

Fraud Trends

Wagering Contracts and Identity Fraud:
How Perpetrators Operate and
Mitigants to Prevent Losses



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SEAC

SOUTHEASTERN ACTUARIES CONFERENCE

BEING PART OF SOMETHING THAT COUNTS





Agenda

- Acknowledgements
- Current Trends in Fraud
- Case Examples
- Getting through U/W and Claims
- Mitigants and Defenses
- Questions & Answers



Disclaimer and Acknowledgement

The information in this presentation is confidential and intended only for the audience for which it was prepared. It should not be copied or reproduced in any fashion for other people except with the express consent of Diligence International Group, LLC.

This presentation may make broad statements or references to certain members of insular and other groups of people that have been known to commit fraud. Any reference to members of a certain group or groups should not be taken to representative of the entire group. To do so would in factually inaccurate and wrong. The references are intended only to give a broad overview of the types of fraud and methods that a limited number of people within the groups may perpetrate.

We acknowledge that most applicants and claimants are honest. Some people are not completely honest, and some people are simply careless. Our role is to validate the facts as presented so that well-informed decisions can be made.

DAILY NEWS

World - Business - Finance - Lifestyle - Travel - Sport - Weather

THE WORLD'S BEST SELLING NATIONAL NEWSPAPER

Issue: 240104

Monday

First Edition

World leaders meet in London to discuss the global economy.

July 27th is the day when representatives from the every country around the world will meet in London, England for talks to resolve the worldwide economic crisis. Everything from tax, interest rates, currency, import/export agreements, debt, commodity prices and private sector wealth will be the subject for discussion during this auspicious gathering of the worlds super powers.

Some critics are claiming that this will do nothing more than create further problems for poorer nations, but supporters of the initiative are quick to point out that, the forecast predicts nothing but a bleak financial future if things are left the way they are now. Heads of government face further criticism from protesters who state that they should get their priorities in order and..... continued on page 2

Climate change - Does recycling really make a difference or is history just repeating itself?

Recent studies carried out by institutes have revealed that recent weather phenomena around the globe may be nothing more than nature behaving the way it and he went on to explain that nothing we do today to protect the environment will have any effect on future atmospheric conditions, or to ensure that our children

THE INSIDE STORY

Have scientists made a major breakthrough in the never ending search for a cure?

Read the full story on - Page 3

Can you live without technology, discover how computers have changed our lives.

Find out more on - Page 1

Working hard for a better lifestyle, but is it damaging your longterm health, read what the experts say

Examine the results

.....NEWS FLASH !

- We are in a GREAT industry, and
- It is Much More Than Just Numbers!



Historical Death Claims¹

Death claim payments in the U.S. (in millions)

Year	Amount	% Change	Year	Amount	% Change
2011	62,132		2017	77,057	1.3%
2012	63,259	1.8%	2018	79,073	2.6%
2013	64,350	1.7%	2019	78,358	-0.9%
2014	67,850	5.4%	2020	90,429	15.4%
2015	74,306	9.5%	2021	100,188	10.8%
2016	76,039	2.3%	2022	91,670	-8.5%

More than a number, it is peoples' lives that are impacted by our industry's offering

¹Source: 2022 ACLI Insurers Fact Book
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Why be Concerned with Fraud Attempts?

Attitudes



Studies showing an increased acceptance of fraud to get ahead, particularly amongst < age 35

“...younger members of society show a greater acceptance of non-violent crimes, particularly those related to financial gains for the involved parties.”

Coalition Against Insurance Fraud News; Insurance Fraud is a Huge Problem in the United States; July 6, 2023

Why be Concerned?

Attitudes



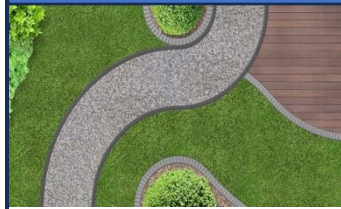
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Controls



Underwriting has become much more digital and automated with fewer traditional controls at higher amounts

Expectations



Consumers want instant satisfaction. On the flip side, they are less concerned with privacy

Knowledge



The web has allowed the proliferation of knowledge about how to (and assist) in fraud schemes

Everyone pays



Estimates are insurance fraud costs \$308 Billion a year. We all pay through higher premiums

Opportunity



Death claims paid per year exceed \$100 B with less than .5% being challenged.

