Texas Department of Insurance
Fraud Unit
Annual Report to the Commissioner

December 2017

Texas Department of Insurance
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EXECUTIVE SUMMARY

Texas Insurance Code, Section 701.101, requires the Fraud Unit to report annually to the commissioner of insurance the number of completed cases and recommendations for regulatory or statutory responses to the types of fraud the unit encounters.

FY 2017 STATISTICS

- Fraud reports received – 12,607
- Cases opened for investigation – 490
- Matters referred for prosecution – 94 cases with 135 suspects
- Estimated amount of fraud identified in referred cases – $18.1 million
- Indictments or Information issued resulting from investigations - 113
- Judgments from cases referred – 97
- Fines assessed by courts on Fraud Unit cases – $50,350
- Restitution assessed by courts on Fraud Unit cases – $2.3 million
- 701 Subpoenas issued – 236
- Public Information Act requests – 336

NOTEWORTHY ACCOMPLISHMENTS

- Expanded prosecutor program by adding a fraud prosecutor to Travis County.
- Deployed Catastrophe Response Team in response to severe weather events.
- Imbedded investigator as task force officer with the FBI Austin office.
- Completed peace officer and attorney-mandated training.

TOP ADJUDICATED CASES

This report summarizes 10 investigations that resulted in criminal prosecutions and convictions.

LEGISLATIVE RECOMMENDATIONS

There is one recommendation for a legislative change in this report.

Fraud Unit Overview

The Texas Department of Insurance Fraud Unit enforces laws relating to fraudulent insurance acts.[1] The unit protects the public from economic harm by investigating criminal insurance fraud allegations. Responsibilities include receiving and reviewing fraud reports, initiating inquiries, and conducting investigations when evidence shows insurance fraud might have been or is being committed. The Fraud Unit seeks criminal indictments, makes arrests, and helps with prosecutions to deter insurance fraud in Texas.

The Fraud Unit staff includes investigators, fraud prosecutors, management, and administrative support. Fraud Unit investigators are commissioned peace officers. The chief investigator supervises and directs the peace officers and coordinates and oversees the Fraud Unit's investigations.[2]

Fraud Reporting

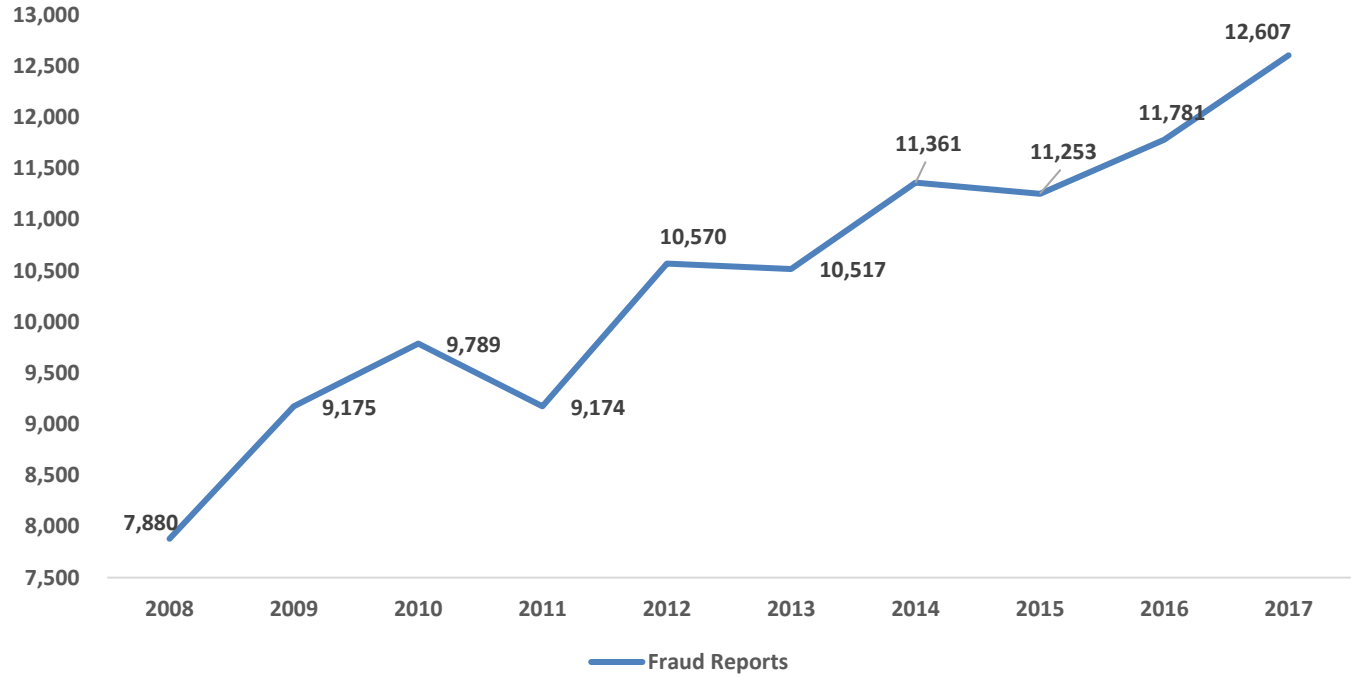
In fiscal year (FY) 2017, the Fraud Unit received a record-high 12,607 reports of suspected insurance fraud. The unit conducts outreach and education to create awareness and emphasize the importance of reporting suspected fraudulent activity.

