

TEXAS DEPARTMENT OF INSURANCE FRAUD UNIT



FY2008 ANNUAL REPORT

Prepared for: Mike Geeslin, Commissioner of Insurance

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Overview

Annual Report Requirement

Texas Insurance Code §701.101 (c) (1) and (2) requires that the Insurance Fraud Unit 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.

This annual report complies with the above provisions and also contains insurance fraud trend data from the past five years, noteworthy accomplishments and legislative recommendations.

Overview of the Fraud Unit

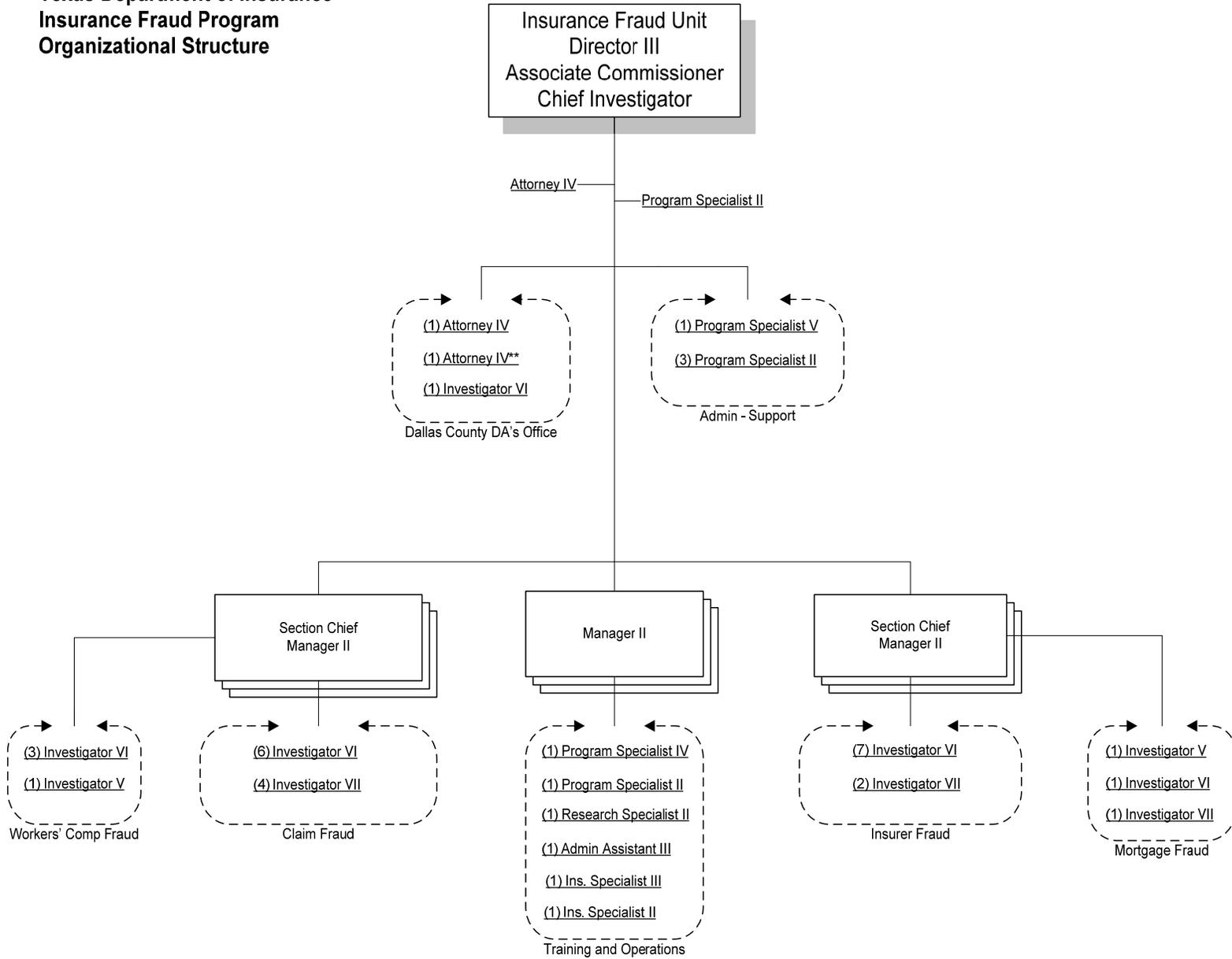
Texas Insurance Code §701.101(a) describes the purpose of the Texas Department of Insurance (TDI) Insurance Fraud Unit, which is to enforce law relating to fraudulent insurance acts. The unit's responsibilities include receiving and reviewing reports of fraud, initiating inquiries, and conducting investigations when TDI has reason to suspect insurance fraud. In addition, the unit actively seeks criminal indictments, makes arrests, and assists in prosecutions to deter insurance fraud in Texas.

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. 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.

