



Date: September 12, 2013

Regarding: **Analysis of 2011, 2012, and 1st Half 2013 Workers' Compensation Questionable Claim Referrals and ISO Claims - Public Dissemination**

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An analysis of National Insurance Crime Bureau (NICB) 2011 and 2012 Questionable Claim referrals (QCs)¹, as submitted by member companies, was completed to identify the types of Workers' Compensation (WC) QCs being received and to provide information to our members on any patterns or trends developed from their submissions. Data for the first half of 2013 has also been included for comparison. A WC QC loss was defined as any referral where the Policy Type was reported as Workers' Compensation (WORK), Workers' Compensation and Employers' Liability (WCEL), or Workers' Compensation Marine (WCMA). All QCs which met these criteria and were referred to NICB between January 1, 2011 and June 30, 2013 were included in this analysis.

This report includes an analysis of WC QCs by date of submission, Policy Type, Loss Type, Referral Reason, Date of Loss, and geographic location. A summary of and comparison with all WC claims in ISO ClaimSearch during the same time frame is also in the section related to Date of Loss².

Executive Summary

Although the number of WC claims in ISO is decreasing, the number being submitted as QCs is increasing. WC claims in ISO ClaimSearch decreased from 3,349,925 in 2011, to 3,244,679 in 2012, and it appears the number will decrease again in 2013 based on the 1,498,725 claims in the first half of the year. The number of WC QCs submitted increased from 3,474 in 2011, to 4,460 in 2012, and with 2,325 in the first half of 2013 the number of WC QCs is on course to increase again for 2013.

WC QCs with a "Medical" Loss Type were the most common (62% of the total), and "Liability" claims were the 2nd most common (37%). The top 4 Referral Reasons were the same each year, with "Claimant Fraud" topping the lists.

California was the state with the largest number of WC QCs in each year. When ranked by WC QCs per 100,000 residents, Delaware ranked 1st in 2011, Connecticut ranked 1st in 2012, and Maine ranked 1st in the first half of 2013.

Chicago, IL was the city with largest number of WC QCs in 2011, however, in 2012 and the first half of 2013 Los Angeles, CA replaced it as the top ranked city.

¹ Questionable Claim referrals are submitted to NICB by member companies. The datasets compiled for the 2010-2012 State Questionable Claim referral reports were used in this report. The data, particularly the loss location fields, were reviewed and in some cases revised to limit the impact of entry errors. As such, the analysis in this report may not coincide exactly with other reports in which such data scrubbing was not incorporated.

² The ISO ClaimSearch database is a dynamic dataset with claims being added continuously. The number of claims provided in this report may differ from previous reports due to new claims having been entered into ISO since the last report was prepared.

Section 1: Overview of Workers' Compensation Fraud

WC insurance is intended to provide medical care or other compensation to workers who are injured on the job. WC fraud can be committed by the employer, the employee, and also by service providers. The following are some of the more common allegations in possible WC fraud, as identified in NICB's NICTA courses *Workers' Compensation Fraud* and *Workers' Compensation Premium Fraud*:

Common Employee Fraud Allegations:

Faked/Exaggerated Injury: An employee fabricates an injury altogether, or exaggerates a legitimate injury, in order to continue to receive benefits or more time off work.

Multiple Claims/Identities: An employee may make injury claims and receive payments from both their workers' compensation carrier as well as a personal healthcare provider (double-dipping). Individuals may also file multiple claims with different employers, and may use different names or social security numbers to conceal their claims history.

Malingering: The claimant suffers a legitimate injury, but continues to feign symptoms after he or she has already fully recovered in order to continue to receive benefits.

Working While Collecting: An employee is collecting disability benefits from one employer while working another job in which they perform tasks outside the limitations set by their doctor.

Prior Injury/"Monday Morning" Injury: This is an injury which occurred outside of work, often times over the weekend, but the employee avoids reporting it or seeking medical attention until at work, at which time he or she claims the injury occurred in the course of their normal job activities.

