1
	Cooke	0	1	0
	Dallas	39	28	29
	Dawson	1	0	0
	Denton	0	1	1
	El Paso	2	0	1
	Ellis	0	0	3
	Fort Bend	3	2	5
	Galveston	2	3	3
	Grayson	2	3	3
	Guadalupe	1	0	0
	Harris	29	34	25
	Hays	1	0	0
	Hidalgo	0	1	3
	Jefferson	1	0	0
	Johnson	1	0	0
	Kaufman	1	2	1
	Limestone	1	0	0
	Lubbock	0	0	1
	McLennan	6	1	0
	Midland	1	0	0
	Montague	0	1	0
	Montgomery	2	2	1
	Nacogdoches	1	0	0
	Nueces	0	2	1
	Parker	0	1	1
	Polk	3	0	0
	Potter	1	0	0

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## Referrals and Court Actions, continued

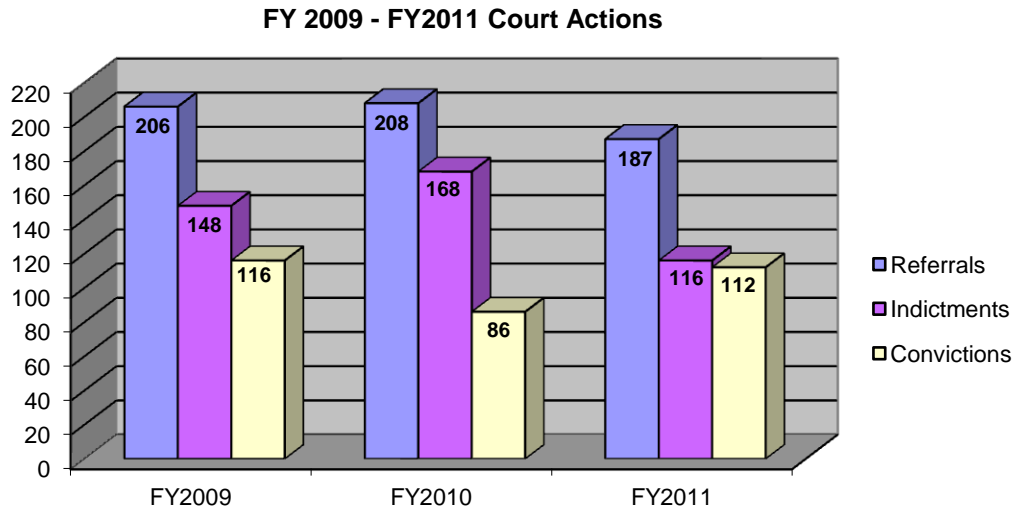
FY 2011 Referrals and Court Actions by County and Federal Agency, continued	County <sup>①</sup>	Referrals	Indictments	Judgments
	Randall	0	0	1
	Tarrant	21	5	3
	Travis	11	5	11
	Tyler	0	2	1
	Val Verde	0	1	0
	Webb	0	1	1
	Wichita	0	0	1
	Williamson	4	1	0
	Wilson	0	1	1
	Federal Prosecutors	23	8	3
	<b>Fiscal Year Totals<sup>②</sup></b>	<b>187</b>	<b>116</b>	<b>112</b>

①The Fraud Unit may refer cases to any one of the 254 county district attorneys' offices where venue is appropriate. The Fraud Unit may also refer to one of the four U.S. Attorney offices in Texas or other federal enforcement authority.

②Totals include current and prior-year referrals.

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## Referrals and Court Actions, continued



### Analysis of Trends

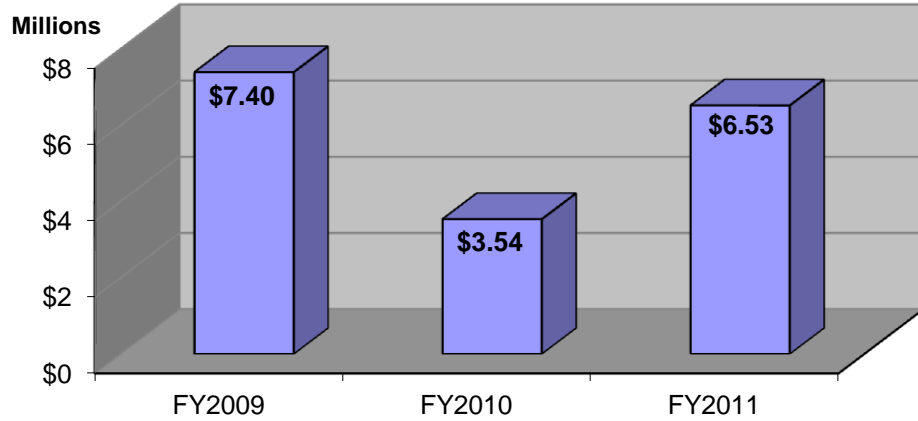
The decline in referrals during fiscal year 2011 is due to fewer workers' compensation cases being referred. Although there were numerous cases rigorously investigated by the Unit, many were closed because the evidence did not support the allegation of fraud or because fraud could not be proven. The Fraud Unit will more actively pursue its liaison and outreach efforts. The Fraud Unit has already scheduled three workers' compensation presentations in the first quarter of fiscal year 2012 at workers' compensation forums. The purpose of these presentations is to communicate the importance of timely, effective, and comprehensive detection and reporting of workers' compensation fraud.