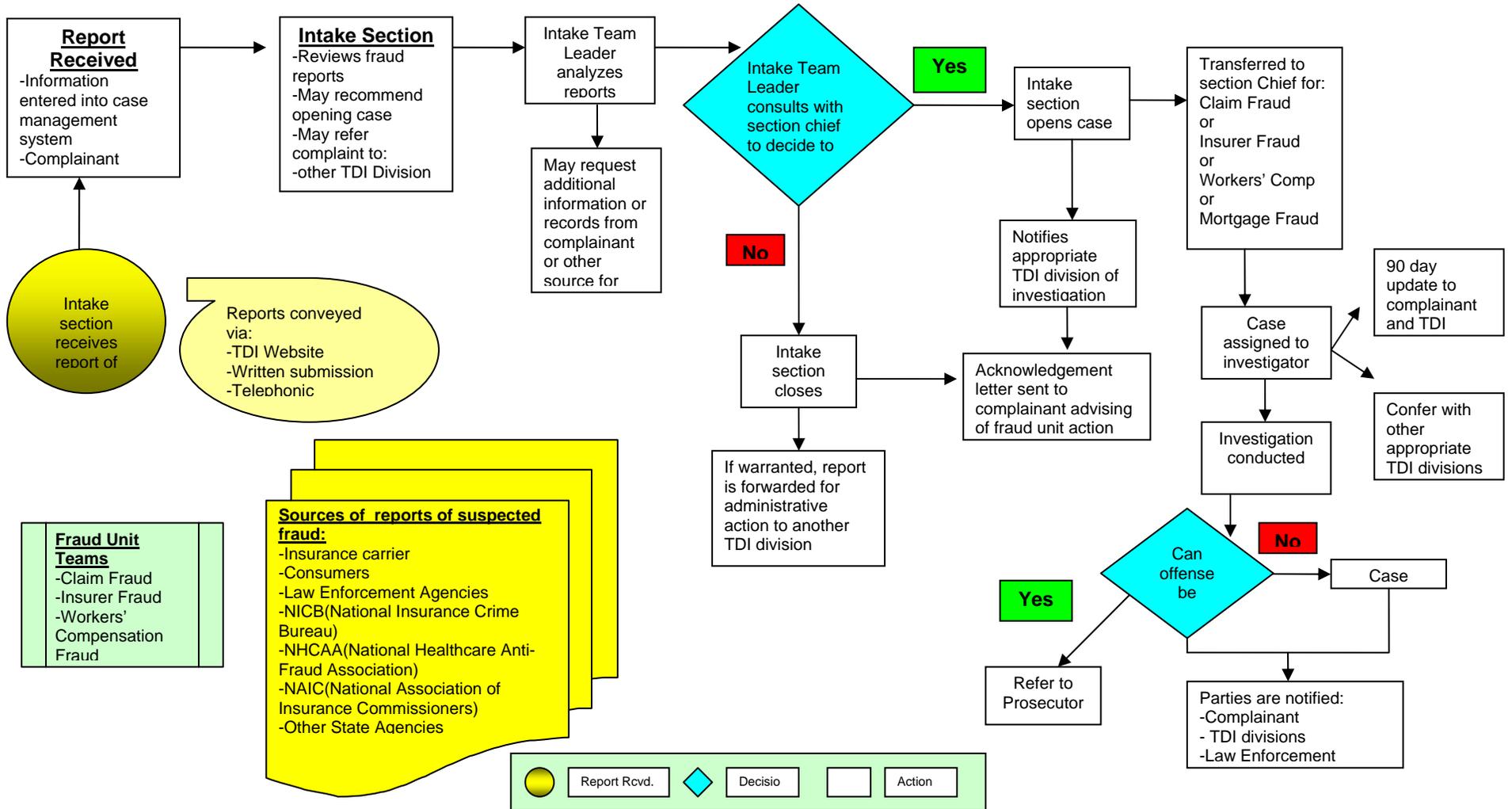
The Fraud Unit is comprised of management, fraud counsel, special prosecutor, investigators, and administrative support. Investigative positions are staffed with commissioned peace officers and civilian investigators. By statute, the Chief Investigator supervises and directs all peace officers and coordinates and oversees all investigations conducted by the Fraud Unit.