The Fraud Unit receives fraud reports in several different ways and from many entities, including insurance carriers, the National Insurance Crime Bureau, National Association of Insurance Commissioners, consumers, and businesses.

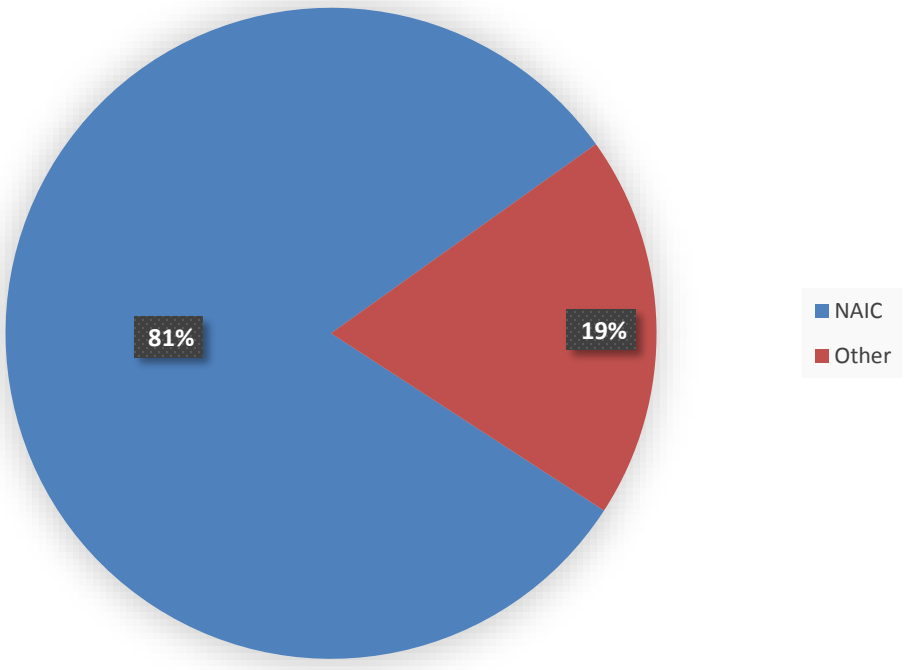
The Fraud Unit encourages everyone to report suspected insurance fraud. Anyone may report fraud by email or phone, or by completing an online form at www.tdi.texas.gov/fraud/report.html. The unit maintains the Fraud Report Hotline, which allows people to report fraud to a Fraud Unit investigator.