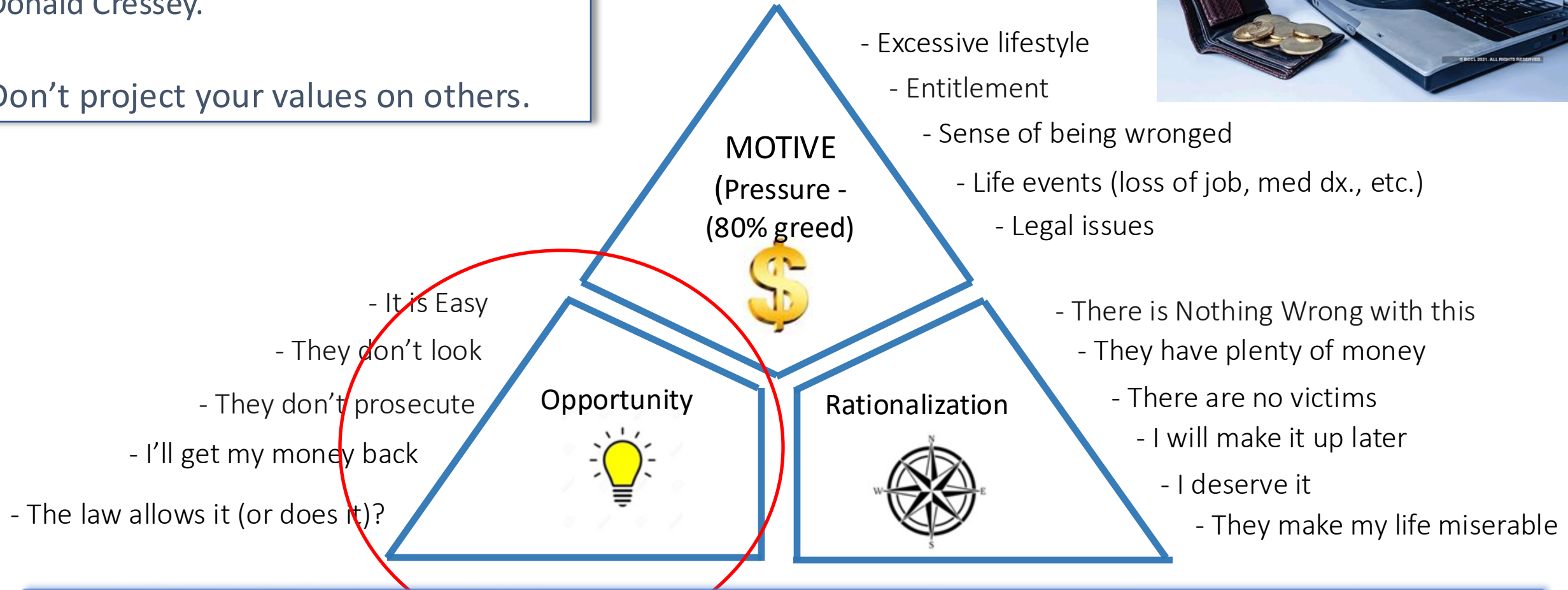
Low risk of penalties if caught

The Environment is Changing: Adapt or Become a Target

Triangle of Fraud

Major elements proposed in 1953 by Dr. Donald Cressey.

Don't project your values on others.



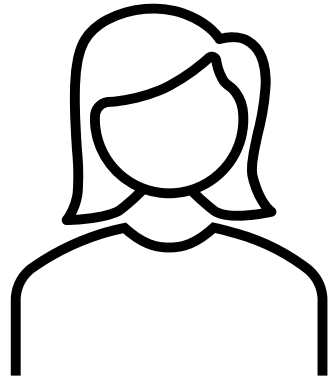
KEY TAKEAWAY: We control the perceived opportunity only



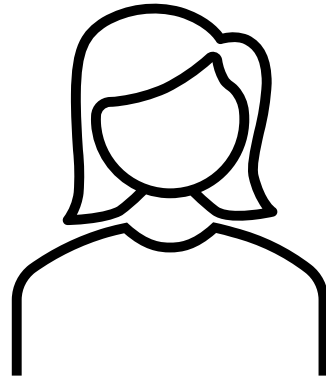
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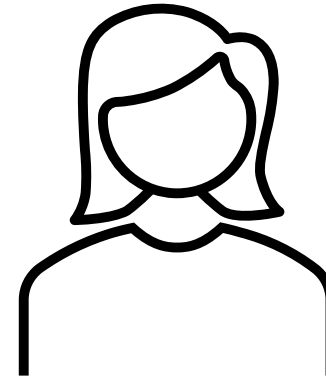
Trivia Question – What do all these characters have in common?