Indictment and conviction data varies from year to year since those actions are directly the result of actions by prosecuting agencies.

## Restitution

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FY 2009 - FY 2011 Restitution Assessed by Courts



### Analysis of Trends

Courts determine the amount of restitution in criminal insurance fraud cases, usually at the request of the prosecutor. The dollar amount of restitution will vary by year. The Fraud Unit provides prosecuting entities with data to assist the courts with appropriately assessing restitution to insurance fraud victims.

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## FY 2011 Top Adjudicated Cases

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**Debbie Alas**

Debbie Alas, a formerly licensed agent, was convicted in Houston for misapplication of fiduciary property, a third-degree felony. Alas accepted insurance premiums from clients for homeowners, workers' compensation, and general liability policies, but failed to remit the money to the insurance company. She instead used the money for her own personal use. Alas was sentenced to 10 years of deferred adjudication, 120 hours community service, and ordered to pay \$64,744 in restitution.

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**Dwaine Baldwin**

Dwaine Baldwin received 10 years of deferred adjudication in Dallas County for the first-degree felony offense of organized criminal activity. Baldwin participated in a mortgage fraud scheme in which properties were purchased from a builder at a discount then sold at an inflated price to "straw buyers" recruited by Baldwin. Baldwin was ordered to pay \$2,227,900 restitution and fined \$1,000.

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**Sherelle Ballard**

Sherelle Ballard obtained multiple hospital intensive care unit indemnity policies for members of her family and submitted forged and altered itemized medical treatment statements totaling \$583,239 to her insurer over a seven-month period. Ballard received \$93,900 in benefits from her insurer before the scheme was discovered. Ballard was convicted in Harris County of insurance fraud, a third-degree felony, and was sentenced to 24 months probation and restitution of \$88,000.

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**Chiropractor  
Nicholas Joseph  
Cianelli**

Chiropractor Nicholas Joseph Cianelli offered to create fraudulent medical records for an automobile accident victim and her husband so they could be paid under her personal injury protection coverage. He accepted \$2,000 to create their fraudulent claims. The accident victim reported the information to authorities who initiated an investigation. Dr. Cianelli was caught offering his fraudulent services during an undercover investigation. After confronted with the evidence by prosecutors in Fort Worth, Cianelli pleaded to the offense of insurance fraud, a state jail felony. He received five years of deferred adjudication.

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## FY 2011 Top Adjudicated Cases, continued

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**Dawn Fisher**

Dawn Fisher, a formerly licensed agent from Garland, Texas, was convicted in Dallas County for the offense of theft, a second-degree felony. Fisher and husband, also a former agent, operated Fisher Insurance Agency. They collected premium payments from customers totaling \$155,415, but instead of remitting the premium to the insurance company, they used the money for their own personal enrichment. Dawn Fisher was sentenced to 10 years of probation, 240 hours of community service, and was ordered to pay \$155,415 in restitution. Her husband Peter was sentenced to 10 years of deferred adjudication for misapplication of fiduciary property and ordered to serve 240 hours of community service.

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**Chasiti Miller**

Chasiti Miller, a formerly licensed agent, was convicted in Dallas County for theft, a state jail felony. Miller defrauded her employing insurance agency by submitting 109 fraudulent insurance applications to receive advanced commissions. Miller was paid \$18,797 in advance commissions for the fraudulent policies. Miller was sentenced to five years of deferred adjudication, 120 hours of community service, and was ordered to pay \$18,797 in restitution.

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**Robert Reagan**

Robert Reagan was convicted in Tyler, Texas, for submitting forged receipts for damaged personal property and additional living expenses after his house was damaged during Hurricane Ike. Reagan received \$34,357 in additional benefits from his insurer as a result of the forged receipts. Reagan pleaded guilty to insurance fraud, a third-degree felony, and was sentenced to 96 months of deferred adjudication, 120 hours of community service, ordered to pay restitution of \$38,387.16, and fined \$1,500.

