

Intelligence Brief 1.3

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Insurance Fraud: A Source of Terror Funding?

“It is very important to concentrate on hitting the U.S. economy through all possible means.”

So said Osama bin Laden in an anti-American tirade broadcast by the Al-Jazirah television network on December 27, 2001, in which he exhorted his followers to attack the United States through both military and economic means in order to bring about America’s collapse.ⁱ Such evidence of terrorist organizations using “economic means” in the form of every manner of crime – kidnapping, drug trafficking, grand larceny, credit card fraud, and innumerable others – is overwhelming.

The production and sale of opium and its derivative products – principally heroin – has been a key source of funds for the Taliban of Afghanistan – the Islamist fundamentalists controlling and terrorizing much of the Afghan population. The Taliban reportedly rely heavily on opium production, particularly in Afghanistan’s Helmand province, as the source of their funding. According to an October 2001 Congressional Research Service report discussing the Taliban in Afghanistan, “[T]he regime uses poppy-derived income to arm, train and support fundamentalist groups including the Islamic Movement of Uzbekistan (IMU) and the Chechen resistance.”ⁱⁱ The economic and societal impact of that heroin on American streets is enormous.

In a story discussing terrorist financing through auto theft rings, CNN reporter Karen Schaler cited a Miami-Dade police lieutenant, who heads the Miami-Dade Auto Theft Task Force: “Stolen vehicles are a means for financing terrorist activities worldwide. This is one of the new areas we’ve identified that terrorists are turning to to fund their activities.”ⁱⁱⁱ

Similarly, insurance fraud, including life insurance fraud, has become a vehicle for the generation of terror-funding. According to a 2006 report issued by the International Association of Insurance Supervisors (IAIS), two “students” and brothers, Yasser Mohammed Shaweesh and Ismail Abu Shaweesh were recruited into the al Qaeda terrorist organization in Dusseldorf, Germany and attempted to take out an 800,000 Euro (approximately US \$1 million) insurance policy on Yasser, who reportedly planned to fake a fatal auto accident to claim the benefit on the policy in order to fund international terrorism. Yasser was scheduled to later become a suicide bomber in Iraq. Both men were charged with ten counts of fraud and 23 counts of attempted fraud.^{iv} Yasser and Ismail were convicted and sentenced to six and three and one half years, respectively.^v

Several years ago, I was involved in the investigation of a life insurance claim investigation involving an insurance policy with a face value in excess of \$80 million. The insured, the fictitious cousin of the beneficiary, reportedly died in a car crash in his native Pakistan. Eventually the claim was shown to be fraudulent, with the “insured” being a fictitious individual invented on paper by the beneficiary. The beneficiary was eventually convicted and sentenced to nine years in prison on various fraud charges. While, there was no evidence in this case that the perpetrators of the fraud had terror links, given the level of jihadist sympathy found in the Pakistani populace, it seemed a real possibility that those involved in the fraud may have been motivated by a desire to fund extremist activities. \$80 million could pay for considerable quantities of munitions and cover substantial operational expenses for a terror group.

If you can place yourself in the mind of an America-hating terrorist and try to conceive of ways to fund operations that will kill innocent Westerners in terrorist attacks, what better way than to defraud Western insurance companies through bogus life insurance claims? High dollar insurance policies can be taken out in the United States, the benefits of which represent a fortune in most Third World countries. Bogus proof-of-death documents can be easily manufactured or purchased in many, if not most, less developed countries. U.S. courts place the burden of disproving the legitimacy of those proof-of-death documents on the insurance company, versus placing the burden on the claimant to prove their legitimacy. It would be difficult, if not impossible, and expensive to compel witnesses in the foreign country to come to the United States to testify on behalf of the insurance company. Time constraints imposed by state insurance laws on insurance companies to pay out on claims work against thorough investigation by the insurers, and the sclerotic pace of life and bureaucracy in most Third World countries defy rapid investigation.