Texas Department of Insurance
 Insurance Fraud Program
 Organizational Structure



**Temp. Position

Fraud Report and Case Flow Process



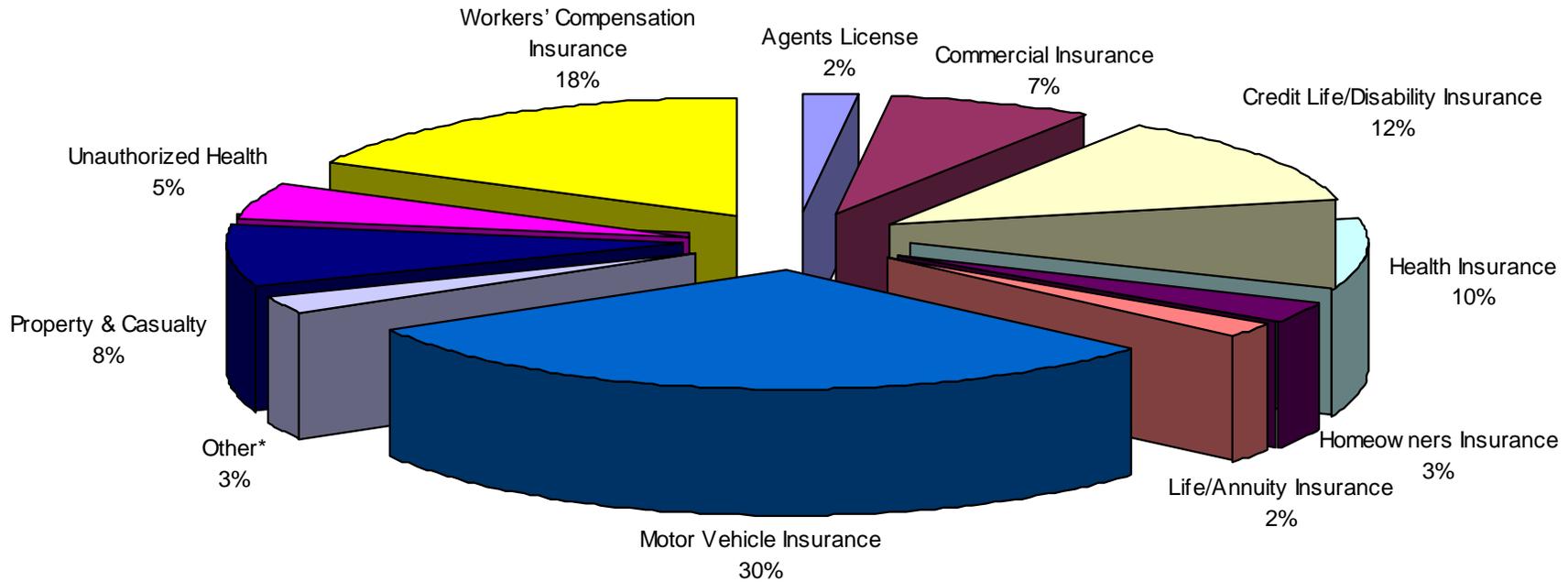
Statistics

**FY 2008
Statistics**

Fraud reports received	9,939
Calls received via toll-free Insurance Fraud Hotline	3,800
Cases opened for investigation	379
Cases referred for prosecution	195
Amount of fraud identified in referred cases	\$4,986,692
Indictments resulting from investigations	144
Convictions from cases referred	116
Restitution assessed by courts on Fraud Unit cases	\$3,732,046.40
Subpoenas issued	430
Open records requests processed	169

FY 2008 Referrals by Fraud Type

195 Total Referrals



* Other (< 1% each):

- Casualty Insurance
- Title / Escrow
- Unauthorized Property & Casualty

Referrals by Fraud Type

FY 2006-2008
 Referrals by
 Fraud Type

Fraud Type	FY2006 (182 Referrals)	FY2007 (188 Referrals)	FY2008 (195 Referrals)
Agents License	8%	7%	2%
Casualty Insurance (Plus For-Profit Prepaid Legal)	2%	0%	1%
Commercial Insurance	4%	4%	7%
Credit Life/Disability Insurance	7%	14%	12%
Health Insurance	3%	9%	10%
Homeowners Insurance	12%	11%	3%
Life, Accident & Health Insurance	7%	0%	0%
Life/Annuity Insurance	2%	4%	2%
Motor Vehicle Insurance	35%	23%	30%
Property & Casualty, Non-auto & Homeowner	3%	4%	8%
Title Insurance	10%	5%	1%
Unauthorized Health Insurance	0%	0%	5%
Unauthorized Property & Casualty Insurance	3%	4%	1%
Workers' Compensation Insurance	4%	15%	18%

Analysis of Trends

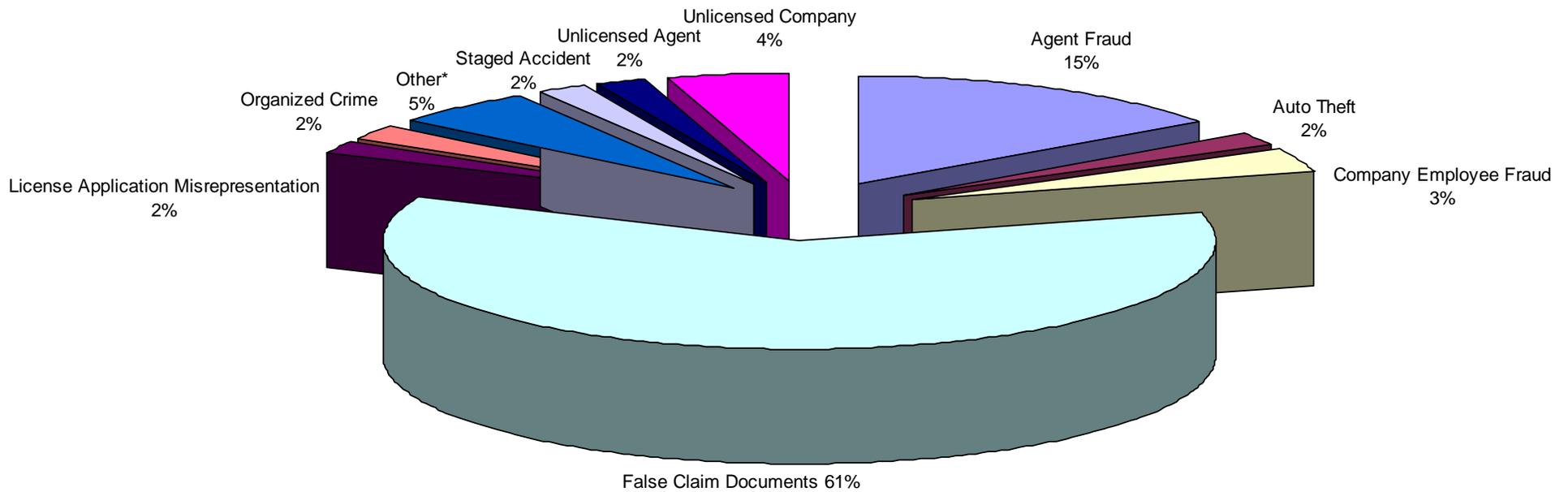
Three fraud types had significant variances between FY 2007 – FY 2008.

- **Agents License** insurance fraud decreased five percent. Agent License fraud refers to individuals who apply for a license through TDI and fail to disclose a prior criminal conviction. There were fewer cases investigated involving applicants who failed to disclose a prior criminal conviction as result of the implementation of TDI's electronic fingerprint processing during the application process.
- **Homeowners** insurance fraud decreased eight percent. While the number of reports received involving suspected homeowners insurance fraud has remained level, investigations this fiscal year have taken longer to conclude than anticipated resulting in fewer referrals.
- **Motor Vehicle** insurance fraud increased seven percent. Fraudulent and inflated claims associated with vehicle accidents along with the number of false stolen auto reports contributed to the increase.
- **Unauthorized Health** insurance fraud was tracked in 2008 for the first time.