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**Michael Swetnam**

Michael Swetnam, a formerly licensed insurance agent from McGregor, Texas, was convicted in U.S. federal district court in Houston, for mail fraud. Swetnam grossly over-inflated the premiums on two liability policies he sold to the Valley Baptist Health System. He also sold Valley Baptist Health System additional coverage, allegedly issued by an off-shore British Virgin Island company that did not exist. Swetnam was sentenced to 37 months in jail, three years probation on release, and was ordered to pay \$2,950,301 in restitution.

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## FY 2011 Top Adjudicated Cases, continued

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**Cynthia Taylor**

Cynthia Taylor was employed by a medical health group. She copied legitimate medical records from patient files and then inserted her name as the patient receiving medical care. Taylor used the medical records to file 35 false claims through her own health insurance program, including three separate claims for an appendectomy. Taylor reported to the insurer that she paid for the medical treatments and was requesting reimbursement. She received \$39,994 in benefits from her insurer before the scheme was discovered. Taylor was convicted in Dallas for insurance fraud, state jail felony. She was sentenced to 84 months of probation, 120 hours of community service, ordered by the court to pay \$39,994 in restitution, and fined \$2,500.

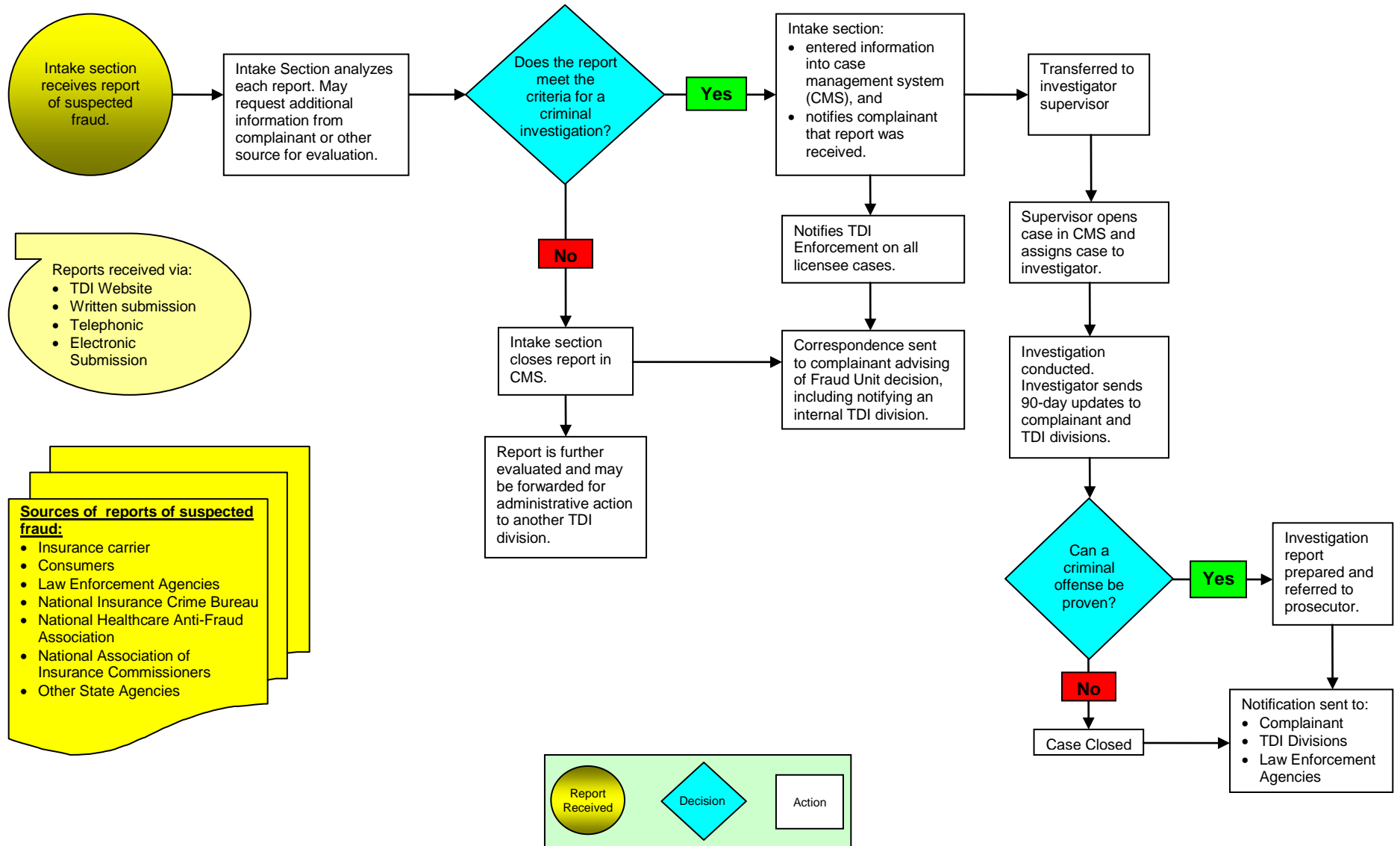
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**Ali Yazdchi**

Ali Yazdchi, also known as Al Giovanni, masqueraded as an attorney and befriended exotic dancers in the Houston area to handle their auto accident claims. Yazdchi forged employment records and Internal Revenue Service records to get additional insurance benefits for the women. When the insurers paid the settlements, Yazdchi kept the money for himself. Yazdchi was convicted in Houston for theft and falsely holding oneself out as a lawyer, both third-degree felonies. Yazdchi was sentenced to 10 years imprisonment.