In short, the deck is stacked against the insurance companies in favor of the hypothetical terrorist intent on ripping them off. And what is the downside for the perpetrator? If their fraud is discovered, they can easily disappear back into their homeland, which may or may not have an extradition treaty with the United States. Moreover, if the fraud is discovered before the benefit is paid, the victimized insurance company may elect not to bring criminal charges against the individual (assuming he/she can be located in the United States or a country willing to extradite them) because the insurance company will not have been harmed by the fraud. So the likelihood of being caught, and if caught, prosecuted, is minimal. Many law enforcement agencies do not take insurance fraud as seriously as, say, homicide or armed robbery, because it is a “white collar crime” and the victims are large, well-healed anonymous companies. When law enforcement resources are stretched thin, both in the United States and, even more so, in many developing countries, investigation of insurance fraud is not likely to be a high priority relative to more violent or easier-to-investigate crimes.

How prevalent is terrorism-linked life insurance fraud? Reliable statistics relating to life insurance fraud are hard to come by, for various reasons. Competition between insurance companies, uneven reporting of

known or suspected life insurance fraud to law enforcement agencies by insurance companies, insurance fraud being prosecuted by disparate agencies with no centralized database of such cases all work against meaningful data in this respect. However, law enforcement agents involved in investigating terror-funding and life insurance fraud say it is a real and growing menace as terrorists seek to exploit vulnerabilities throughout Western societies.

As though claim analysts did not have enough to worry about, the potential of insurance dollars derived from bogus life insurance claims going to fund the killing of innocents is yet one more reason to closely scrutinize life claims, particularly those with an overseas aspect. In the current era, those in the private sector charged with due diligence responsibilities form an integral component of the broader national security apparatus.

Due Diligence from an Investigator’s Perspective

Praemonitus, praemunitus. That simple Latin phrase – literally translated as “forewarned, forearmed” – encapsulates in two words what astute businessmen have known for centuries: that conducting investigative due diligence before entering into a contract or business venture can prevent a commercial disaster.

Investigative due diligence – as distinct from financial due diligence or legal due diligence, which are terms that have somewhat narrowly defined meanings in the law – for the purposes of this article refers to conducting public records research and interviews in order develop a comprehensive picture of an individual or company in advance of conducting business with them.

The reasons to conduct proper investigative due diligence of one’s prospective business partners, particularly of overseas partners – be they joint venture partners, agents, representatives, subcontractors or acquisition targets – are legion. The potential monetary and reputational damage resulting from an unscrupulous foreign partner due to fraud are but two sources of concern. A more prosaic, yet no less worrisome, consideration is the legal and financial penalties that can be imposed by the federal government against a US firm found to be working with an unsavory overseas partner. Indeed, prosecutions by the government of US companies

under various statutes relating to offenses committed by foreign associates have been increasing.

One area of increasing scrutiny by the government is violations of the Foreign Corrupt Practices Act (FCPA) – a law promulgated during the Watergate-era, which was largely dormant until approximately a decade ago. It became particularly more popular among prosecutors after the passage of the Sarbanes-Oxley Act, which was passed in the wake of the Enron scandal. The FCPA's provisions are designed to prevent bribery of foreign government officials by US businessmen for the purpose of gaining a commercial advantage.

In December 2008, the German company Siemens (whose stock trades in the United States) settled with the US Justice Department, agreeing to pay \$800 million in fines in order to settle accusations that it had paid over \$1 billion to foreign government officials around the world to win infrastructure contracts. Likewise, energy company Halliburton and its former subsidiary, Kellogg, Brown and Root, reached a settlement with the Justice Department over accusations that it had bribed Nigerian officials. The companies paid \$579 million in fines, KBR pled guilty, and the government agreed not to prosecute Halliburton.^{vi}

When asked what factors go into the Justice Department's decision as to whether to prosecute a US company for potential FCPA violations, Mark Mendelsohn, a Justice Department official who oversees FCPA prosecutions, said that he asks to see a copy of the due diligence report done by the US company on its local partner operating in the foreign country. His investigators, Mendelsohn indicated, are particularly interested in how much the US company knew about the ownership of its foreign partner, whether there were any ties between the ownership and foreign government officials, and what the foreign company's reputation was in terms of integrity. The message that Mendelsohn and his team most want to impress on US companies working with foreign partners is: Know who you're doing business with.^{vii}