Common Employer Fraud Allegations:

Misrepresentation of Payroll/Job Code/Job Site: WC insurance premiums are determined, in part, by the number of employees and their overall risk of injury. An employer can report a smaller number of workers or misrepresent those workers' job duties or job location to conceal the actual risk that any given employee takes on, thereby lowering the cost of insurance.

Manipulation of Experience Modifier: A company's experience modifier represents the number of workplace injuries over a given time period - the higher the number of injuries, the higher the insurance premium. Businesses can create 'ghost companies' to manipulate the experience modifier. In other words, a company can pose as a new business by changing the name of the company and applying for insurance through a new carrier, thus giving the "new" company a clean slate.

Common Service Provider Fraud Allegations:

Attorney/Medical Provider Relationship: Attorneys and medical clinics may refer clients or patients to one another for financial 'kickbacks'. They may also employ the work of 'chasers and cappers' who will solicit injured parties and refer them to these service providers.

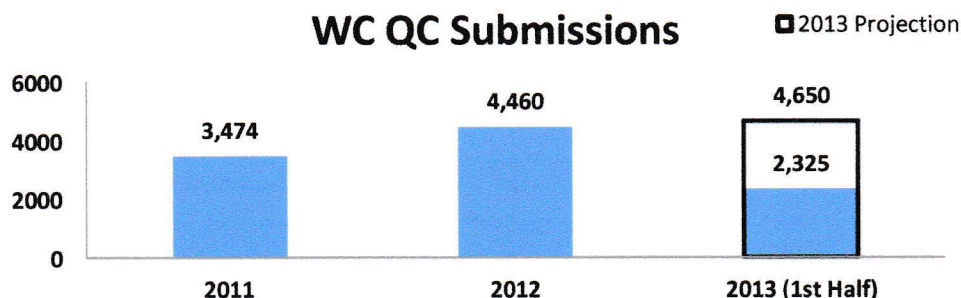
Billing for Services Not Rendered: A medical provider will bill an insurance company for services which were never provided. This is most common with medical bills for X-Rays, MRIs, or other expensive diagnostic tests that were never actually performed.

Template (Boilerplate) Billing: Medical clinics fabricate identical injuries and prescribe identical treatment for all patients. They then use duplicated or very similar paperwork to support the treatment.

Inflated Bills/Upcoding: Doctors may bill insurance companies for more costly treatments than what was actually performed. This is accomplished by submitting bills with more expensive CPT (Current Procedural Technology) codes, also known as 'upcoding'. For example, a doctor submits a medical bill with a CPT code for 45 minutes of physical therapy when, in fact, only 15 minutes was completed.

Section 2: Workers' Compensation QC Analysis

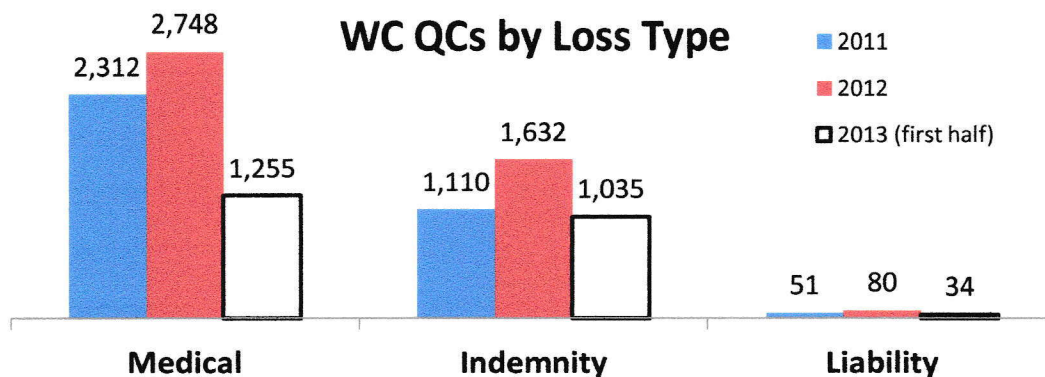
In 2011, 3,474 WC QCs were submitted to NICB. The number increased to 4,460 in 2012, a 28% increase. WC QCs accounted for 3.5% of the total number of QCs submitted in 2011 (100,201 total QCs) and 3.8% in 2012 (116,171 total QCs). Through the first half of 2013, 2,325 WC QCs were referred to NICB (3.7% of the 62,352 total QCs), compared with 1,681 through the first half of 2011, and 2,174 through the first half of 2012 (see below).