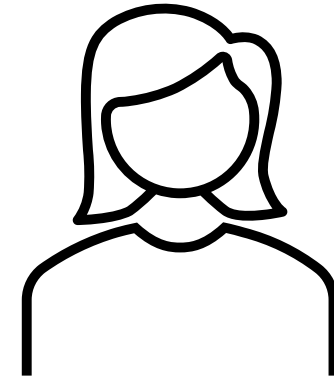
Victoria Hoffman



Angela Phinlay

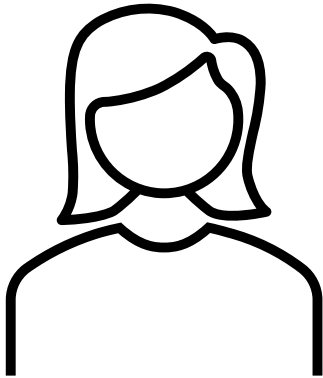


Rose Loomis

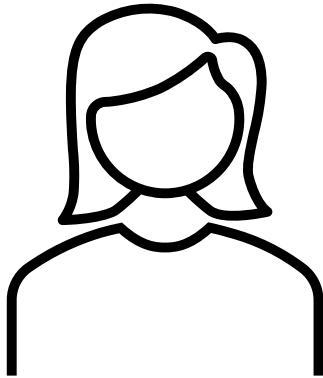


Kay Weston

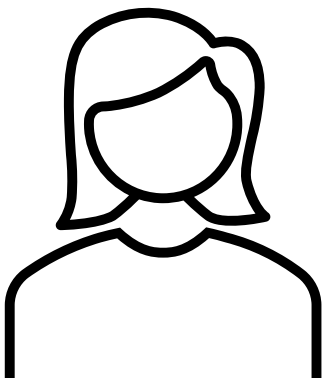
Trivia Question – They were played by Norma Mortenson



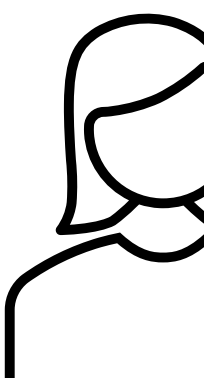
Victoria Hoffman
(There's No Business Like Show Business)



Angela Phinlay
(The Asphalt Jungle)



Norma Mortenson



Rose Loo
(Niagra)





Identity Fraud and Life Wagering Contracts

Wagering Contract Defined: A life insurance policy that is taken out on an Insured, generally without the Insured's knowledge and consent, by someone who has no interest in the Insured's continued life; instead, the policy is purchased in the anticipation of profiting from the Insured's death. And the quicker, the better. In essence, the policy is an investment for the perpetrator.



Identity Fraud Defined

Misrepresenting one's identity by either:

- 1) using the identity of another person (identity theft)
- 2) using incorrect identifiers or attributes, or
- 3) using a completely synthetic identity, or

for the purpose of misleading another party into believing the perpetrator is someone other than who they say they are in order to obtain something they otherwise would not be entitled to.



Identity Fraud and Wagering Schemes

Today's Identity Fraud and Wagering Contracts – Who is Really Purchasing the Policy?

Stolen Identities:
Familial, Positions of
Trust, Purchased

1. Perps who impersonate a family member engaged in high-risk activities such as criminal behavior or drugs (typically younger Insureds).
2. Perps with info on unhealthy persons who then impersonate them for insurance. Typically, older Insureds. Identifiers may be modified to defeat medical checks.

Multiple Identities:
"Nomadic" & Insular
Community Schemes

Organized and sophisticated groups whose members take on multiple identities that are used to confound victims. Applicants typically impersonate unhealthy community members using an identity that is medically "clean" then wait for their death. May also involve switching identities of a deceased with an Insured on an incontestable policy.

Synthetically Created
Identities

Sophisticated schemes involving creating completely fictitious identities that appear real in the digital world. The perpetrators then impersonate these identities to apply for insurance. Claims involve either switching the identity of an unidentified deceased with that of the synthetic identity or obtaining death documents through fraudulent means.

Identity Fraud Schemes

Today's Identity Fraud and Wagering Contracts – Who is Really Behind the Transaction?