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FY2008 Referrals by Fraud Schemes

195 Total Referrals



* Other (< 2% each):

- Adjuster Fraud
- Mortgage Fraud
- Paper Accident
- Policy Application
- Provider Billing Fraud
- Slip & Fall
- Theft

Referrals by Fraud Scheme

FY2006-2008
 Referrals by
 Fraud Scheme

Fraud Scheme	FY2006 (182 Referrals)	FY2007 (188 Referrals)	FY2008 (195 Referrals)
Adjuster Fraud	0%	5%	1%
Agent Fraud	13%	8%	15%
Arson for Profit	1%	0%	0%
Auto Theft	0%	0%	2%
Company Employee Fraud	0%	1%	3%
Disaster Fraud*	N/A	2%	0%
False Statements/Claim Documents	53%	63%	61%
License Application Misrepresentation	8%	7%	2%
Mortgage Fraud*	N/A	5%	1%
Organized Crime	0%	0%	2%
Paper Accident	1%	0%	1%
Policy Application Fraud	1%	1%	1%
Provider Billing Fraud	2%	2%	1%
Slip & Fall	2%	1%	1%
Staged Accident	3%	0%	2%
Theft	10%	1%	1%
Unlicensed Agent	1%	1%	2%
Unlicensed Company	4%	4%	4%
Water Damage - HO	1%	1%	0%

* Data not captured prior to FY07

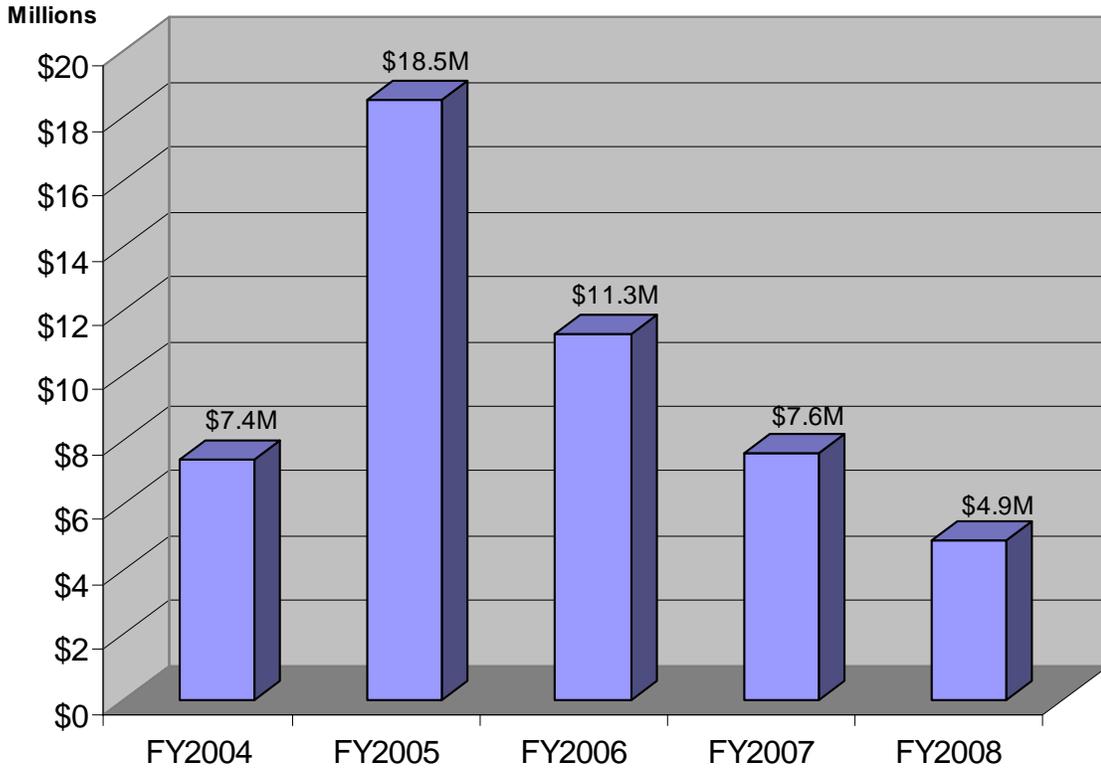
Analysis of
 Trends

Two fraud schemes had significant variances between FY 2007 – FY2008.

- **Agent Fraud** increased seven percent. Agent theft investigations and referrals have increased significantly during fiscal year 2008. The follow schemes have been prevalent:
 - submission of false applications to generate advance commissions,
 - failure to return unearned advanced commissions after policy cancellation, and
 - misapplication of money from insurers, insureds, and premium finance companies.
- **License Application Misrepresentation** decreased five percent as a result of TDI's electronic fingerprint application process.
- **Mortgage Fraud** decreased four percent. Several investigations have been ongoing during the fiscal year. The acquisition of voluminous amounts of records and complexity of these investigations hampered the Fraud Unit's ability to conclude cases during this fiscal year.

Amount of Fraud Referred

FY 2004- FY 2008 Dollar Amount of Fraud Identified in Referrals



Analysis of Trends

The size of a case and the dollar amount of fraud referred 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 parties involved in an insurance fraud case.

