



**The Psychology of a
Workers Comp
Fraudster:
Criminological
Theory and Fraud**

Michael Sikba, MBA, PhD
The Fraudster
www.thefraudster.com
michael.sikba@gmail.com
1-510-527-2222







Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



The Psychology of a Workers Comp Fraudster: Criminological Theory and Fraud

J. Michael Skiba, MBA, PhD
"Dr. Fraud"
www.drfraud.org
jmichaelskiba@gmail.com
1-518-527-2222




Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies




Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Genesiology

-Scientific study of criminal behavior
-What causes crime?



Focus: Reduce Opportunity!

- How does a fraud perpetrator exploit weaknesses in the system of controls?
- What are the most common types of fraud?
- What are the most common types of fraud?
- What are the most common types of fraud?

Workers Comp Counter Fraud Efforts

- Identify and describe common types of fraud
- Discuss the role of the insurance carrier, the employer, the attorney, the adjuster, the medical provider, the police, the prosecutor, the courts, and the legislature
- Describe the role of the insurance carrier, the employer, the attorney, the adjuster, the medical provider, the police, the prosecutor, the courts, and the legislature

Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Red Flags



The Psychology of a Workers Comp Fraudster: Criminological Theory and Fraud



J. Michael Skiba, MBA, PhD
"Dr. Fraud"

www.drfraud.org

jmichaelskiba@gmail.com

1-518-527-2222

1)
2
3
4

Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Cost of Fraud



- 1) What percentage of claims are fraudulent?
- 2) What is the global cost of fraud?
- 3) What is the cost per household of fraud?



Cost of Fraud



- 1) What percentage of claims are fraudulent? **10-20%**
- 2) What is the global cost of fraud? **U.S.-\$30 Billion (25% from W/C or \$7.5 Billion) , Canada-\$3 Billion, Germany-4 Billion EUR**
- 3) What is the cost per household of fraud? **\$1,000.**



Public Acceptance



What percentage of the public believes that it is acceptable to commit fraud?

- a) 5%
- b) 10%
- c) 25%
- d) 50%

Public Acceptance



What percentage of the public believes that it is acceptable to commit fraud?

- a) 5%
- b) 10%
- c) **25%**
- d) 50%



Public Acceptance



What percentage of employees believe that it is acceptable to “pad” a claim?

- a) 5%
- b) 14%
- c) 34%
- d) 41%

Public Acceptance



What percentage of employees believe that it is acceptable to “pad” a claim?

- a) 5%
- b) 14%
- c) **34%**
- d) 41%



Public Acceptance



What percentage of the public believes that they would not get caught if they filed a fraudulent claim?

- a) 5%
- b) 10%
- c) 25%
- d) 50%

Public Acceptance



What percentage of the public believes that they would not get caught if they filed a fraudulent claim?

- a) 5%
- b) 10%
- c) 25%
- d) **50%**



Public Acceptance



What percentage of employees are aware of a fraud currently occurring in their present workplace?

- a) 5%
- b) 14%
- c) 21%
- d) 35%

Public Acceptance



What percentage of employees are aware of a fraud currently occurring in their present workplace?

- a) 5%
- b) 14%
- c) **21%**
- d) 35%





Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies




The Psychology of a Workers Comp Fraudster: Criminological Theory and Fraud

J. Michael Skiba, MBA, PhD
"Dr. Fraud"
www.drfraud.org
jmichaelskiba@gmail.com
1-518-527-2222


Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies




Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Genesiology

- Scientific study of criminal behavior
- What causes crime?



Focus: Reduce Opportunity!

- How does a fraud perpetrator exploit weaknesses in the system of controls?
- What are the consequences of opportunity on the system of controls?
- What are the consequences of opportunity on the system of controls?

