

Worldwide Fraud Trends and Conducting International Investigations

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I. Introduction

There is little question that financial services firms and insurance carriers are under greater pressure than ever before from crime rings and sophisticated fraudsters. Despite stronger regulations and increased investments in controls and countermeasures, fraud remains a major threat to companies worldwide. And those threats are increasingly emerging from far-flung locations, where regulatory oversight is often thin. In fact, more than 43 percent of companies report one or more significant international economic crimes and the average fraud-loss per company has increased nearly 40 percent in the last two years.

With so much at stake and so little direct control, insurance carriers need more effective ways to conduct investigations in areas where they may have no meaningful presence and where they lack the proper resources and contacts to more closely examine questionable or suspicious claims. They need to understand what is “behind the paper trail” that claimants are presenting to reduce or eliminate instances of fraudulent claims that drive up costs for the vast majority of honest and legitimate policyholders.

The heart of every insurance investigation is the ability to acquire and analyze information in very uncertain settings. Insurance investigation executives need to be able to answer key questions, such as:

- Is the information credible?
- Is the investigator demonstrating true diligence in pursuing the case?
- What information can be expected to be available?
- What is the legal environment like?
- Is local corruption a possibility or likelihood?
- What are the prevailing attitudes toward insurance fraud and the challenges in prosecuting criminals?
- What are the cost tradeoffs between the need to budget properly and the need to “win the war” against fraudulent claims?

PRIMARY WORLDWIDE FRAUD TRENDS

- **Mexico** – has become a magnet for homicides and questionable claims. Cartels are now threats to insurance companies demanding payments in exchange for protection against fraudulent claims and violence against its employees.
- **Venezuela** – continuing pressures from government to end private banking and capitalism, has increased corruption and fraudulent claims.
- **Haiti** – systemic corruption and poverty makes Haiti a heaven for fraudulent documentation and perpetual fraudulent claims.
- **Laos/Vietnam** - Immigration trends and closed societies are visible in the number of fraudulent claims coming from these countries. Greater opportunity for success of fraud arbitrage from Mainland China.
- **Middle East** – continued political strife, corruption, lack of investigative resources, closed societies, will make this prime for fraudulent claims against the West.
- **China** – increased migration to the West will increase the number of fraudulent claims. Chinese are well versed in life insurance. Life insurance substitutions are a large trend such as transient fraud rings in the US and Canada.

- **India** – India now encompasses 15 percent annualized international economic growth and immigration trends to the West. Dichotomy of a well- educated society along with persistent corruption.

II. Best Practices for a Legal Investigation

Meeting these challenges and answering these questions on foreign soil becomes exponentially more complex and requires a careful plan. The following summarizes the best practices for conducting and managing effective international investigations regarding suspicious insurance claims:

- 1. Know the Investigative Requirements** – While there are commonalities across many insurance investigations – particularly death verifications – it's also true that no two investigations are alike. Before you initiate an investigation, be sure you've assessed the key parameters. For instance, would the investigation involve a person or issue in another country? Will you need information that can only be obtained in person? Will cost-effective telephone interviews or written correspondence suffice – or will you need a face-to-face representative? Perhaps the subjects under investigation will be returning to the U.S. soon – find out their travel schedule and plan accordingly. And finally, get a sense for whether the subject is cooperative or combative – that will drive many of your decisions.
- 2. Identify a Qualified Investigator** – In many instances, insurance carriers find that it's more cost-effective to hire local, in-country investigators to carry out carefully tailored investigations. But where do you find trustworthy agents to perform these duties? There are several avenues to pursue. First, speak to your own company's employees at the offices nearest the site of the proposed investigation. They may have agents and resources they've consulted previously and can tell you the good and the bad of local candidates. The U.S. Embassy or Consulate is another good resource to consult. Diplomatic envoys are often in contact with local investigators who inquire about deaths of American citizens on foreign soil. Local chapters of trade associations (networking groups, IASIU, NICB, etc.) can often provide solid referrals. Some U.S. vendors who have foreign offices in the region can often refer you to agents that they've previously used.
- 3. Verify the Qualifications and Licensing** – Once you've identified a potential candidate for performing your local investigation, it's time to do a little investigating of your own. That is, be sure to check the background of your potential partner in three areas: abilities, limitations, and reliability. Ask your candidate to provide a couple of references in local law enforcement. Does he have the contacts that can cooperate with him to obtain sometimes-sensitive information? Does he know the players and does he possess the cultural and linguistic knowledge to move easily and discreetly in the region? Finally, these investigations require the utmost in integrity, confidentiality, and reliability. Make sure you obtain references who can vouch for these important capabilities.
- 4. Assess Any Potential Communication Gaps** – Time, distance, and language barriers can create challenging obstacles for carriers and investigators alike. What language does the investigator speak? Do they speak English or do you speak their language? Or do you have someone who speaks that language or have access to a qualified professional interpreter? Pay particular attention to the nuances in terminology and jargon. When it comes to written documents, make sure you have a solid plan for handling translations. Free online translation services can provide a starting point. Paid translation services provider a better-quality product, of course. If the investigator provides his report in English, that may require an additional fee.

5. **Understand any Foreign Legal Requirements** – Ask your investigator if there are any specific legal requirements that must be complied with. Are there international laws governing an investigation arrangement? Do you need to sign an agreement or contract? What about evidence collection – are there access restrictions (such as the European Privacy Data Act) that will impact your investigation?
6. **Understanding regional and international laws** – Not every foreign investigation requires a foreign agent. Some cases – or even early steps such as Internet research – can be easily and cost-effectively handled from the U.S. When engaging a local agent, make sure they understand international laws. Is the client familiar with the Foreign Corrupt Practices Act and how it impacts investigations and litigation?
7. **Coordination with Local Law Enforcement** – Law enforcement agencies offer important resources for any investigation. That starts here in the U.S. with federal agencies such as the FBI (which also stations its agents at foreign embassies). Even if they don't have specifics about a case, they are invaluable for suggesting contacts and investigative avenues to pursue. It's a two-way street, of course. You might be able to offer them information that can potentially aid in any prosecution or restitution/recovery efforts. Also, don't overlook the assistance that foreign law enforcement agencies can provide. It's most helpful if your local investigator has good connections with these professionals.
8. **Determine Travel Requirements** – Quite simply: Is there a *need* for you to go on-site? Does the size/basis of the claim and potential for fraud merit your presence there? What added value do you bring? Many carriers find that competent local representation from skilled agents is the proper cost-effective strategy.
9. **Ensure Timely Reporting** – It's easy to overlook, but you need to ensure that you receive timely reporting on open cases. Claim handlers must comply with U.S. claim reporting requirements so regular updates are essential. Those reports should be governed by the same policy requirements as found in the U.S. – while overcoming sometimes-significant constraints due to time differences and other logistics. It is a safe bet for you to assume that there *will* be unforeseeable delays in a typical foreign investigation. Work carefully with your local agent to minimize these pitfalls and stay on track.

As the sophistication of various insurance-fraud schemes increases, carriers need to be prepared to zealously guard against false claims and unnecessary losses to cheaters and fraudsters. By carefully devising a thoughtful strategy for conducting global investigations, carriers can minimize these losses and preserve shareholder value.