Referrals and Court Actions

FY 2008 Referrals and Court Actions by County	County	Referred FY08	Indicted FY 08	Convictions FY 08
	Archer	0	1	0
	Austin	1	0	0
	Bastrop	0	1	1
	Bexar	21	7	7
	Bowie	1	0	0
	Brazos	0	2	0
	Burleson	0	1	1
	Burnet	1	1	0
	Cameron	1	0	0
	Collin	3	5	4
	Comal	2	2	0
	Dallas*	37	33	33
	Denton	3	1	1
	El Paso	1	0	1
	Ellis	0	0	1
	Fort Bend	2	2	3
	Freestone	0	1	1
	Galveston	3	1	2
	Grayson	2	2	0
	Harris	40	31	23
	Hays	0	1	1
	Hidalgo	4	4	1
	Jasper	2	0	0
	Jefferson	2	1	1
	Johnson	2	0	0
	Kaufman	0	1	0
	Kendall	0	1	1
	Lamar	3	3	3
	Lamb	1	1	0
	Liberty	0	1	1
	Live Oak	0	1	0
	Lubbock	2	0	0
	McLennan	2	1	0
	Montgomery	3	1	1
	Nueces	3	1	1
	Orange	0	0	1
	Palo Pinto	1	1	1
	Randall	2	0	0
	Rockwall	1	0	0
	Smith	1	0	0
	Starr	1	1	0
	Tarrant	4	4	2
	Taylor	0	2	3
	Travis	33	16	18

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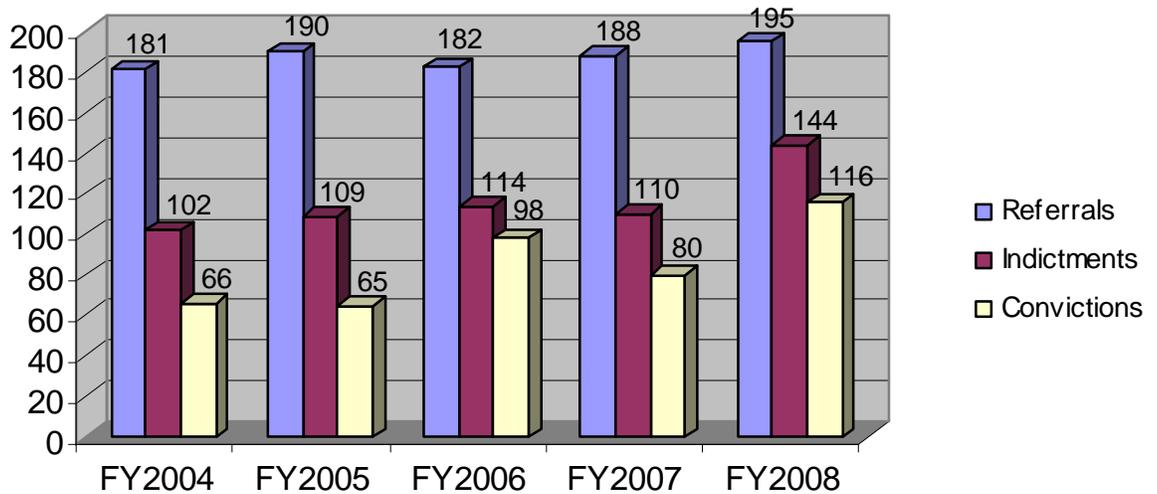
Referrals and Court Actions, continued

FY 2008 Referrals and Court Actions by County, continued	County	Referred FY08	Indicted FY 08	Convictions FY 08
	Uvalde	2	2	0
	Van Zandt	1	1	0
	Victoria	3	0	0
	Waller	1	1	0
	Wharton	0	1	1
	Wichita	1	0	0
	Williamson	1	0	0
	Young	0	1	0
	Federal Courts	1	6	2
	Fiscal Year Totals**	195	145	116

* TDI - Dalllas County DA Fraud Prosecutor Initiative

** Data is a result of current referrals and prior year pending cases

FY 2004 - FY2008 Court Actions



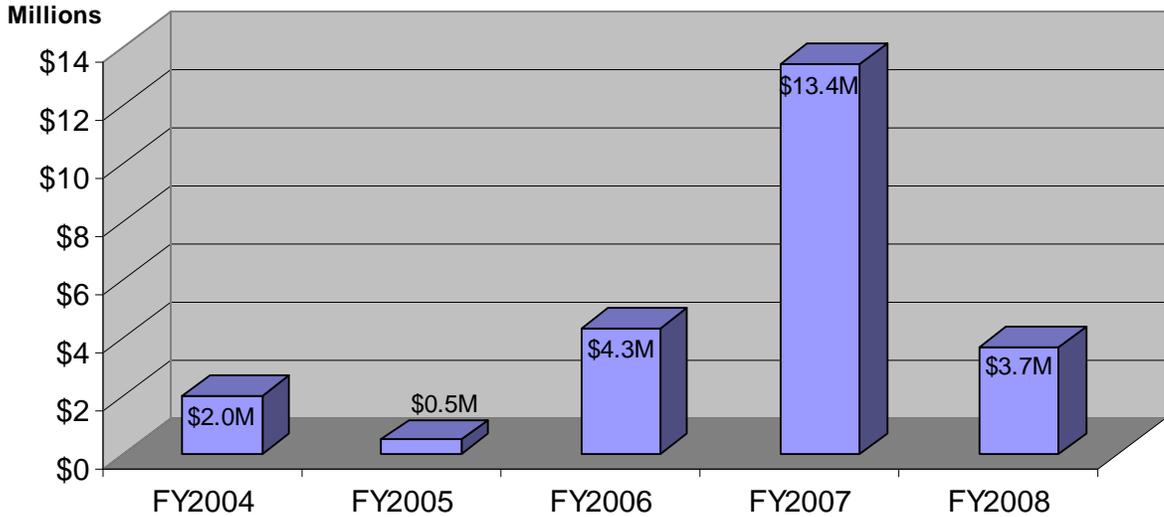
Analysis of Trends

Referral data during the previous five fiscal years varies only slightly each year and is primarily the result of individual investigator performance. Since staffing levels have remained stable, it is anticipated the outcome for fiscal year 2009 will be similar.