Account Takeovers

Third Party Takeovers using:

- Stolen IDs
- Phishing for online accounts using stolen ID and email, then observing company online behaviors
- Social engineering reset passwords, address, etc.
- Impersonating victim to withdraw funds

Agent / Commission Schemes

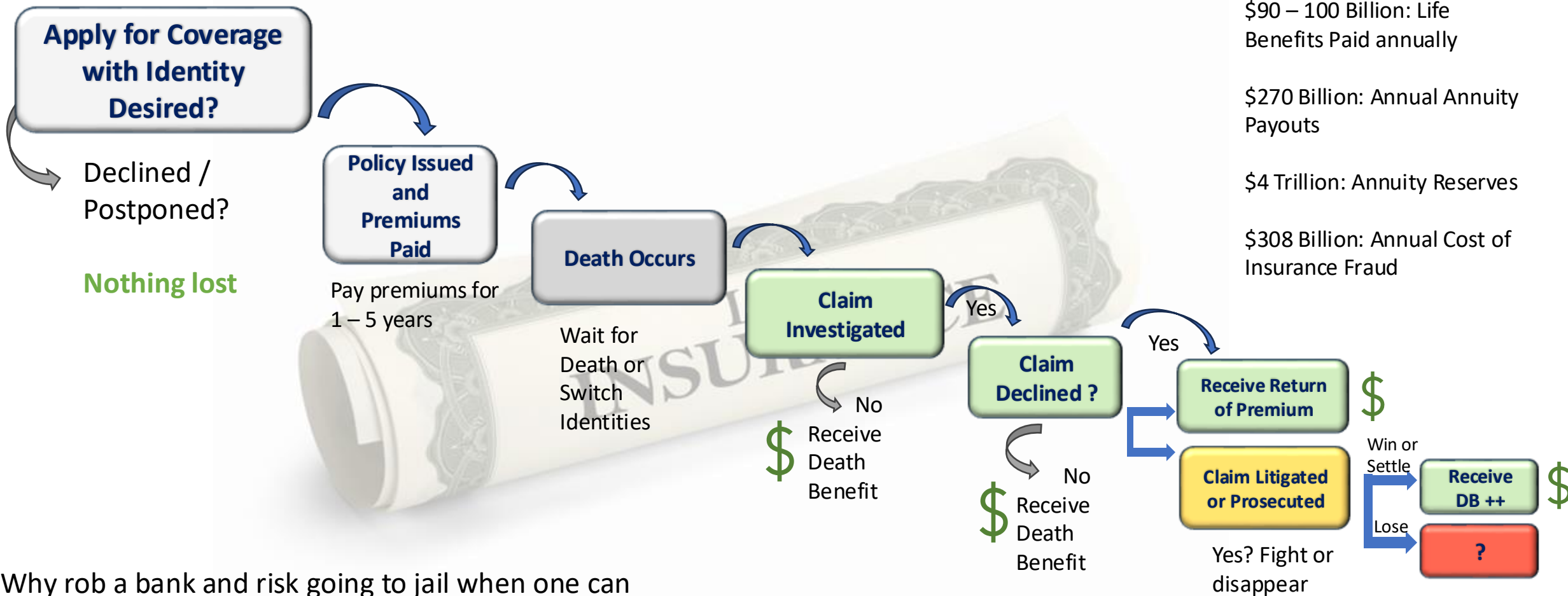
- Stolen Identities to create sales
- Offering low cost or free insurance to vulnerable groups
- Wagering contacts
- Account Takeovers
- Conversion of Premiums

Why Life Insurance is being Targeted



- Risk v. Reward \$90 – 100 Billion: Life Benefits Paid annually
- “Ease” of execution \$270 Billion: Annual Annuity Payouts
- Viewed as victimless crime \$4 Trillion: Annuity Reserves
- Changes in processes has streamlined fraud \$308 Billion: Annual Cost of Insurance Fraud
- Training / experience

Why Life Insurance is being Targeted



\$90 – 100 Billion: Life Benefits Paid annually

\$270 Billion: Annual Annuity Payouts

\$4 Trillion: Annuity Reserves

\$308 Billion: Annual Cost of Insurance Fraud

Why rob a bank and risk going to jail when one can take out a life insurance policy and, if caught, will likely get your money back.