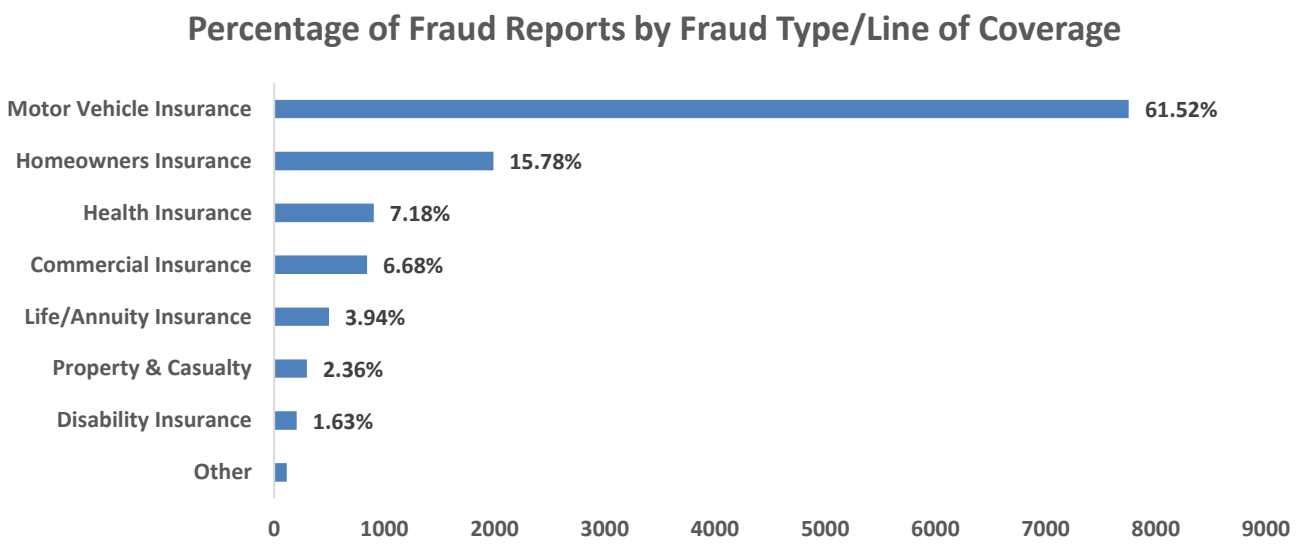
[1] Texas Insurance Code, Section 701.101(a)
[2] Texas Insurance Code, Section 701.104(b)