WC QCs are identified by 3 Policy Types: WCEL, WCMA, or WORK. From January 2011 through June 2013, the overwhelming majority of QC submissions have been under WCEL policies. There were only 1 WORK and 3 WCMA submissions in 2011, no WORK and 1 WCMA submission in 2012, and 1 WORK and 4 WCMA submissions through the first half of 2013. The remaining QCs were all on WCEL policies.

Workers' Compensation QCs: By Loss Type

WC QCs are further categorized into 1 of 4 different Loss Types: Indemnity (WCIL), Liability (WCLL), Medical (WCML), and Other (OTHR). "Medical" WC QCs were the most common of these Loss Types for all 3 years. The gap between the number of "Medical" and "Indemnity" WC QCs has been decreasing each year, and "Medical" WC QCs are projected to decrease in 2013 while "Indemnity" WC QCs are projected to increase in 2013. The "Other" Loss Type only appeared in 2 QC submissions from January 1, 2011 to June 30, 2013, and is not shown in the graph below.



The table below shows the WC QCs by Loss Type and submission year, as well as the percentage of the total number of WC QCs for each year.

Loss Type	Number of QCs (% of All WC QCs)		
	2011	2012	2013 (1 st Half)
Medical	2,312 (67%)	2,748 (62%)	1,255 (54%)
Indemnity	1,110 (32%)	1,632 (36%)	1,035 (45%)
Liability	51 (1%)	80 (2%)	34 (1%)
Other	1 (~0%)	0 (0%)	1 (~0%)
Total	3,474	4,460	2,325

Workers' Compensation QCs: By Referral Reason

Next, WC QCs were analyzed by Referral Reason. There were 5,791 Referral Reasons³ in 2011, 7,504 in 2012, and 4,326 in the first half of 2013. The top 4 Referral Reasons were the same in each year. The 5th ranked referral reason was "Casualty: Faked / Exaggerated Injury" in 2011 and 2012, but was replaced by "Workers Comp: False Loss Statements" in the first half of 2013:

Referral Reason	2011	2012	2013 (first half)
Workers Comp: Claimant Fraud	2,037	2,707	1,363
Workers Comp: Prior Injury / Not Related to Work	733	1,028	558
Miscellaneous: Malingering	492	587	301
Workers Comp: Working While Collecting	396	426	242
Casualty: Faked / Exaggerated Injury	344	372	159

The top 5 Referral Reasons that realized the largest percent change⁴ from 2011 to 2012 are as follows:

Largest Percent Increase by Referral Reason

Referral Reason	# of QCs 2011	# of QCs 2012	Difference	Percent Change
Miscellaneous: Attorney Activities	33	99	66	200%
Workers Comp: Duplicate Billing	18	53	35	194%
Miscellaneous: Application Misrepresentation	18	37	19	106%
Workers Comp: Inflated Medical Billing	84	165	81	96%
Miscellaneous: Prior Loss / Damage	16	31	15	94%

Largest Percent Decrease by Referral Reason

Referral Reason	# of QCs 2011	# of QCs 2012	Difference	Percent Change
Casualty: Slip and Fall	14	6	-8	-57%
Miscellaneous: Vendor Fraud	10	7	-3	-30%
Miscellaneous: Material Misrepresentation in Recorded Interview / Deposition / SUO / EUO	108	88	-20	-19%
Casualty: Inflated Billing	14	12	-2	-14%
Workers Comp: False SSN	174	160	-14	-8%

³ QCs can each contain up to 7 referral reasons.

⁴ Referral Reasons which were identified in less than 10 QCs in 2011 were removed from this table for accuracy.