Indictment and Conviction data will vary from year to year since those actions are directly the result of actions by prosecuting agencies. Significant increases in these actions were realized in FY 2008; largely as a result of the continued initiative between the Dallas County District Attorney's Office and the TDI Fraud Unit's special prosecutor initiative.

Restitution

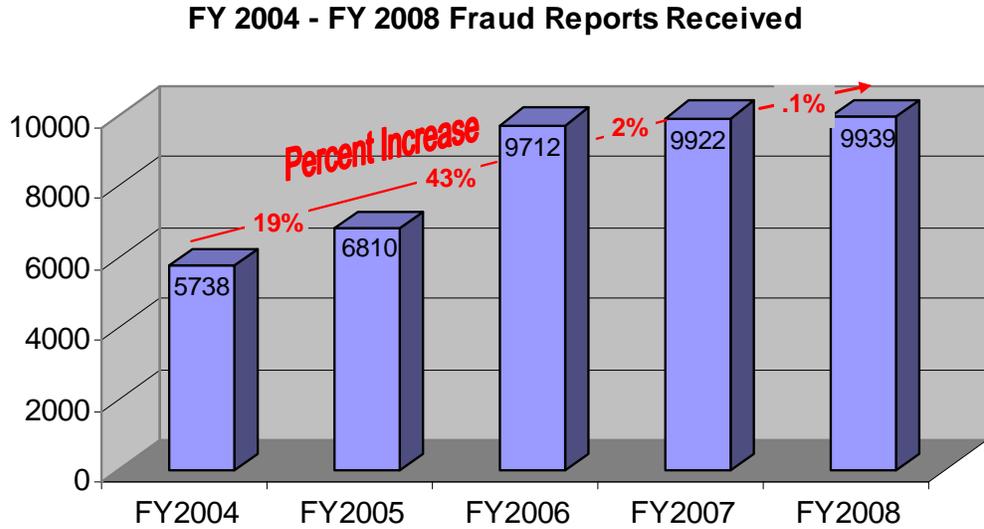
FY 2004 - FY 2008 Resitution Assessed by Courts



Analysis of Trends

Restitution in criminal insurance fraud cases is assessed by the courts, usually at the request of the prosecutor. The dollar amount of restitution will vary by year and is attributable to the total amount of fraud identified in adjudicated cases. The Fraud Unit strives to provide prosecuting entities with data that will allow the courts to appropriately assess restitution to victims of insurer fraud.

Fraud Reports

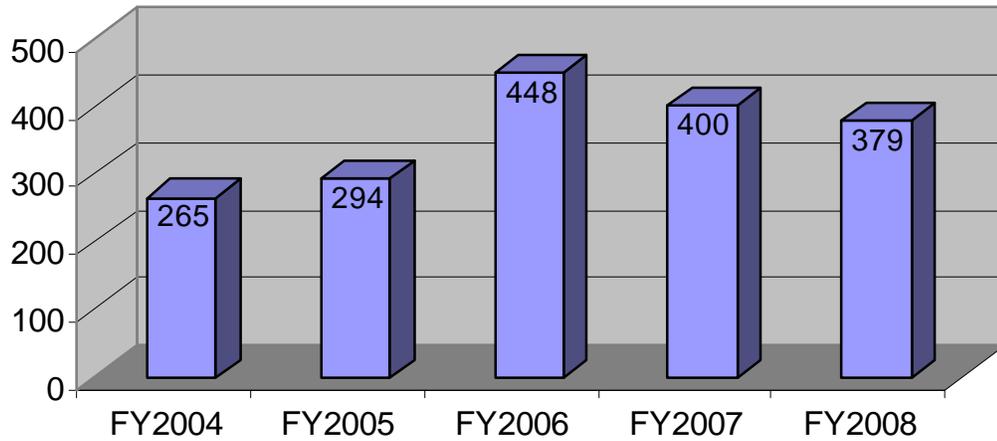


Analysis of Trends

The significant increase in previous fiscal years were a result of changes to the fraud reporting statute during the 79th Legislative session along with investigator and consumer outreach liaison activities have encouraged reporting of insurance fraud by insurers and the public. Now that education of the statute has saturated the industry, the number of reports received is leveling.

Cases Opened

FY 2004 - FY 2008 Cases Opened for Investigation



Analysis of Trends

Investigations are opened after a careful analysis of a fraud report determines information is sufficient to justify a criminal investigation. The number of cases opened is reflective of the quality of suspected fraud reports received.

Fraud Unit Activities

Noteworthy Accomplish- ments

In Fiscal Year 2008, the Insurance Fraud Unit:

- Received and analyzed 9,939 suspected insurance fraud reports.
- Opened 379 cases.
- Through enhanced relationships with state-wide prosecutors, in addition to the efforts of the TDI Fraud Prosecutor, realized 144 indictments, 116 convictions for insurance fraud with restitution, fines, and penalties ordered in excess of \$3.8 million.
- Renewed a memorandum of agreement with the Dallas County District Attorney's Office to continue the insurance fraud prosecutor initiative.
- Fully staffed the Unit's Mortgage Fraud team and participated in Texas Residential Mortgage Fraud Task Force meetings, which were established pursuant to HB 716, 80th Legislature, Regular Session.
- Hosted the 10th Annual Fraud Conference in January 2008 with 325 fraud investigators from state government, law enforcement and the insurance industry in attendance.
- Issued Commissioner's Bulletin B0005-08, Reporting Suspected Insurance Fraud, in February 2008.
- Made 21 public presentations on insurance fraud.
- Fraud Unit investigators made over 180 liaison contacts with law enforcement throughout the state.
- Maintained a toll-free hotline for persons to report suspected insurance fraud.
- Participated in statewide task forces in several metropolitan areas, including Austin, Dallas, Houston and San Antonio.
- Participated in the Texas Committee on Insurance Fraud to address insurance fraud on a united front with industry, law enforcement, other state agencies, legislators and citizen advocate groups.
- Provided assistance to the agency by utilizing the Fraud Unit's duty officer and toll free hotline for the purpose of responding to reports of fraud, waste and abuse at TDI in accordance with Governor Perry's Executive Order RP 36.
- All Fraud Unit attorneys and peace officers completed their legislatively mandated training requirements.
- Implemented a new investigator training program.