Fraud Report Volume FY 2008 to FY 2017



Fraud Reporting Transmission Channels



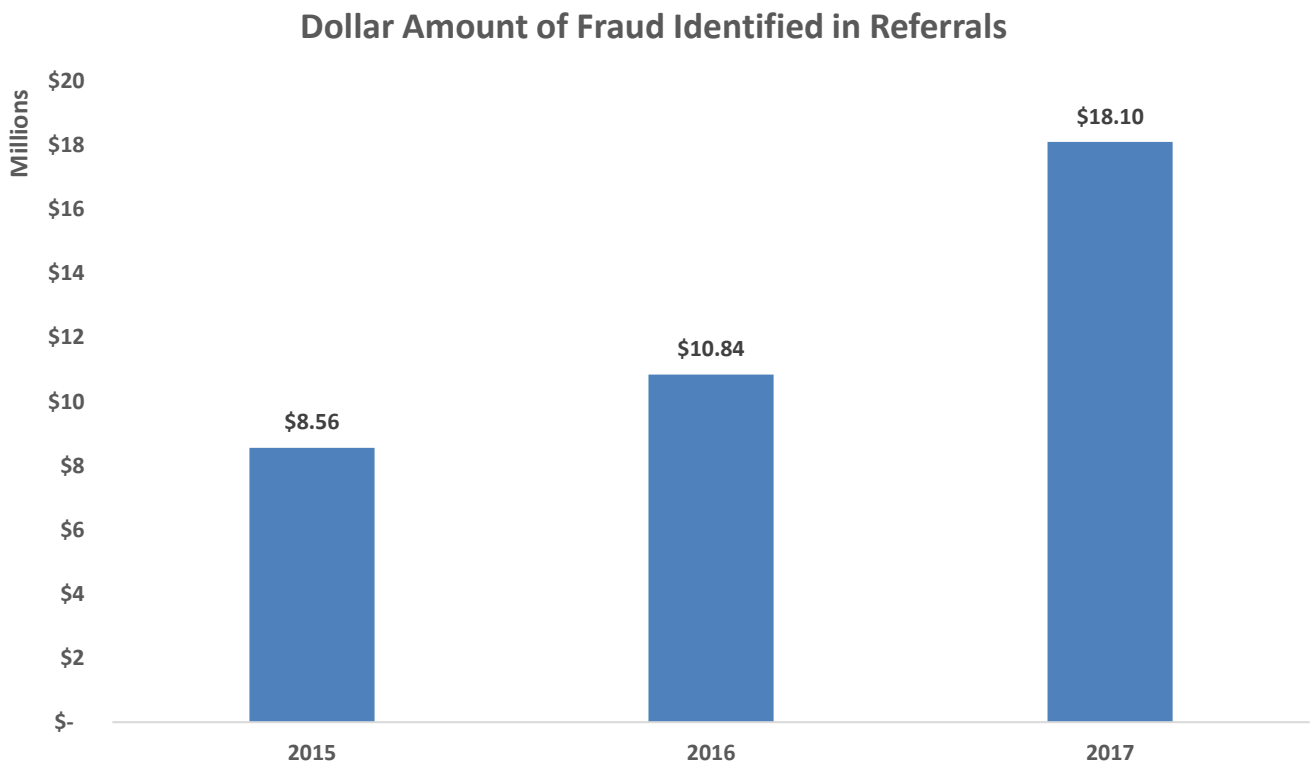


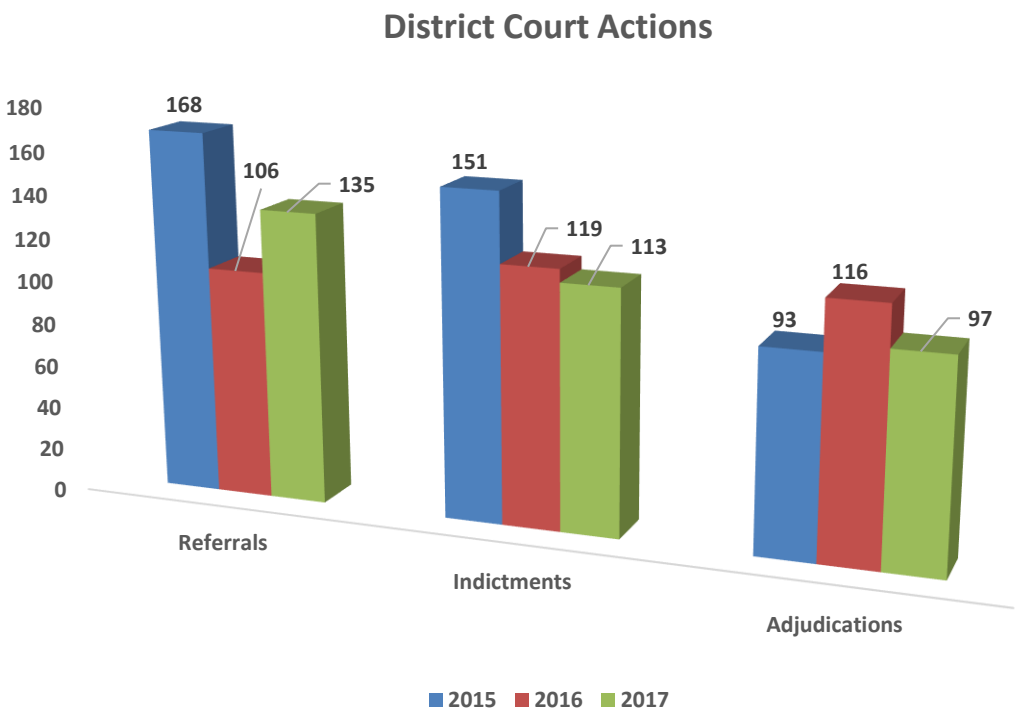
In FY 2017, the Fraud Unit opened 490 investigations from fraud reports. The following table shows the number of reports received and the corresponding cases opened by type of fraud and line of coverage.

Fraud Type/Line of Coverage	Number of reports received	Number of cases Opened	Percentage opened compared to number received
Agents License	26	16	61.5%
Commercial Insurance	842	42	5.0%
Credit Life/Disability Insurance	8	2	25.0%
Disability Insurance	205	24	11.7%
Health Insurance	905	39	4.3%
Homeowners Insurance	1989	125	6.3%
Liability Insurance	3	2	66.7%
Life, Accident & Health Insurance	18	1	5.6%
Life/Annuity Insurance	497	26	5.2%
Motor Vehicle Insurance	7756	158	2.0%
Property & Casualty	298	40	13.4%
Surety Bond	1	1	100.0%
Title Insurance	8	4	50.0%
Title/Escrow Insurance	14	1	7.1%
Unauthorized Property & Casualty	9	4	44.4%
Undetermined/Unknown	18	3	16.7%
Workers Compensation Insurance	2	2	100.0%

In FY 2017, the unit referred 94 cases to prosecutors. The following table shows the number of referrals by fraud type and line of coverage for fiscal years 2015 through 2017.