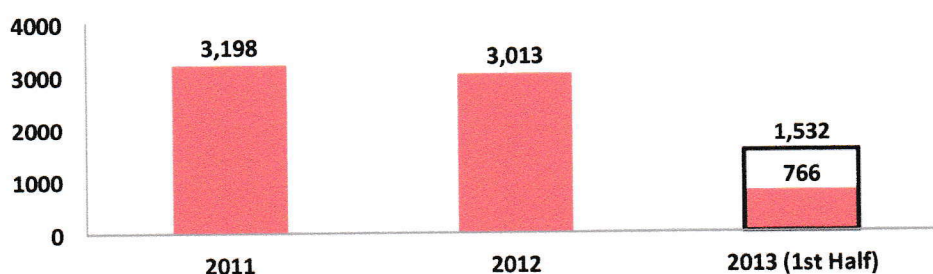
"Miscellaneous: Attorney Activities" had the largest percent increase in referral reasons, rising from ranking 21st in 2011 to ranking 14th in 2012. "Casualty: Slip and Fall" showed the largest percent decrease, descending from ranking 17th in 2011 to ranking 21st in 2012.

Workers' Compensation QCs: By Loss Date

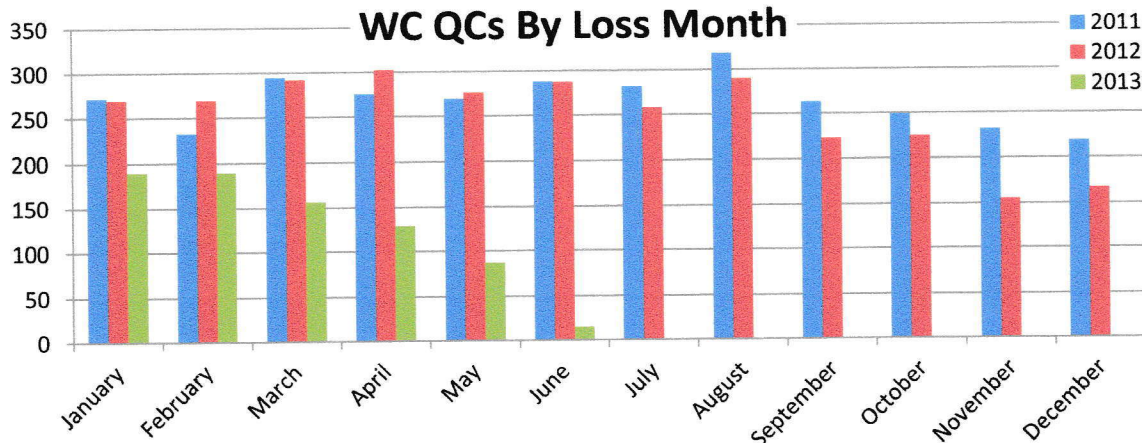
The WC QC data was also analyzed by the Date of Loss, the date the incident actually occurred that resulted in the filing of the claim. Of the 10,259 total WC QCs submitted from January 1, 2011 to June 30, 2013, 3,282 (32%) had a Date of Loss prior to January 1, 2011. The QCs that occurred prior to 2011 are not included in the graphs and analysis based on loss date. It is also important to note that some months, particularly the latter months of the data, will be underrepresented due to there being delays before claims are submitted as QCs⁵.