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Fraud Unit Activities, continued

Special Prosecutor Initiative

The Special Prosecutor, through a cooperative agreement with the Dallas County District Attorney's Office, is appointed as an assistant district attorney to prosecute cases referred by the Fraud Unit. In 2008, the Special Prosecutor achieved the following results.

- 33 indictments
- 33 convictions
- \$54,104 restitutions
- \$40,300 fines

The Special Prosecutor's assistance to other Dallas County area state and federal law enforcement agencies resulted in:

- 12 indictments
 - 5 convictions
 - \$106,799 restitutions
 - \$8,000 fines
-

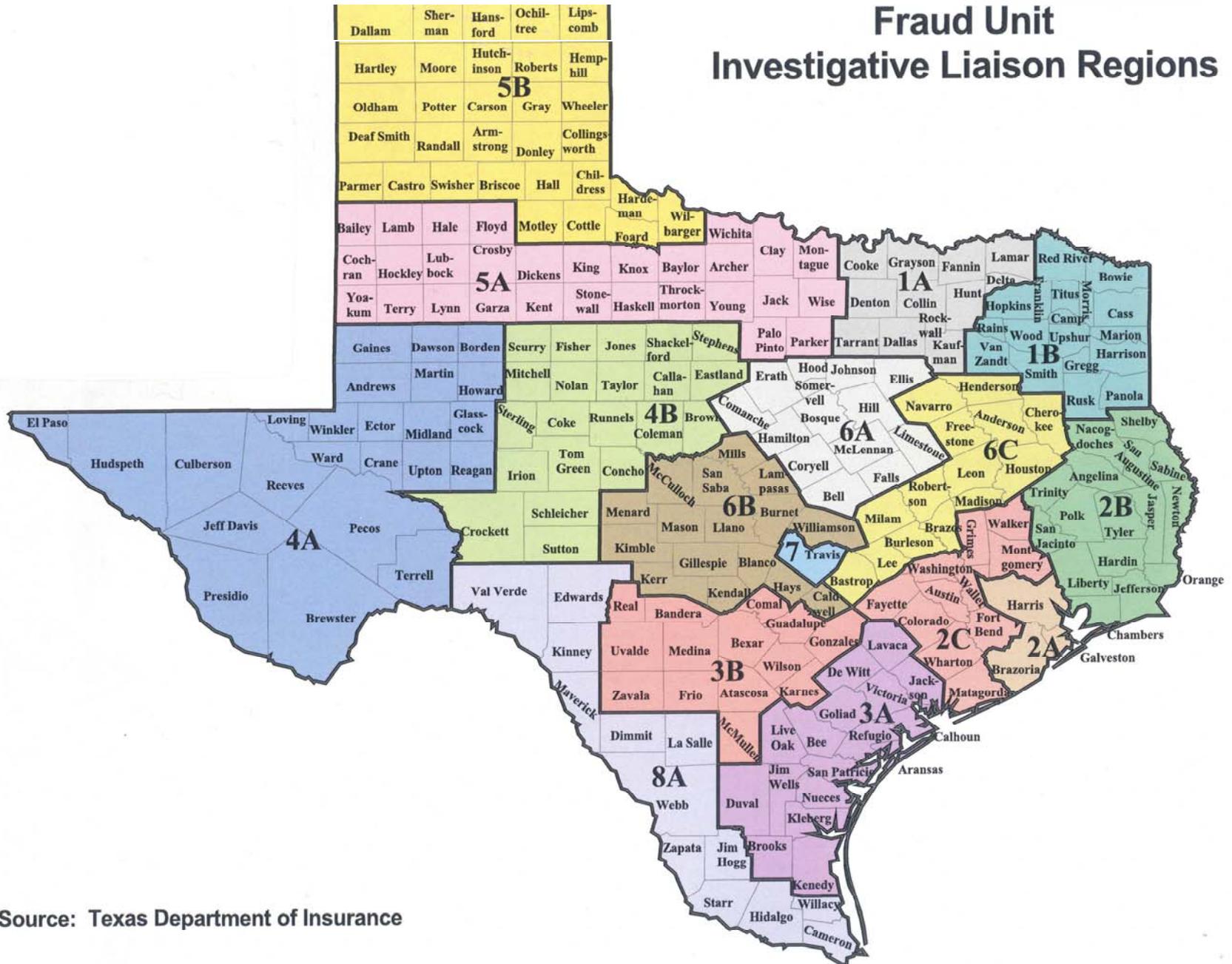
Liaison Initiative

In FY 2008, investigators made over 180 contacts. The Insurance Fraud Unit adopted an investigative liaison initiative in FY 2005 to enhance anti-fraud efforts and to assist local law enforcement agencies in the detection and prosecution of insurance fraud. TDI has assigned investigators to serve as dedicated liaisons to each of eight regions around the state (see map attachment).