23 Defendants Charged With Participating in \$26 Million Life Insurance Fraud Scheme

Thursday, June 2, 2022

Share

For Immediate Release

U.S. Attorney's Office, Northern District of Illinois

...ten life insurance companies...

CHICAGO — A federal grand jury in Chicago has charged 23 defendants with participating in a fraud scheme through which they allegedly swindled ten **life insurance carriers out of at least \$26 million** in fraudulent benefits.

...knowingly misrepresenting the identity of a different deceased person as the insured ...

The defendants submitted fraudulent applications to obtain life insurance policies in the names of various individuals and then induced the carriers to pay death benefits by knowingly misrepresenting the identity of a different deceased person as the insured, according to an indictment unsealed today in U.S. District Court in Chicago. The fraud scheme charged in the indictment began in 2013 and continued until last month. **Among the defendants are sets of spouses and, in some cases, their children, as well as an insurance agent who owned a side business that performed medical examinations on applicants for term life insurance policies.** The indictment seeks forfeiture from the defendants of at least \$26 million in alleged ill-gotten gains, as well as nine luxury automobiles, eight Rolex watches, and properties in the Chicago suburbs of Orland Park, Bridgeview, and Burbank.

<https://www.justice.gov/usao-ndil/pr/23-defendants-charged-participating-26-million-life-insurance-fraud-scheme>

Court hears inner workings of SC Irish Travelers' multimillion-dollar insurance scam

BY JOHN MONK

DECEMBER 07, 2018 04:13 PM, UPDATED DECEMBER 08, 2018 02:05 PM



Agent- Enabled Fraud – Columbia, SC

- Agent was not a Traveller
- 400+ policies worth over \$54 million
- 5-year investigation
- Falsified net worth
- PI's unhealthy and typically unemployed
- Most PIs were not aware of coverage
- **4.8 years on average between app and death**
- Most PIs were not aware of coverage
- Agent sentenced to 5 years in prison

<https://www.thestate.com/news/local/crime/article222781445.html>

Synthetic Identity – “Fastest Growing Financial Crime”

Synthetic Identity Fraud Is The Fastest Growing Financial Crime -- What Can Banks Do To Fight It?



Glenn Larson Forbes Councils Member

Forbes Technology Council COUNCIL POST | Membership (Fee-Based)

POST WRITTEN BY

Glenn Larson

Glenn Larson is the Vice President of Engineering at [Acuant](#).

Oct 8, 2019, 08:15am EDT | 5,028 views



FinCEN

ALERT

FIN-2024-Alert004

November 13, 2024

FinCEN Alert on Fraud Schemes Involving Deepfake Media Targeting Financial Institutions

Suspicious Activity Report (SAR)

Filing Request:

FinCEN requests that financial institutions reference this alert in SAR field 2 (Filing Institution Note to FinCEN) and the narrative by including the key term “FIN-2024-DEEPFAKEFRAUD”.

The U.S. Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN) is issuing this alert to help financial institutions¹ identify fraud schemes associated with the use of deepfake media² created with generative artificial intelligence (GenAI) tools.³ This alert explains typologies associated with these schemes, provides red flag indicators to assist with identifying and reporting related suspicious activity, and reminds financial institutions of their reporting requirements

under the Bank Secrecy Act (BSA). This alert is also part of the U.S. Department of the Treasury’s broader effort to provide financial institutions with information on the opportunities and challenges that may arise from the use of AI⁴

<https://www.fincen.gov/resources/advisoriesbulletinsfact-sheets>

Recap - Common Traits a Wagering Contract with ID Fraud May Exhibit

1. Insured is not the applicant AND typically is not aware of the application
2. The contact information for the Insured on the application is not the Insured's information
3. Insured did not pay the premiums for the coverage
4. Insured was not a good risk (exception may be agent commission schemes)
5. The Perp is likely the Beneficiary or named as the Beneficiary shortly after the policy is issued
6. The relationship between the Beneficiary and Insured often misrepresented
7. For Insular group members involved in fraud, Insureds and Beneficiaries often use multiple DOBs and SSNs.