WC QCs by Loss Year

■ 2013 Projection



WC QCs By Loss Month



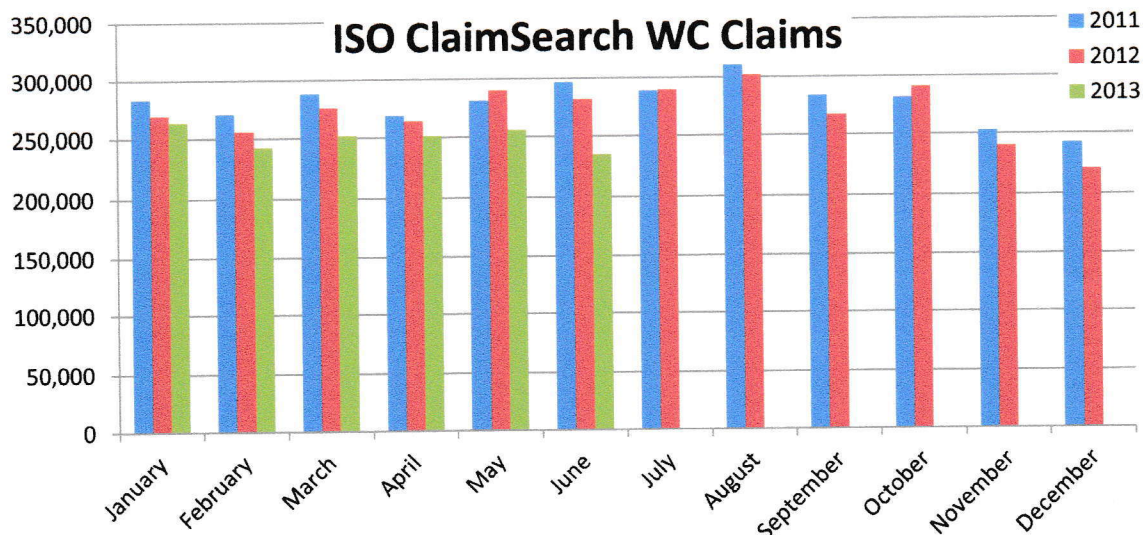
August 2011 was the month with the largest number of WC QC losses (322). Only 3 months had an increase in the number of WC QCs from 2011 to 2012: February, April, and May. All of the first 6 months declined in WC QCs from 2012 to 2013. The table on the next page shows the number of WC QCs per loss month and the change from year to year.

⁵ The average delay between date of loss and date of QC submission was significant (528 days).

Number of WC QCs by Month of Loss

Month	2011	2012	Difference	Percent Change	2013	Difference	Percent Change
January	272	269	-3	-1%	190	-79	-29%
February	233	269	36	15%	190	-79	-29%
March	294	292	-2	-0.7%	156	-136	-47%
April	275	302	27	10%	128	-174	-58%
May	269	276	7	3%	87	-189	-68%
June	288	287	-1	-0.3%	15	-272	-95%
July	282	258	-24	-9%			
August	322	290	-32	-10%			
September	263	223	-40	-15%			
October	249	225	-24	-10%			
November	232	155	-77	-33%			
December	219	167	-52	-24%			

ISO ClaimSearch All Claims data from 2011 through the first half of 2013 was also analyzed for comparison with the WC QC data:



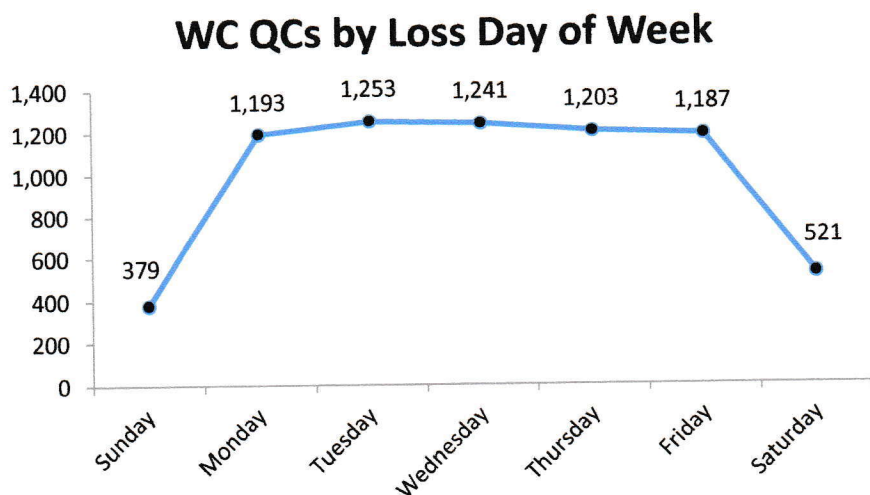
There were 3,349,925 total WC claims in 2011, 3,244,679 in 2012, and 1,498,725 through the first half of 2013 (compared to 1,689,017 through the first half of 2011 and 1,635,678 in the first half of 2012). Every month except May, July, and October saw a decrease in the number of WC claims from 2011 to 2012, and all six months of the first half of 2013 saw a decrease from 2012.

