

WHO'S FAKIN' IT? WC FRAUD

BWC - Annual Conference
May 17, 2016

Agenda

- ▣ Who is PCRB
- ▣ Workers Comp fraud overview
- ▣ Current anti-fraud efforts
- ▣ New tools for fighting WC fraud
- ▣ PCRB's Role and Capabilities

PCRB

- Independent Rating Organization
- Non-Profit Corporation
- 106 employees
- Members assessed for budget



Basic Functions

- Collect Workers Comp Data
 - Proof of Coverage
 - Work with **NAIC, IAABC, WCIO** and other national groups to insure proper data collection standards
- Loss Cost Filings
- Employer Classification Administration

Basic Functions

- Experience & Merit Rating Administration
- Test Audit Program
- Analyze Impact of Legislation



Workers Compensation Fraud

- ❑ Workers Comp fraud costs \$6 billion per year.
Coalition Against Insurance Fraud
- ❑ One in three adults in U.S. condone exaggeration of claims.
Insurance Research Council
- ❑ Studies show that 10% of P&C claims and 36% of BI claims involve fraud or inflation of otherwise legitimate claim.
USAA Magazine

Workers Compensation Fraud Types

- ☐ Employee/claimant fraud
- ☐ Provider fraud
- ☐ Employer (premium) fraud

Workers Compensation Fraud Types

- ☐ Claimant fraud
 - False or exaggerated injury claims
 - Claims for injuries not received or occurring on the job
 - Collecting benefits while working other jobs

Workers Compensation Fraud Types

- ☐ Provider fraud
 - Exaggerating treatments for minor injuries
 - inflating and
 - billing for treatments not provided

Workers Compensation Fraud Types

- Employer premium fraud
 - Under-reporting payroll amounts
 - Misrepresenting job classifications
 - Misrepresenting employees as independent contractors



Employer Fraud



Just the Facts ma'am

WC Employer Fraud

- The number of employees misclassified by employers increased from 106,000 workers to more than 150,000 workers between 2000 and 2007. This is a conservative figure because states generally audit less than two percent of employers a year. (*U.S. Government Accountability Office, 2009*)
- At least 50,000 construction workers in New York City – one of four – are paid off the books or misclassified as independent contractors. (*Fiscal Policy Institute, 2007*)
- Those schemes stole \$489 million in workers compensation premiums, taxes and other expenses in 2005. That figure could reach \$557 million in 2008. (*ibid*)
- More than 39,500 employers misclassify 704,785 workers – or 10.3 percent of the workforce – throughout New York State each year. (*Linda H. Donahue, James Ryan Lamare and Fred B. Kotler, Cornell University, 2007*)
- In construction, 45,474 workers – or 14.8 percent of New York's workforce – are misclassified as independent contractors. (*ibid*)

Source: <http://www.insurancefraud.org/statistics.htm#Worker's%20Compensation>

WC Employer Fraud

- Employers in high-risk California industries may hide up to 75 percent of their payroll – or \$100 billion – for the most-dangerous jobs. This forces honest employers to pay workers comp premiums as much as eight times higher than if everyone paid their fair share. (*Frank Neuhauser and Colleen Donovan, University of California-Berkeley, 2007*)
- Every \$1 invested in workers compensation anti-fraud efforts has returned \$6.17, or \$260.3 million total in 2006-2007. (*California Insurance Department, 2007 annual report*)
- Workers comp insurers in Massachusetts lose \$100 million a year in unpaid premiums to businesses that illegally pay workers cash under the table or falsely label employees as independent contractors. (*Social and Economic Costs of Employee Misclassification in Construction, Harvard University, December 2004*)
- As many as one of seven construction workers in Massachusetts is hired off the books or illegally classified as independent workers. (*ibid*)

Source: <http://www.insurancefraud.org/statistics.htm#Worker's%20Compensation>



Industry Anti-Fraud Efforts

- ❑ Fraud awareness
- ❑ Investigation/enforcement

Fraud Awareness

- ❑ Industry Awareness
 - Fraud training for adjusters/underwriters
 - Support for industry-sponsored organizations
- ❑ Public Awareness
 - Insurers/state funds
 - Coalition Against Insurance Fraud
 - NICB
 - State Fraud Bureaus

New Tools for Detecting Fraud: Data and Analytics





WC Fraud Indicators "Red Flags"