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The Preparation

Find your Identity

- High-Risk
- Unhealthy

The Application



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Create data records
for the identifiers

- Hybrid
- Full Synthetic

The Application



The Preparation

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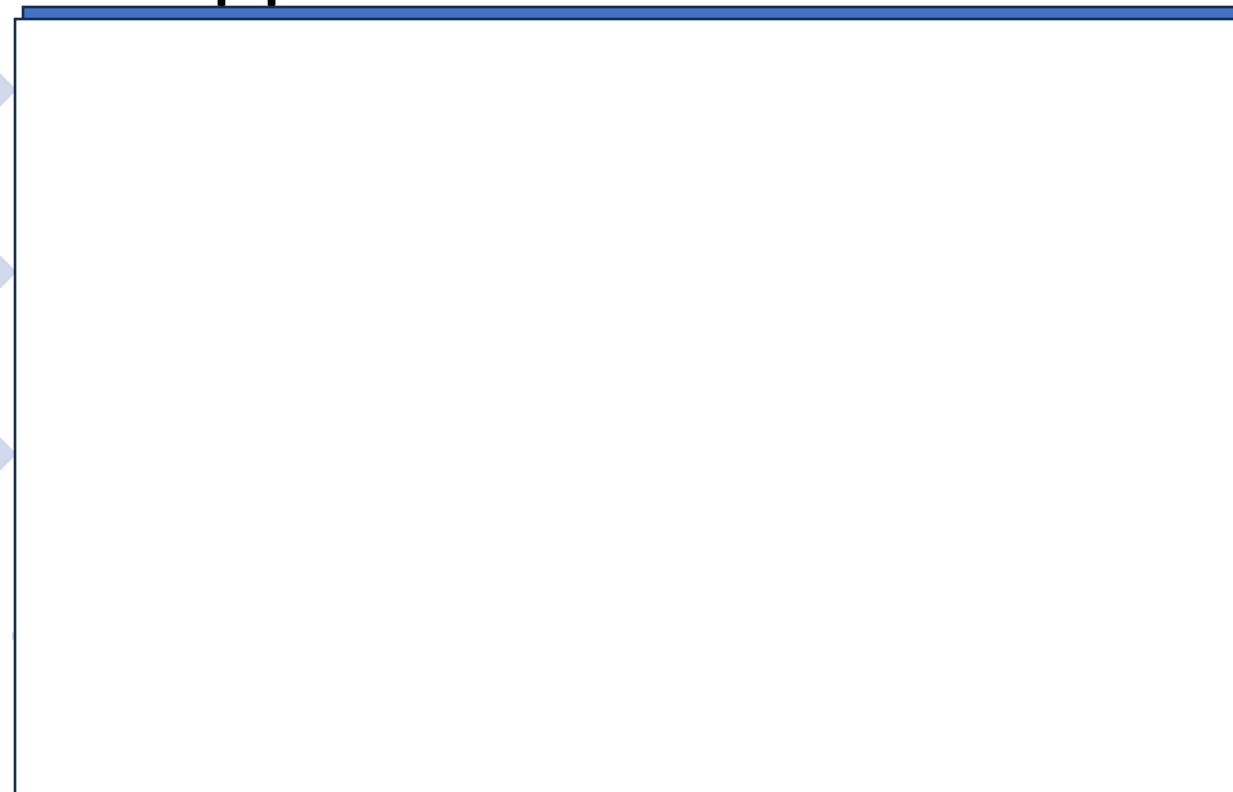
Create data records for the identifiers

- Hybrid
- Full Synthetic

Cultivate over time (if needed)

- Apply for credit
- Credit repair services

The Application



Getting Through Underwriting

The Preparation

Find your Identity

- High-Risk
- Unhealthy

Create data records for the identifiers

- Hybrid
- Full Synthetic

Cultivate over time (if needed)

- Apply for credit
- Credit repair services

Select your target companies

- Electronic apps are favored
- Convert an agent to assist

The Application

- Use “clean” identifiers or slightly changed real identifiers
- Use contact information belonging to yourself
- Use mail forwarding services
- Beneficiary may be listed as a close relative, but relationship is often incorrectly stated
- Beneficiary / Ownership changed soon after issue
- Initial payment by credit card (no name required)
- Typically, no medical admissions
- Listing AP that is not really an AP

Trial and Error: The Perp can try many times and only has to get it through once

Getting Through Claims

Getting through claims – they will catch it, right?