Workers Comp Counter Fraud Efforts

- Identify and describe the various types of fraud
- Discuss the various types of fraud
- Describe the various types of fraud
- Describe the various types of fraud

Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Red Flags



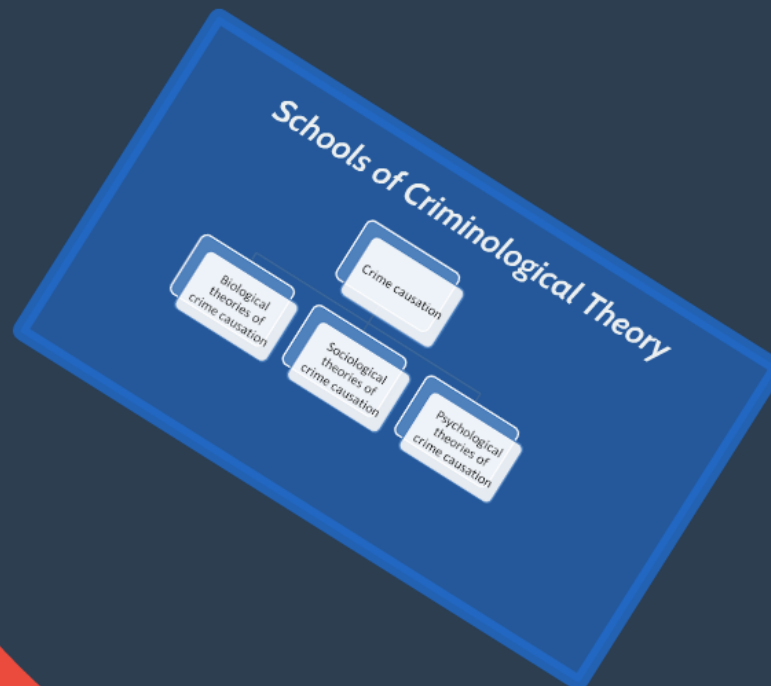

Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies

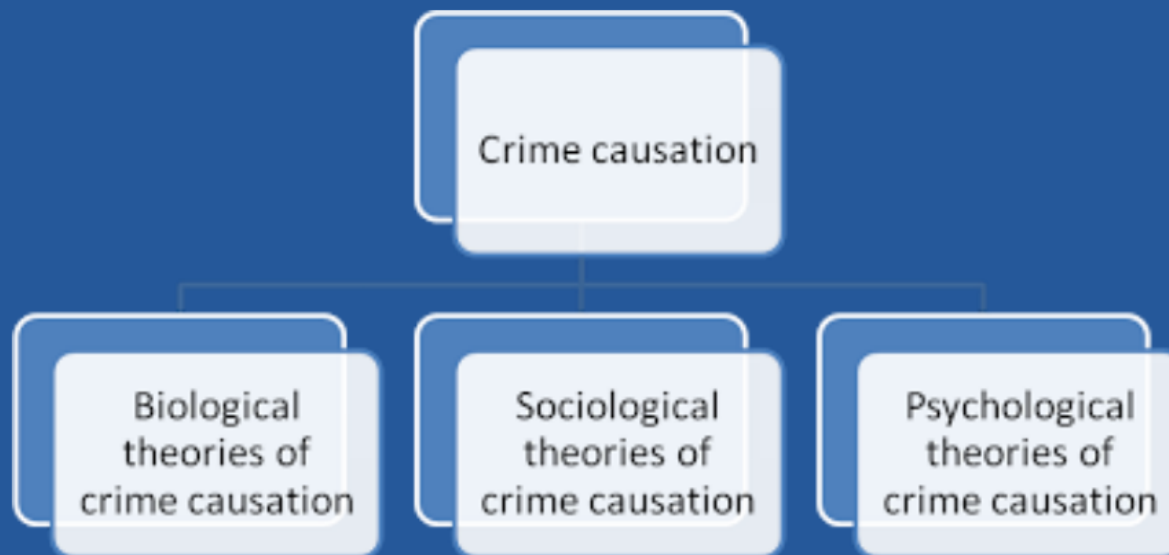


Criminology

- Scientific study of criminal behavior
- What causes crime?