Claimant Fraud

- ✓ Claimant was a seasonal worker at the time of the injury
- ✓ Injury occurred shortly after hire
- ✓ Notice of Injury occurred after employee was terminated
- ✓ Claimant immediately secured attorney representation
- ✓ Delay in reporting injury to employer
- ✓ No witnesses to injury
- ✓ Claimant has visited multiple medical providers in connection to the injury

WC Fraud Indicators "Red Flags"

Provider Fraud

- ✓ Treatment regimen is inconsistent with injury severity
- ✓ "Cookie cutter" treatments and billing records
- ✓ High incidence of drug prescriptions
- ✓ Claimant immediately secured attorney representation
- ✓ Delay in reporting injury to employer
- ✓ No witnesses to injury
- ✓ Claimant has visited multiple medical providers in connection to the injury



WC Fraud Indicators "Red Flags"

Employer (Premium) Fraud

- ✓ Inability to verify tax/unemployment reports
- ✓ Insured refuses or delays access to records for audit
- ✓ Claimants not reported on entity's unemployment returns
- ✓ Multiple related businesses operating from same address
- ✓ Insured selects a lowest-rated classification for exposure (e.g., *oil or gas lease work* vs. *oil or gas well drilling*)
- ✓ Certificates of Ins. issued without corresponding payroll or subcontractor expense
- ✓ High experience modifications with low premium exposure
- ✓ Excessive use of "independent contractor" classification when experience rating
- ✓ Equipment and vehicles not consistent with job classifications



Industry-Wide Databases

Fraudsters are often repeat offenders!!

- ☐ Looking at activity across both insurers and lines of business can add perspective about claimants, providers and employers
 - Claims activity by employees
 - Billing activity by medical providers
 - Policy activity by employers



Public Records

External data can help complete the picture!

- ❑ Public records
 - Individual information
 - Business information
- ❑ Criminal and Civil records
- ❑ Professional licenses
- ❑ Business records
 - Ownership / Incorporation Records



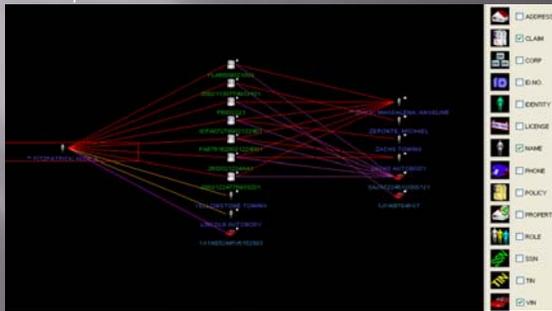
Data Analysis and Visualization

Technology can help make sense of large data sets!

- ❑ Improvements in data storage capabilities
- ❑ Better off-the-shelf and custom software tools
- ❑ Data visualization software

Data Analysis and Visualization Tools

A picture is worth a thousand words!



Scoring/Predictive Analytics

- ❑ Automation of “red flag” rules
- ❑ Scoring of individual claims with industry data
- ❑ Advanced analytic methods to identify fraud patterns
 - Regression analysis
 - Social network analysis
 - Text mining
- ❑ Many WC applications:
 - Claimant fraud
 - Medical provider fraud
 - Employer fraud (including premium audit)

Claim Scoring / Predictive Analytics

Score Summary

Claim	Raw	Adjusted
Claim Rules	0	0
JOHN SMITH	999	999
Score:		999

High Score
More investigation required

Low Score
Few if any matches in the database

Claim Characteristics

- JOHN SMITH has a prior injury related claim in the ClaimSearch database
- JOHN SMITH has another Workers' Comp claim with the same date of loss in the database

Case Management Tools

Make investigations more efficient and effective!

- ❑ Case assignment
- ❑ Case tracking
- ❑ Built-in search tools
- ❑ Court-ready evidence storage
- ❑ Financial management (case costs, case restitutions, etc.)
- ❑ Management tools with standard and customized reports

PCRB's Role and Capabilities

- What does PCRB observe and check for with potential of spotting Workers' Compensation Employer Fraud?
 - Data anomalies
 - Data inconsistencies
 - Misclassification(s)
 - Independent Contractor detection
 - Premium Audit irregularities
 - Ownership confusion/changes
 - Experience Data inconsistencies (Ratings)

PCRB Data Collection

- Policy
- Unit Statistical Report
- Individual Case Report
- Financial Call

Classification System

Are all classifications defined strictly based on employers' businesses?