- If stolen identity, simply wait for the death
- Keep amounts low to qualify for express processing
- Falsify obituary on internet
- Switch identity of deceased with an insured
 - Provide false information to the Funeral Director / Hosp
 - Find an unclaimed deceased and claim them as the insured
- Stage a homicide to appear as natural or accidental
- Work with a funeral home willing to assist for a piece of the action
- Stage death in a foreign country





Active Policy Reviews

- Nearly 30% with residential address inconsistencies:
adult centers, temporary living facilities, hotels, prisons,
other high-risk locations
- Nearly 10% with date of births different than that on the
application
- Nearly 9% with SSNs that were not associated with the
applicant
- 2.5% of SSNs were invalid
- 5% of the phone numbers were not the insured's number



Tale of Two Claims

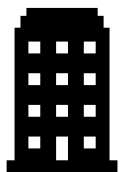
Identity Fraud and Wagering Schemes

Application

- Betty Smith
- DOB Feb 12,1965
- SSN xxx-xx-1234
- Address: Amarillo, TX
- Email: WilliamJxxxx@Gmail.com
- Bene = Son
- AP: Dr. Stayhealthy, MD

Death Certificate

- Informant: Spouse
- COD: HCVD, no contributors
- Place of death: Inpatient



Company A

No records found at Dr. Stayhealthy

Hospital records had no significant past history

No interview

No Rx check

Claim Paid

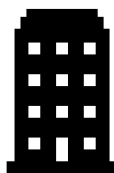
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Company B

Database / Application Research:

- Contact information for Beneficiary
- Multiple SSNs
- Multiple DOBs

Block Review:

- Bene listed as son of multiple women

Rx Check:

- Multiple medical providers found using variations of identity

Interviews

- Bene said he was “like a son” to Insured
- Spouse nowhere to be found
- No one at address of record

Medical Records

- Confirmed same person, multiple IDs
- Significant pre-application history of ongoing cancer

Result: Policy Rescinded

Premium payor was the Beneficiary

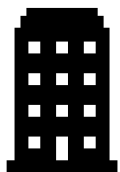
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- Address: Amarillo, TX
- Email: WilliamJxxxx@Gmail.com
- DL: xxxxx11420
- Bene = Son
- AP: Dr. Feelgood, MD

Death Certificate

- Informant: Spouse
- COD: HCVD, no contributors
- Place of death: Inpatient



Company A

\$250,000 loss to the Company and a payday for the Beneficiary



Company B

Return of Premium paid to the Beneficiary



A No-Lose Scheme - Almost



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Defenses Possibly Available

Outside the Contestable Period

Question to answer: Did a third party procure the policy or cause to be policy to be procured?

- 45 States have Constitutional or Statutory Prohibitions on Wagering, Gambling, etc.
- 47 States have Common Law or Statutory Insurable Interest Requirement