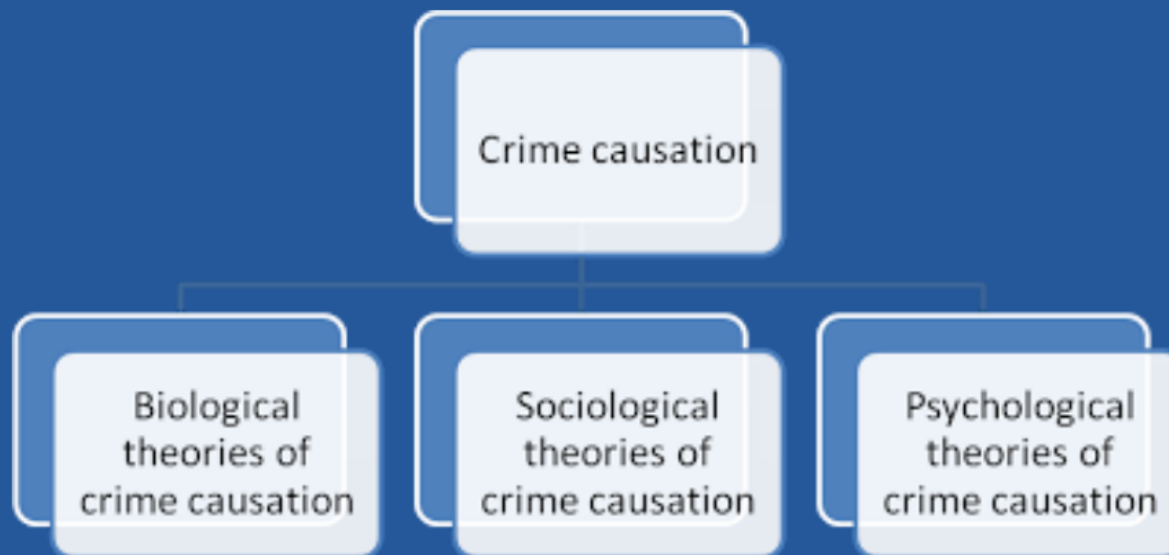
Schools of Criminological Theory





You **Tube**

Schools of Criminological Theory



Sociological Criminological Theory

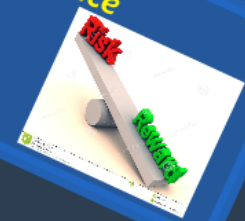
Strain/Entitlement Theory

- Frustration
- Can't obtain goals through normal means
- Resort to crime (fraud)



Rational Choice

- Classical
- Cost-benefit analysis
- Risk vs. reward



Justification

- "Get Even" syndrome
- Low wages/unfavourable conditions
- Make employees happy

Deterrence Theory

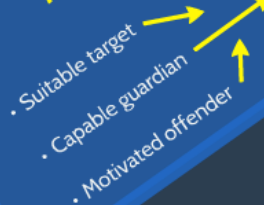
- High risk deters
- Make a rational decision
- Public awareness



Routine Activities Theory

- Suitable target
- Capable guardian
- Motivated offender

FRAUD



Strain/Entitlement Theory

- Frustration
- Can't obtain goals through normal means
- Resort to crime (fraud)



Deterrence Theory

- High risk deters
- Make a rational decision
- Public awareness



Routine Activities Theory

- Suitable target
 - Capable guardian
 - Motivated offender
- FRAUD**
-
- ```
graph LR; A[• Suitable target] --> F[FRAUD]; B[• Capable guardian] --> F; C[• Motivated offender] --> F;
```

## *Rational Choice*

- Classical
- Cost-benefit analysis
- Risk vs. reward



## *Justification*

- "Get Even" syndrome
- Low wages/unfavorable conditions
- Make employees happy



You **Tube**





Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



# The Psychology of a Workers Comp Fraudster: Criminological Theory and Fraud

J. Michael Skiba, MBA, PhD  
"Dr. Fraud"  
[www.drfraud.org](http://www.drfraud.org)  
[jmichaelskiba@gmail.com](mailto:jmichaelskiba@gmail.com)  
1-518-527-2222




Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Genesiology

-Scientific study of criminal behavior  
-What causes crime?



Focus: Reduce Opportunity!

- How does a fraud perpetrator exploit weaknesses in the system of controls?
- What are the most common types of fraud?
- What are the most common types of fraud?
- What are the most common types of fraud?

Workers Comp Counter Fraud Efforts

- Identify and deter fraudulent claims as early as possible
- Develop the most effective detection system for the workers' compensation claims
- Promote the most effective fraud prevention strategies
- Structure strong counter fraud efforts such as early identification
- Identify the most common types of fraud
- Identify the most common types of fraud

Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Red Flags

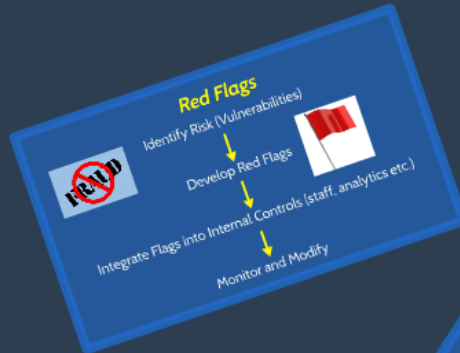


## Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



# Red Flags



**Vulnerabilities**

- Underwriting
- Claims
- SIU referral process
- Medical provider fraud
- Internal-theft

The slide features a red flag icon in the top left corner and a small graphic of a red flag on a pole in the bottom right corner.