- Standard Exceptions
 - Code 951 - Salesperson Outside
 - Code 953 - Office
- All - Inclusive and Restrictive Classes
 - Code 961 - Hospital, all employees, including office
 - Code 975 - all employees except office

Classification System

Are all classifications defined strictly based on employers' businesses?

- General Inclusions
- General Exclusions
- Multiple Enterprises
- Governing Classification
- Construction Classes

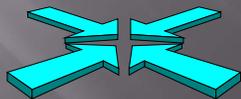
Classification System

PCRB Basic Manual Rule

Any correction of a misclassification arising from discovery by the carrier of a material misrepresentation or intentional omission by the insured, its agent, employees, officers or directors shall be applied effective the date upon which it would have applied had such material misrepresentation or intentional omission not been made. It is recommended that a carrier claiming material misrepresentation or intentional omission as contemplated in this Rule secure a declaratory judgment from the Common Pleas Court establishing same prior to proceeding with application of this Rule.

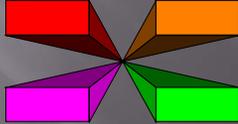
Rating Plans

- Experience Rating Plan
- Anniversary Rating
- Merit Rating Plan



Experience Rating

- What is Experience Rating?
- Why have Experience Rating?
- How the Plan Operates



REASONS FOR UNTIMELY ISSUANCE OF RATING

- ❑ UNIT STATISTICAL DATA ERRORS
- ❑ LATE UNIT REPORT FILING
- ❑ CHANGE IN ANNIVERSARY DATE



Determining Eligibility for Experience Rating

- Qualifying premium \$10,000
- Four years prior terminating one year prior to the established anniversary rating date
- Example - 2016 rating uses 14, 13 & 12 data
- Audited payroll x current loss cost for reported classification
- Eligibility evaluated annually
- May qualify on less than three years experience

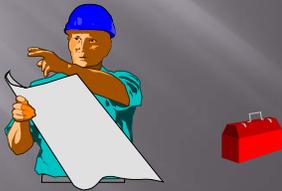
Merit Rating

- ✓ What is merit rating?
- ✓ How does an employer qualify?
- ✓ How to determine the experience period.

Example: 2016 merit uses 014 and 013



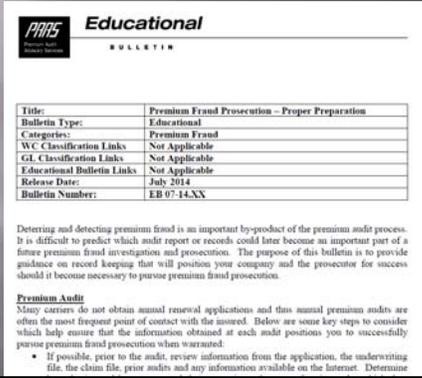
Pennsylvania Construction Classification Premium Adjustment Program (PCCPAP)



Certified Safety Credit Program



Premium Audit Best Practices



PCRB Educational BULLETIN

Title:	Premium Fraud Prosecution - Proper Preparation
Bulletin Type:	Educational
Category:	Premium Fraud
WC Classification Links:	Not Applicable
GL Classification Links:	Not Applicable
Educational Bulletin Links:	Not Applicable
Release Date:	July 2014
Bulletin Number:	EB 07-14-XX

Detering and detecting premium fraud is an important by-product of the premium audit process. It is difficult to predict which audit report or records could later become an important part of a future premium fraud investigation and prosecution. The purpose of this bulletin is to provide guidance on record keeping that will position your company and the prosecutor for success should it become necessary to pursue premium fraud prosecution.

Premium Audit
Many carriers do not obtain annual renewal applications and thus annual premium audits are often the most frequent point of contact with the insured. Below are some key steps to consider which help ensure that the information obtained at each audit positions you to successfully pursue premium fraud prosecution when warranted.

- If possible, prior to the audit, review information from the application, the underwriting file, the claim file, prior audits and any information available on the Internet. Determine

Summary

- ❑ Workers compensation fraud is a continuing problem for insurers and society
- ❑ New tools are available to help combat WC fraud of all types
- ❑ PCRB has processes and procedures to identify and guard against WC fraud