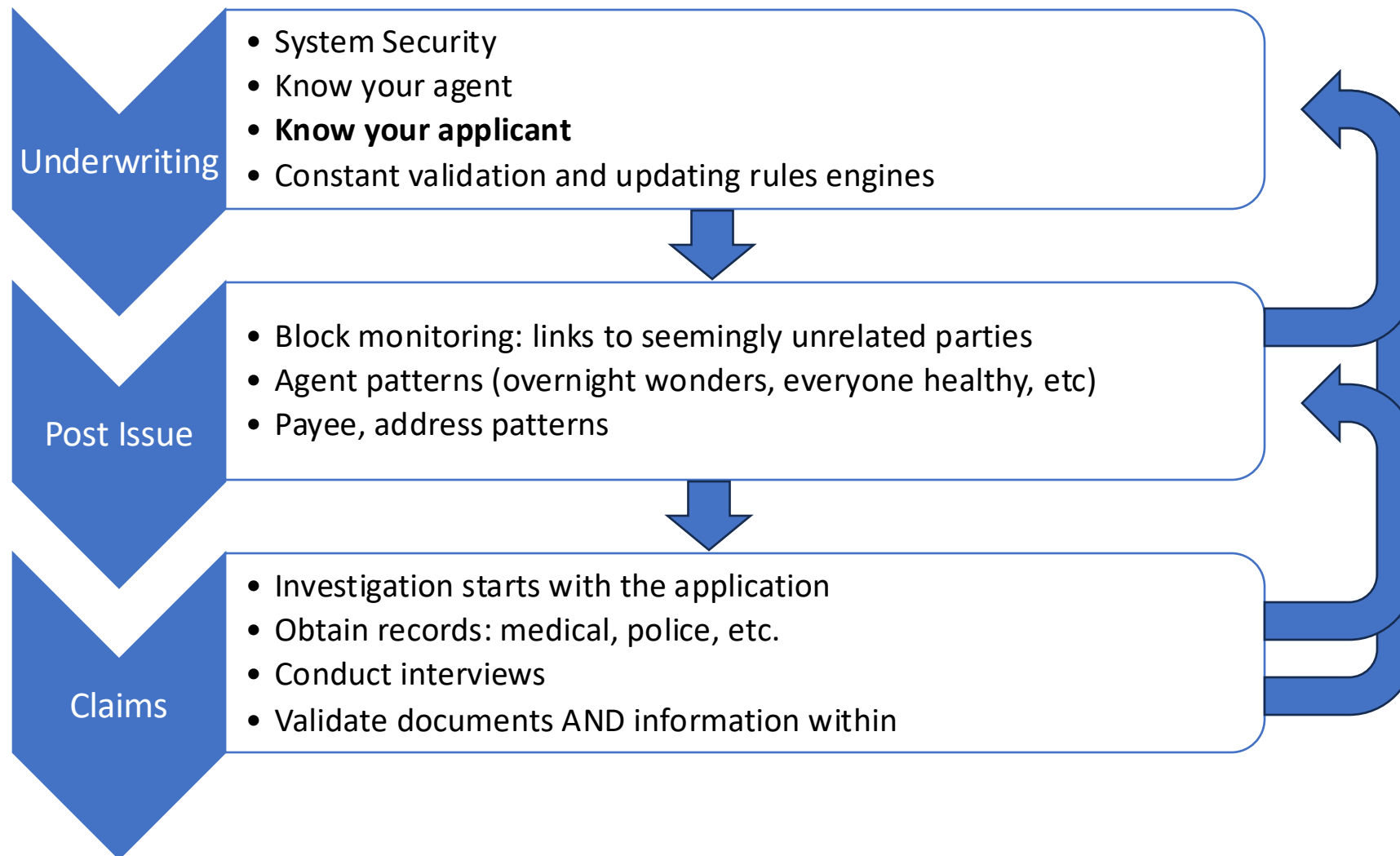
Fraudulent Representations Vis-à-vis Insured's Inability to Apply, Multitude of Errors (and Type) on the Application, Identifiers Incorrect, Gross Material Misrepresentations, etc.

Within Contestable Period

- All the above
- Material Misrepresentation

Risk Mitigation Is Layered

Controlling fraud risk involves multiple layers



Mitigants to Underwriting Fraud

Things to consider to reduce risk of underwriting fraud

- Require a readable copy of a government ID at time of application
- Verify the accuracy of identifying information (the Key 3: name, SSN, date of birth)
- Verify that the contact information belongs to the insured
- Be suspicious of insureds living with the beneficiary unless there is a reason (minor child).
- For verbal apps, look for clues that suggest deceit (e.g. inability to quickly answer questions)
- Be wary of no medical hits, particularly if the insured is over age 50
- Question limited data footprints
- For electronic applications, ask permission to use the camera to take a picture of the applicant
- Monitor all beneficiary information across blocks - you may be surprised at how well-liked some people and addresses are
- It is much more effective and efficient to stop fraud at underwriting than at time of claim
- Use a service that validates the identity of the person initiating an electronic transaction

Prodigy is a software suite of tools used to validate identities in electronic transactions

Mitigants for Claim Risk

Things to consider to reduce risk of fraud at time of claim

- Adopt a Risk Mitigation Philosophy at the top
- Review all claims within 5 years
 - Does the information at claim make sense relative to the application
 - Does the beneficiary have an insurable interest
- Be careful of express processes in Claims
- **The contestable claim review begins with who completed the application**
- Interview the beneficiary and agent on contestable claims
 - It can speed the process
 - It can yield leads



Mitigants for Claim Risk

Things to consider to reduce risk of fraud at time of claim

- Even if the claim is incontestable, if there is predication to investigate the claim, do so
 - Defenses may be available
 - May lead to other policies involved in the scheme
- Report fraud when it is found
- Investigators and Reinsurers often have a bird's eye view at risks – don't hesitate to loop them in



Most claims are not investigated after two years – and fraudsters know it.
Claims Adjudication is a Risk Mitigation function that involves administration, not an administration function



Prodigi



Changing the World of Underwriting

Knowing your Proposed Insured is Real Just Isn't
Enough to Stop Imposers. We Can.

Customizable – Immediate – Irrefutable

Inexpensive Protective Value Powered by Experts in Fraud Detection
and Prevention

Thank You !!!

Let's Continue the Conversation
Questions ???



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