The following table shows the percentage of WC QCs relative to all WC claims, by month, from January 2011 to June 2013. In total, 0.10% of all WC claims in 2011 were reported as questionable, 0.09% in 2012, and 0.05% in the first half of 2013. Please note again though that there is often a delay between a claim occurring and the QC submission, and this factors into the declining ratios of QC submissions in the latter months of the data.

Percentage of WC QCs Relative to All WC Claims

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	0.10%	0.09%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.09%	0.09%	0.09%	0.09%
2012	0.10%	0.11%	0.11%	0.11%	0.10%	0.10%	0.09%	0.10%	0.08%	0.08%	0.06%	0.08%
2013	0.07%	0.08%	0.06%	0.05%	0.03%	0.01%						

An analysis of the days of the week that losses occurred on was performed as well. The below graph shows the number of WC QCs occurring on each day of the week from 2011 through the first half of 2013.



The distribution of WC QCs across weekdays was essentially even. Monday through Friday each had between 17-18% percent of the total WC QCs occurring in 2011, 2012, and the first half of 2013. The numbers drop off steeply on the weekends, with Saturday having more than Sunday.

Workers' Compensation QCs: By Geographic Location

Finally, the WC QCs submitted from January 1, 2011 to June 30, 2013 were analyzed by geographic location. The following table shows the number of WC QCs and state rank each year, as well as the number of WC QCs per 100,000 residents⁶ and the corresponding rankings:

State	2011				2012				First Half of 2013			
	WC QCs	Rank	WC QCs per 100K Pop.	Rank per 100K Pop.	WC QCs	Rank	WC QCs per 100K Pop.	Rank per 100K Pop.	WC QCs	Rank	WC QCs per 100K Pop.	Rank per 100K Pop.
Alabama	17	36	0.35	47	17	38 (tie)	0.35	48	9	37 (tie)	0.19	43
Alaska	4	48	0.55	41	5	49	0.68	44	1	49	0.14	44 (tie)
Arizona	77	15 (tie)	1.17	19	91	14	1.39	20	41	18	0.63	22
Arkansas	15	37 (tie)	0.51	42	21	32 (tie)	0.71	42	3	45 (tie)	0.10	47
California	651	1	1.71	10	1015	1	2.67	3	604	1	1.59	4
Colorado	54	19	1.04	23	44	24	0.85	37	26	20 (tie)	0.50	28 (tie)
Connecticut	102	10	2.84	3	174	7	4.85	1	77	8	2.14	2
Delaware	30	28	3.27	1	21	32 (tie)	2.29	5	10	35 (tie)	1.09	8
District of Columbia	13	42	2.06	7	8	46 (tie)	1.27	22	8	39 (tie)	1.27	6
Florida	137	7	0.71	36	150	10	0.78	39	82	7	0.42	36
Georgia	99	11	1.00	24	117	12	1.18	26	56	11	0.56	24
Hawaii	5	46 (tie)	0.36	46	14	42 (tie)	1.01	32	6	42	0.43	35
Idaho	15	37 (tie)	0.94	27	23	30	1.44	18	8	39 (tie)	0.50	28 (tie)
Illinois	293	2	2.28	5	260	3	2.02	7 (tie)	136	3	1.06	9
Indiana	44	23	0.67	39	80	16 (tie)	1.22	23	44	17	0.67	21
Iowa	52	20	1.69	11	51	22	1.66	12	23	24	0.75	18
Kansas	39	25	1.35	15	43	25	1.49	17	22	25	0.76	17
Kentucky	21	30 (tie)	0.48	43	25	29	0.57	45	12	31 (tie)	0.27	41
Louisiana	21	30 (tie)	0.46	44	17	38 (tie)	0.37	47	11	34	0.24	42
Maine	10	44	0.75	34 (tie)	14	42 (tie)	1.05	29	52	13	3.91	1
Maryland	75	17	1.27	16	92	13	1.56	16	59	10	1.00	10
Massachusetts	135	8	2.03	8	160	8	2.41	4	60	9	0.90	15
Michigan	78	13 (tie)	0.79	33	118	11	1.19	24 (tie)	54	12	0.55	25 (tie)
Minnesota	37	27	0.69	38	48	23	0.89	35	26	20 (tie)	0.48	30
Mississippi	18	35	0.60	40	31	28	1.04	30	12	31 (tie)	0.40	38
Missouri	90	12	1.49	13	82	15	1.36	21	28	19	0.46	31 (tie)