Referral Fraud Type/Line of Coverage	FY 2015	FY 2016	FY 2017
Agents License	2	1	0
Commercial Insurance	10	7	7
Disability Insurance	8	11	4
Health Insurance	8	9	5
Homeowners Insurance	33	18	17
Life, Accident & Health Insurance	1	1	2
Life/Annuity Insurance	23	5	13
Motor Vehicle Insurance	67	26	29
Property & Casualty	10	9	13
Title Insurance	0	0	1
Title/Escrow Insurance	0	3	1
Workers Compensation Insurance	7	16	2





Fraud Unit

During FY 2017, the Fraud Unit worked on 921 fraud investigations. At the end of the fiscal year, there were 407 active investigations in 122 cities and 59 counties across the state. The unit has investigators in Austin, Dallas, Fort Worth, Houston, McAllen, and San Antonio.

A regionalized unit helps foster relationships with fraud victims, as well as with local law enforcement agencies that might not be as familiar with the intricacies of this type of financial crime. Local authorities have shown a great interest in developing working relationships with the unit.

Administrative Operations

The dedication of the Fraud Unit's Administrative Operations staff drives much of the Fraud Unit's success. The investigative process begins with intake staff reviewing every incoming fraud report. They compile information from the reports and provide them to management to decide whether to proceed with formal investigations.

Criminal analysts research investigative databases and files for any clues relevant to the cases, and then provide findings to investigators. The analysts review financial data and provide graphics that prosecutors use to illustrate the flow of money associated with various insurance fraud schemes. The criminal analysts also develop link charts to show the relationships between everyone involved in the fraud scheme.

The remaining staff in Administrative Operations oversee open records requests, archived files, equipment and supplies inventory; process travel requests and reimbursements; and handle personnel matters, the unit's budget, subpoenas, evidence, and progress of referred cases.

Fraud Investigations

An investigator's primary goal is to resolve allegations of insurance fraud. In FY 2017 the unit experienced an increase in the number of complex, organized criminal insurance fraud schemes. The investigations involved multiple suspects engaged in elaborate schemes to defraud numerous victims.

The unit's investigators concentrate their efforts on two major categories of insurance fraud:

Insurer fraud schemes involve insurance companies, agents, TDI licensees (including third-party administrators, escrow and title insurance companies, and agents), eligible surplus lines insurers, and unlicensed insurance operations. These investigations may involve Penal Code offenses such as securing the execution of documents by deception, misapplication of fiduciary property, and forgery.

Claimant and provider fraud includes schemes such as inflated claims, false claims for property loss, staged accident rings, fake burglary claims, staged slip-and-fall cases, and other suspicious liability insurance claims. Investigators also examine reports of fraudulent billing by health care providers and reports of unlicensed providers and fraud rings involving health insurance claimants, providers, and attorneys. Fraudulent billing includes over billing, double billing, and billing for procedures not performed.

While all investigations follow similar steps to prove or disprove allegations, the means and methods to resolve those allegations vary by the type of offense. TDI maintains close contacts with local, state, and federal law enforcement agencies, industry partners, and other TDI divisions. Investigators conduct interviews with victims, witnesses, and suspects and use the unit's subpoena authority to gather documentary evidence. Investigators also conduct surveillance and execute search warrants to seize evidence.

Fraud Prosecution Team

The Fraud Unit has seven prosecutors who work for TDI and are deputized as assistant district attorneys in Bexar, Dallas, Harris, Tarrant, and Travis county district attorneys' offices. This initiative began in 2005 through a memorandum of understanding with the Dallas County District Attorney's Office. The program expanded to include Bexar and Harris counties in 2012, Tarrant County in 2015, and Travis County in 2017.

The prosecutors work with the Fraud Unit's peace officers, local, state, and federal law enforcement, and the insurance industry to prosecute insurance crimes.