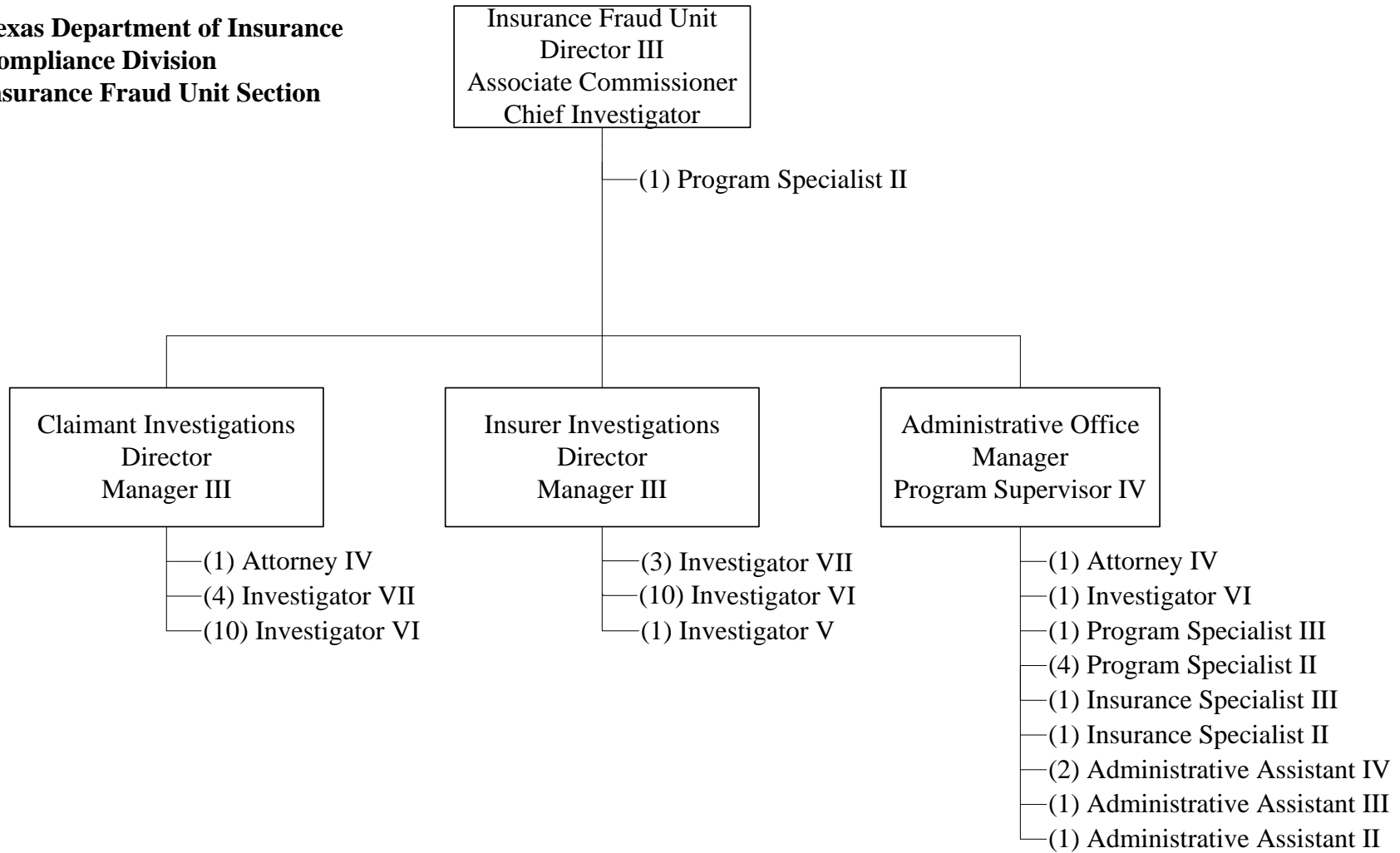
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## Attachment A: Fraud Report and Case Flow Process



### Attachment B: Fraud Unit Organizational Chart\*

**Texas Department of Insurance  
Compliance Division  
Insurance Fraud Unit Section**



\* As of September 1, 2011