Internal Workgroups

The Fraud Unit continues to utilize workgroups within the Unit to address team effectiveness and employee satisfaction. The workgroups are Policy Advisory Group, Training Advisory Group, Workflow Processes Group, Outreach and Liaison Group, and Employee Recognition and Event Planning Group. The first three workgroup are chaired by a manager and comprised of staff volunteers. The Employee Recognition and Event Planning Group is chaired by a staff member and is comprised of other staff volunteers.

Fraud Unit Investigative Liaison Regions



Source: Texas Department of Insurance

FY 2008 Top Ten Adjudicated Cases

Stevie Johnson Stevie L. Johnson a formerly licensed Escrow Officer along with Mark A. Jones, Kevin L. Davis, John Turner and Reginald Washington were involved in a large scale mortgage fraud scheme by fraudulently acquiring approximately 300 residential prosperities in the Houston area valued at nearly \$40 million dollars. All three were convicted in Houston State District Court. Johnson received 40 years in the Texas Department of Corrections for his part in the scheme; Mark A. Jones 25 years in prison, Kevin L. Davis 15 years in prison, John Turner 5 year's probation and Reginald Washington to 5 years in prison.

Bobby Pittman Bobby C. Pittman sustained a work related on the job injury in July 2004 and began to receive workers compensation insurance benefits. Pittmann failed to notify his employer's insurance carrier that he began employment with another company while collecting workers compensation benefits. Pittmann was sentenced to 5 years deferred adjudication in Houston, ordered to serve 120 hours community service and pay restitution to the insurance company in the amount of \$23,183.58.

Debbie Ramacharan Debbie Ramacharan was part of an elaborate conspiracy of filing false homeowners claims to insurance claims a few years ago in a scheme coined "House Cooking." Ramacharan and seven other previously convicted would purchase a modest priced home, insure the house, furnish it with used old and damaged furnishing and then flood it before filing an insurance claim. False, altered and inflated receipts were presented to insurer's furniture restoration, home repairs and additional living expenses. Ramacharan was sentenced in U.S. District Court Houston to 46 months in prison, three years probation, a \$900.00 fine and restitution to insurers in the amount of \$1,224,050.29.

David Hurtado Lopez David Hurtado Lopez, a former licensed insurance agent, schemed to defraud an insurance company he represented by submitting forty-six (46) applications for annuity insurance policies to them using names of people his just made up . His scheme netted him \$64,944.23 in advance commissions before the insurance company caught on to his scheme. Lopez was sentenced in Austin to 10 years probation, and was ordered to pay restitution to the insurer in the amount of \$64,944.23.

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FY 2007 Top Ten Adjudicated Cases, continued

Daniel Mendoza Daniel Mendoza filed a disability insurance claim in 1995 stating that he could not perform his job as a truck driver. During the year 2000, Mendoza returned to work as a truck driver and failed to notify his insurer of the return and continued to receive monthly disability payments. Mendoza pled guilty to a 3rd degree insurance fraud charge and was sentenced to 8 years probation, 320 hours of community service and ordered to pay the insurer restitution in the amount of \$26,009.006.

Pallavi "Paula" Patel Garst Pallavi "Paula" Patel Garst, a former licensed insurance agent, continued to do the business of insurance after her license was revoked by the Commissioner of Insurance. Garst operated unlicensed insurance entities by collecting health insurance premium payments from her victims. Garst was sentenced in the Northern District of Texas United States District court to 37 months in federal prison, and was ordered to pay \$32,341.16 in restitution to her victims.

Hugh Freddie Hugh Freddie, Charlene Stubblefield and Shawna Jackson schemed to file false staged auto accident insurance claims. On three different occasions, one of the individuals purchased auto insurance coverage through an insurer without producing their vehicle for inspection. The three staged an auto accident with vehicles having prior damage and then file an accident claim with the insurer. Freddie was sentenced in Houston to 36 months deferred adjudication and ordered to pay \$6,800.00 restitution to the insurer. Stubblefield sentenced to 36 months deferred adjudication, 120 hours community service and ordered to pay \$6,900.00 restitution. Jackson was sentenced to 36 months deferred adjudication, 120 community service and ordered to pay \$4,000.00 restitution to the insurer.

Clarence Joseph Hall Clarence Joseph Hall schemed to defraud outdoor festival promoters and vendors into believing he was authorized to market liability insurance for their events. Hall falsely represented his services to event promoters across the country and collected more than \$3.8 million in premiums. In Texas, he generated 161 false certificates of insurance. Hall was sentenced in Austin for the offense of Securing Execution of a Document by Deception, given 3 years probation, 240 hours of community service and ordered to pay \$705,817.99 in restitution.

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FY 2007 Top Ten Adjudicated Cases, continued

Gena Cummings Gena Cummings, a former insurance company medical claims processor, schemed to fraudulently obtain benefits from her insurance company. Cummings entered the name of a friend into the claims database as a medical doctor and then authorized six fraudulent medical claim payments be made to her friend in the amount of \$33,718.80. The proceeds of the claim payments were split between Cummings and her friend. The case involving the other person in this matter is still pending. Cummings was sentenced to 96 months deferred adjudication in Denton, 160 hours community service and ordered to pay \$33,718.80 in restitution.

Gilbert Morgan Gilbert Morgan was a licensed agent in Houston; primary business was producing liquor liability and property and casualty insurance policies for restaurants, bars, and night clubs throughout the country. Morgan was sentenced in Austin to two years probation, 127 days in jail, and was ordered to pay \$52,138.49 in restitution for accepting money from fifteen (15) Texas clients for whom he procured coverage from entities who were not licensed to conduct the business of insurance in the State of Texas.