⁶ US Census Bureau – 2012 population estimates

(continued....)		2011				2012				First Half of 2013			
State	WC QCs	Rank	WC QCs per 100K Pop.	Rank per 10K Pop.	WC QCs	Rank	WC QCs per 100K Pop.	Rank per 10K Pop.	WC QCs	Rank	WC QCs per 100K Pop.	Rank per 10K Pop.	
Montana	14	40 (tie)	1.39	14	21	32 (tie)	2.09	6	15	29 (tie)	1.49	5	
Nebraska	41	24	2.21	6	34	27	1.83	9	18	26	0.97	11	
Nevada	11	43	0.40	45	19	37	0.69	43	4	43 (tie)	0.14	44 (tie)	
New Hampshire	21	30 (tie)	1.59	12	21	32 (tie)	1.59	15	9	37 (tie)	0.68	20	
New Jersey	77	15 (tie)	0.87	29	80	16 (tie)	0.90	34	49	14	0.55	25 (tie)	
New Mexico	20	33 (tie)	0.96	25	16	40	0.77	40 (tie)	12	31 (tie)	0.58	23	
New York	161	5	0.82	31	344	2	1.76	10 (tie)	183	2	0.94	14	
North Carolina	120	9	1.23	17	157	9	1.61	14	45	15 (tie)	0.46	31 (tie)	
North Dakota	1	50	0.14	48	1	51	0.14	49	0	50 (tie)	0.00	50 (tie)	
Ohio	5	46 (tie)	0.04	49	10	45	0.09	51	2	47 (tie)	0.02	49	
Oklahoma	45	21 (tie)	1.18	18	77	18	2.02	7 (tie)	17	27	0.45	33	
Oregon	45	21 (tie)	1.15	21 (tie)	40	26	1.03	31	16	28	0.41	37	
Pennsylvania	148	6	1.16	20	210	5	1.65	13	122	4	0.96	12	
Rhode Island	20	33 (tie)	1.90	9	15	41	1.43	19	10	35 (tie)	0.95	13	
South Carolina	38	26	0.80	32	56	21	1.19	24 (tie)	24	23	0.51	27	
South Dakota	7	45	0.84	30	7	48	0.84	38	3	45 (tie)	0.36	39	
Tennessee	74	18	1.15	21 (tie)	70	20	1.08	28	45	5 (tie)	0.70	19	
Texas	183	3	0.70	37	228	4	0.87	36	115	5	0.44	34	
Utah	26	29	0.91	28	22	31	0.77	40 (tie)	4	43 (tie)	0.14	44 (tie)	
Vermont	15	37 (tie)	2.40	4	11	44	1.76	10 (tie)	7	41	1.12	7	
Virginia	78	13 (tie)	0.95	26	76	19	0.93	33	25	22	0.31	40	
Washington	2	49	0.03	50	8	46 (tie)	0.12	50	2	47 (tie)	0.03	48	
West Virginia	14	40 (tie)	0.75	34 (tie)	21	32 (tie)	1.13	27	15	29 (tie)	0.81	16	
Wisconsin	176	4	3.07	2	192	6	3.35	2	94	6	1.64	3	
Wyoming	0	51	0.00	51	3	50	0.52	46	0	50 (tie)	0.00	50 (tie)	

California was ranked 1st in number of WC QCs referred each year. When ranked by WC QCs per 100,000 residents, Delaware ranked 1st in 2011, Connecticut ranked 1st in 2012, and Maine ranked 1st in the first half of 2013.