Catastrophe Response Team

The Fraud Unit created a Catastrophe Response Team in FY 2016 to help Texans after severe weather events. Team members received specialized training in adjusting claims and roof inspections. Following severe weather events, the team is deployed to serve as a deterrent to criminal activity and meet with local authorities to discuss best practices to avoid contractor fraud. In FY 2017, significant hail and wind storms and tornadoes struck parts of central, west, and north Texas. The Catastrophe Response Team deployed to: North Texas in March 2017 following a major hail storm; Lake Travis near Austin in April 2017 following a tornado; Northeast Texas near Canton in May 2017 following a tornado; and Midland/Odessa in June 2017 following a hail storm.

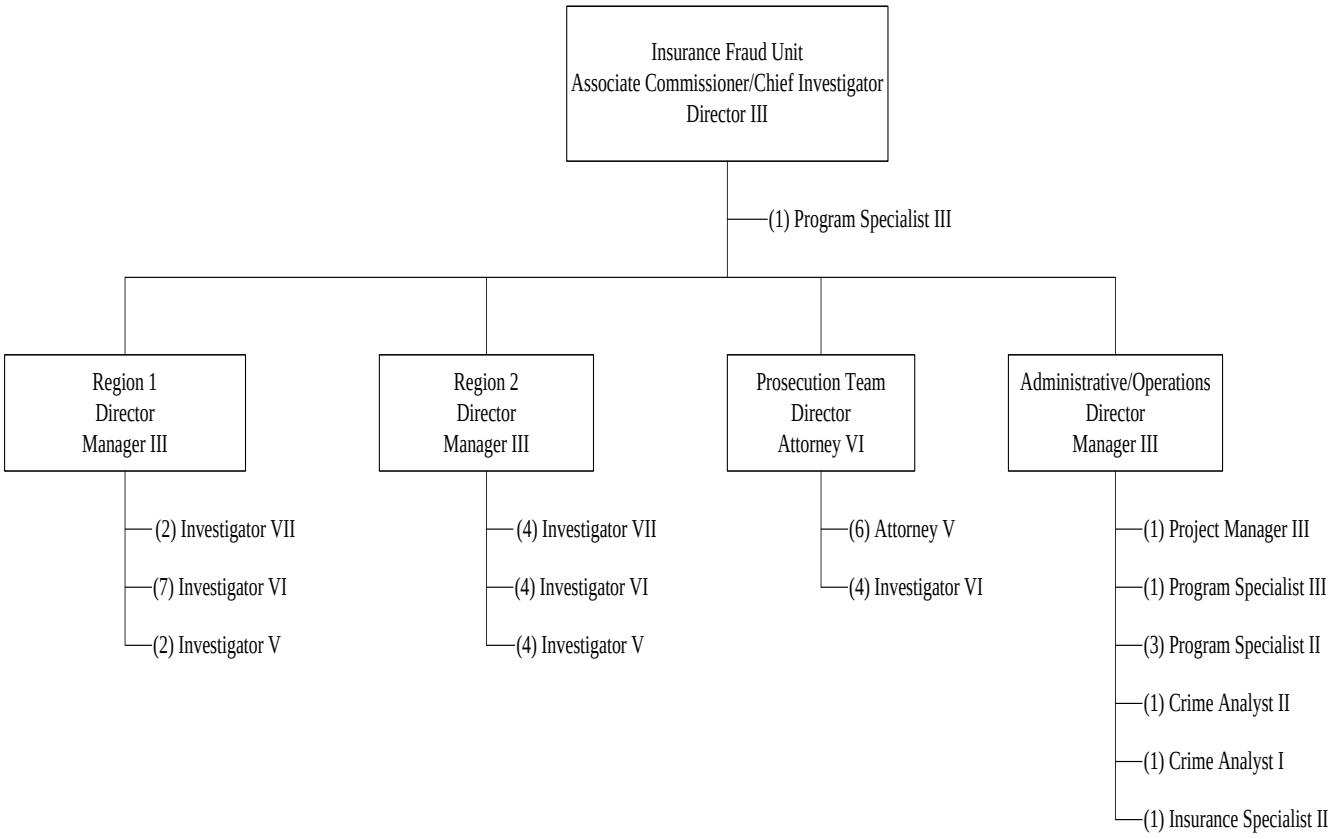
Top 10 Adjudicated Cases

1) In Cooke County, Mark Allen Cox pleaded guilty to a first-degree felony of insurance fraud. Cox was sentenced to 10 years deferred adjudication probation and ordered to pay $1 million in restitution. Cox submitted medical insurance claims for treatment allegedly provided by licensed medical providers, when no licensed provider was involved in the treatment. He submitted claims totaling almost $4 million.
2) In Dallas County, Reginald Cofer pleaded guilty to a first-degree felony of engaging in organized criminal activity and was sentenced to six years in prison. Cofer recruited 12 other people to participate in a scheme involving arson of residences. Cofer owned a restoration business and used the fires to generate work for his restoration business resulting in $203,949 of fraudulent insurance claims.
3) In Bexar County, James Halsell pleaded guilty to a first-degree felony of securing execution of a document by deception, second-degree felony of money laundering, and a state jail felony of forgery. Halsell was sentenced to five years in prison and ordered to pay $52,364 in restitution. Halsell, a licensed insurance agent, operated a commission scheme where he used Social Security numbers, dates of birth, and addresses to create fictitious people as applicants for life insurance policies. He would collect commissions for the policy sales and then allow the policies to cancel. He also used a similar method where he stole actual identities and took out policies without permission to collect commissions.
4) In Bexar County, Paula Villareal pleaded guilty to a second-degree felony of theft from the elderly and second-degree felony identity theft and was sentenced to seven years in prison. Villareal was ordered to pay a fine of $2,000 and to return $55,373 to her victims. Villareal was a licensed insurance agent who defrauded her victims into rolling their retirements into IRAs and then depositing the funds for the IRAs into her personal account. As part of the sentence, the defendant agreed to permanently surrender her TDI license.
5) In Dallas County, Ariel Ratcliff pleaded guilty to a third-degree felony of unauthorized insurance (doing the business of insurance without a license). Ratliff was sentenced to two years in prison. Ratliff was operating an internet business selling fake insurance certificates and other documents. The victims were unaware that they were uninsured and that their premiums were being deposited directly into Ratliff's bank account.