**Red Flags**

Employee:

- Multiple prior injuries (soft tissue) and prior history of short term employment
- Significant change in work status (retire, seasonal etc.)
- No witnesses
- Claimant change in work status (retire, seasonal etc.)
- Monthly report to settle
- Delay in report for Injury Accident
- Difficulty treating
- Poor attendance prior to incident
- HR issues prior to loss (passed for promotion, no raise, on probation etc.)

The slide features a red flag icon in the top left corner.

**Red Flags**

Employer:

- High premium areas are at risk
- Policy mis-representation
- Mis-classification of workers-high vs. low risk, usually discovered when claim is filed
- "Ghost employees", under-reporting payroll, hidden employees, and paying off the books

**FRAUD**

The slide features a red flag icon in the top left corner and a red banner with the word "FRAUD" in white capital letters in the bottom right corner.

**Red Flags**

Provider and Ring Activity:

- Medical treatment is not provided
- Medical treatment is inflated
- Same doctor/lawyer/medical facility
- Medical treatment is provided by a suspicious facility
- Employee is represented by a questionable attorney
- Immediate attorney representation
- Soft tissue injuries and excessive treatment

The slide features a red flag icon in the top left corner.

# Red Flags



Identify Risk (Vulnerabilities)



Develop Red Flags



Integrate Flags into Internal Controls (staff, analytics etc.)



Monitor and Modify





## ***Vulnerabilities***

- Underwriting
- Claims
- SIU referral process
- Medical provider fraud
- Internal-theft





# *Red Flags*

## Employee:

- Multiple prior injuries (soft tissue) and prior history of short term employment
- Significant change in work status (retire,seasonal etc..)
- No witnesses
- Claimant eager to settle
- Monday report for Friday Accident
- Delay in treatment
- Difficulty reaching via phone
- Poor attendance prior to incident
- HR issues prior to loss (passed for promotion, no raise, on probation etc..)



## *Red Flags*

### Employer:

- High premium areas are at risk
- Policy mis-representation
- Mis-classification of workers-high vs. low risk, usually discovered when claim is filed
- "Ghost employees", under-reporting payroll, hidden employees, and paying off the books





## *Red Flags*

### Provider and Ring Activity:

- Medical treatment is not provided
- Medical treatment is inflated
- Same doctor/lawyer/medical facility
- Medical treatment is provided by a suspicious facility
- Employee is represented by a questionable attorney
- Immediate attorney representation
- Soft tissue injuries and excessive treatment



You **Tube**




Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



# The Psychology of a Workers Comp Fraudster: Criminological Theory and Fraud

J. Michael Skiba, MBA, PhD  
"Dr. Fraud"  
www.drfraud.org  
jmichaelskiba@gmail.com  
1-518-527-2222




Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Genesiology

- Scientific study of criminal behavior
- What causes crime?



**Focus: Reduce Opportunity!**

- How does a fraud perpetrator exploit weaknesses in the system of controls?
- What are the most common types of fraud?
- What are the most common types of fraud?
- What are the most common types of fraud?

**Workers Comp Counter Fraud Efforts**

- Identify and deter potential fraudsters as early as possible
- Develop a risk management strategy for the workers comp system
- Promote a culture of integrity and ethics
- Strengthen internal controls and early detection
- Implement a system of controls that can detect and prevent fraud
- Provide regular training to all employees

Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies



Red Flags



## Roadmap:

- 1) Introduction
- 2) Criminological Theory
- 3) Red Flags
- 4) Preventative Strategies**



## ***Workers Comp Counter Fraud Efforts***

- Detect and identify suspicious claims as quickly as possible; this creates the much needed “deterrent effect” in the workplace. Software detection as a tool is highly effective
- Promote a zero tolerance fraud policy
- Showcase strong counter fraud efforts such as early identification
- Make examples of cases where employees were found guilty of fraud
- Assign medical reviews very quickly to reduce the malingering claimant





## ***Focus***

# ***Reduce Opportunity!***

- How might a fraud perpetrator exploit weaknesses in the system of controls?
- What areas does the company/agency suffer losses (vulnerabilities)?
- What external factors (red flags) should the company/agency be most concerned with?