When the numbers of WC QC submissions in the first half of 2013 are compared to those of 2012, 23 states are on track to have more QC submissions in 2013 than 2012, while 28 are on track for fewer submissions in 2013 than 2012.

The 10 states⁷ which realized the greatest increase by percentage and the greatest decrease by percentage from 2011 to 2012 are listed below:

Largest Increase by Percentage 2011-2012			Largest Decrease by Percentage 2011-2012		
State	% Change	Change in QCs	State	% Change	Change in QCs
Washington	300%	6	District of Columbia	-38%	-5
Hawaii	180%	9	Delaware	-30%	-9
New York	114%	183	Vermont	-27%	-4
Ohio	100%	5	Rhode Island	-25%	-5
Indiana	82%	36	New Mexico	-20%	-4
Nevada	73%	8	Louisiana	-19%	-4
Mississippi	72%	13	Colorado	-19%	-10
Oklahoma	71%	32	Nebraska	-17%	-7
Connecticut	71%	72	Utah	-15%	-4
California	56%	364	Illinois	-11%	-33

Since the number of WC QCs increased overall from 2011 to 2012, the top increases are significantly larger than the top decreases.

Below are the loss cites with 15 or more WC QC submissions in 2011, 2012, and the first half of 2013⁸:

2011 City	2011 QCs
Chicago, IL	59
New York, NY	38
Los Angeles, CA	37
Secaucus, NJ	29
Houston, TX	25
Phoenix, AZ	18
San Diego, CA	18
Omaha, NE	16
Fontana, CA	15

2012 City	2012 QCs
Los Angeles, CA	81
New York, NY	61
Chicago, IL	53
San Diego, CA	26
Charlotte, NC	25
Oklahoma City, OK	23
Houston, TX	23
Phoenix, AZ	17
Saint Louis, MO	16
Milwaukee, WI	15
San Antonio, TX	15

2013 City	2013 QCs
Los Angeles, CA	45
Chicago, IL	37
New York, NY	32

There are 3 cities that appear in each year's list of the loss cities with the most WC QC submissions: Chicago, IL; New York, NY; and Los Angeles, CA. Los Angeles, CA replaced Chicago, IL as the 1st ranked city in 2012 and the first half of 2013.

⁷ States that had 0 QCs in either of the years were excluded from the tables.

⁸ Only cities with 15 or more QCs were included in this portion of the analysis. Also, not all QCs list a loss city: 803 QCs in 2011, 1,398 QCs in 2012, and 847 QCs in the first half of 2013 did not list a loss city.

Conclusion

The number of WC QCs submitted increased from 3,474 in 2011, to 4,460 in 2012, and with 2,325 in the first half of 2013 the number of WC QCs is on course to increase again in 2013. Although the number of WC claims in ISO is decreasing, the number being submitted as QCs has been increasing each year. WC claims in ISO ClaimSearch decreased from 3,349,925 in 2011, to 3,244,679 in 2012, and again it appears the number will decrease in 2013 based on the 1,498,725 claims in the first half of the year.

Claims with a "Medical" Loss Type were the most common (62% of the total), and "Liability" claims were the 2nd most common (37%). The top 4 Referral Reasons were the same each year, with "Claimant Fraud" topping the lists.

August 2011 was the month with the largest number of WC QC losses (322). Only 3 months had an increase in the number of WC QCs from 2011 to 2012: February, April, and May. All of the first 6 months declined in WC QCs from 2012 to 2013, but there is a significant delay before many claims are submitted as QCs, and this is reflected in the analysis by Date of Loss.

California was the state with the largest number of WC QCs in each year. When ranked by WC QCs per 100,000 residents, Delaware ranked 1st in 2011, Connecticut ranked 1st in 2012, and Maine ranked 1st in the first half of 2013.

Chicago, IL was the city with largest number of WC QCs in 2011, however, in 2012 and the first half of 2013 Los Angeles, CA replaced it as the top ranked city.