6) In Harris County, Cornell Tanner pleaded guilty to a third-degree felony of insurance fraud and was sentenced to two years in prison. Tanner filed fraudulent claims with multiple insurance companies for three separate accidents using fake medical bills. Tanner claimed more than $53,000 in fabricated medical treatment and received $25,269 in payments. Tanner repaid all restitution to the insurance companies before being sentenced to prison.
7) In Tarrant County, Mary Burress pleaded guilty to a third-degree felony of insurance fraud and was sentenced to five years of probation and ordered to pay $53,735 in restitution. Burress fabricated medical bills and submitted claims for injuries that never happened.
8) In Harris County, Damon Carter pleaded guilty to a third-degree felony of insurance fraud. Carter was sentenced to six years in prison and ordered to pay $9,000 in restitution. Carter reported an accident in which he claimed a phantom driver had swerved into his lane and caused him to go off the road and into a tree. Carter staged the accident by ramming his vehicle repeatedly into the tree. Carter and three other people made claims for injuries.
9) In Harris County, Jason Halstead pleaded guilty to a third-degree felony of misapplication of fiduciary property and was sentenced to six years deferred adjudication probation and ordered to pay $41,000 in restitution. Halstead, a licensed insurance agent, used life insurance proceeds belonging to his niece to buy an annuity without her consent. Halstead then withdrew a large portion of the principal, incurring a penalty, to make a down payment on his house and used the annuity payments for personal expenses.
10) In Harris County, Tiffany Sibley pleaded guilty to a third-degree felony of insurance fraud. Sibley was sentenced to five years of probation and ordered to pay a $2,000 fine and restitution of $14,408. Sibley was working as a billing agent for a hospital and submitted multiple fabricated insurance claims over two years. Each of her fabricated claims was supported by fake hospital bills allegedly from the hospital where she worked. Sibley received more than $14,000 in payments from her scam. As a part of her guilty plea Sibley paid all restitution before her sentencing.

ORGANIZATIONAL CHART

Texas Department of Insurance
Compliance Division
Insurance Fraud Unit Section
FY17 Annual Fraud Report
August 31, 2017



LEGISLATIVE RECOMMENDATION

In 2005, the Texas Legislature amended the definition of an "insurer" in the Penal Code by removing references to various forms of entities and referring to the definition in a section of the Texas Insurance Code that has been repealed.

The definition of insurer is now contained in Texas Insurance Code, Section 701.001.

Recommendation

Amend the definition of "insurer" in the Penal Code, Section 35.01 and Section 34.021 to mirror the definition in the Texas Insurance Code, Section 701.001.