## *Warning Statements*

- Cheating behavior is more likely when there is no perceived harm to others
- Cheating is related to detection and penalty (theory)
- Integrity deceleration statement -triggers internal honesty
- Fraud warning statement-zero tolerance



# *Training and Awareness*

- Fix the social problem
- Showcase zero tolerance-press releases
- Increase awareness-internal and external training



# Leverage Technology

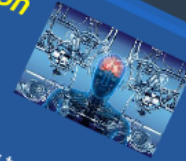
## Anti-Fraud Programs

- 95% carriers felt analytics was the future of fraud prevention
- 66% felt very vulnerable with current system-lack of knowledge
- Internal or external
- Used at any stage-Application, UW, Claims, SIU
- ROI 7:1
- 10,000 batch-30% suspicious



## SIU Analyst or Liaison

- Need a human component
- Need monitoring and modification as new trends develop
- Gatekeeper-Routine Activities Theory

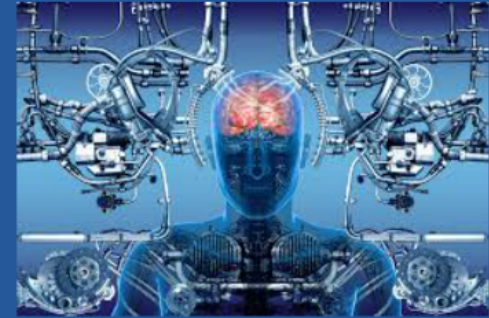


## Link Analysis

- Shows patterns and relationships. Phone, addresses, VIN's, emails, IP, fax, social networking
- Shows people are connected when they claim they are not
- Staged losses
- Shows history of accidents



## *SIU Analyst or Liaison*



- Need a human component
- Need monitoring and modification as new trends develop
- Gatekeeper-Routine Activities Theory

## *Link Analysis*

- Shows patterns and relationships. Phone, addresses, VIN's, emails, IP, fax, social networking
- Shows people are connected when they claim they are not
- Staged losses
- Shows history of accidents



## *Anti-Fraud Programs*

- 95% carriers felt analytics was the future of fraud prevention
- 66% felt very vulnerable with current system-lack of knowledge
- Internal or external
- Used at any stage-Application, UW, Claims, SIU
- ROI 7:1
- 10,000 batch-30% suspicious

# Leverage Technology

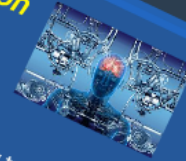
## Anti-Fraud Programs

- 95% carriers felt analytics was the future of fraud prevention
- 66% felt very vulnerable with current system-lack of knowledge
- Internal or external
- Used at any stage-Application, UW, Claims, SIU
- ROI 7:1
- 10,000 batch-30% suspicious



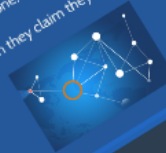
## SIU Analyst or Liaison

- Need a human component
- Need monitoring and modification as new trends develop
- Gatekeeper-Routine Activities Theory



## Link Analysis

- Shows patterns and relationships. Phone, addresses, VIN's, emails, IP, fax, social networking
- Shows people are connected when they claim they are not
- Staged losses
- Shows history of accidents









| Vulnerabilities | Red Flags |
|-----------------|-----------|
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |
|                 |           |

| Vulnerabilities                         | Red Flags                                                                                                     |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------|
| 1) Underwriting - downsized from 3 to 1 |                                                                                                               |
| Policy mis-rep--residency               | Policy zip code and accident location are different<br>Policy zip code and cell phone area code are different |
| Claim on new policy                     | Claim within 10/20/30 days of new policy<br>Priors with losses on new policy                                  |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |
|                                         |                                                                                                               |



**KEEP  
CALM  
AND  
STOP  
FRAUD**

# The Psychology of a Workers Comp Fraudster: Criminological Theory and Fraud



J. Michael Skiba, MBA, PhD  
"Dr. Fraud"

[www.drfraud.org](http://www.drfraud.org)

[jmichaelskiba@gmail.com](mailto:jmichaelskiba@gmail.com)

1-518-527-2222

1)  
2  
3  
4