Another law US companies need to be cognizant of, particularly financial institutions, when dealing with foreign entities is the Patriot Act and its due diligence provisions. Recently, a number of companies around the world have been investigated for their role in the procurement of dual-use components that are being

shipped to Iran for use in the manufacture of improvised explosive devices (IEDs) and its nuclear weaponization program. These companies are typically located in offshore havens, such as Cyprus, and are in turn owned by other shell companies in intricate corporate webs designed to cloud their ownership and make the tracking of purchases through these companies difficult. They purchase equipment such as GPS devices and microprocessors from the West, then transfer the equipment through networks of shell companies, for ultimate delivery to Iran. Such components, produced in the United States, have been discovered in unexploded IEDs used against coalition forces in Iraq and Afghanistan.

Conducting due diligence on foreign entities with whom one is considering engaging is not only prudent from a financial risk standpoint, but provides a company with a legal defense should the foreign entity later be determined to be violating one or more US laws. Typically, one should examine both the company and one or two of its principal officers. While some jurisdictions, such as the Cayman Islands, Cyprus, and the British Virgin Islands, will make meaningful analysis of a company difficult, due to strict corporate confidentiality laws, examination of officers of those companies should be less challenging. These individuals are more likely to have lived in a country where they have left a significant paper trail. They should be willing to provide a prospective Western business partner or employer with substantial personal identifying information, which can then be used by capable investigators to research that individual in their native country and build a comprehensive profile of the subject.

Due diligence investigations of companies and individuals in foreign countries will vary in cost – typically ranging anywhere from \$5,000 to \$10,000, depending on the country where the research is to be done. If an individual has lived in multiple countries, or if a company has operations in several countries, the cost will naturally be higher. In virtually all countries, many records can typically be searched, such as civil litigation records, criminal histories, corporate affiliations, professional licenses, regulatory bodies, media archives, property records and tax liens. A good investigations firm will have a worldwide network of trusted, capable investigators with access to retired law enforcement and intelligence officers in their respective countries, industry sources, journalists, and other

human intelligence sources who can be crucial to developing solid reputational information about a subject.

There is no reason not to conduct a proper investigation of a foreign individual or company with whom a Western company is considering doing business. Some will cite the cost of conducting such background checks as a reason to forego them, but the cost of not performing a thorough due diligence investigation can be much, much higher.

The Two-Track Approach to Foreign Death Claim Investigations

Frequently our insurance company clients will ask us to investigate the death of a US-insured individual in a foreign country, where the insured allegedly passed away. Indeed, much of our insurance investigative practice revolves around such investigations. Of course investigating the circumstances of an insured's death overseas, and obtaining documents evidencing that death, makes eminent sense. Often overlooked, however, is the importance of researching the activities of the insured individual in the United States, where they lived and worked. Indeed much of the evidence of fraud we uncover relating to US insureds who die, or allegedly die, overseas is uncovered not in the foreign country of death, but here in the United States.

Restricting research, such as obtaining proof-of-death documents, and interviewing family members, doctors, police officers, and funeral home directors, to the foreign country where the death occurred may be sufficient in cases in which the insured was elderly, had severe medical problems known to the insurance company, and had their life insurance policy for many years – in other words, if there were no red flags apparent in the claim file. Frequently, elderly or gravely ill policyholders, who had emigrated to the United States years earlier, will wish to return to their home country to spend their final days.

In cases, however, in which the policy was recently issued, the insured was young, or the circumstances of death were unusual, examining the insured's activities in the United States can be a very cost-effective and often enlightening investigative tool.

The United States has a very strong legal and regulatory framework, highly centralized, accessible and inexpensive public records databases, a high degree of transparency, and relatively little official corruption. A comprehensive profile of an insured can be constructed fairly quickly and, at a cost of several hundred dollars, is not inordinately expensive. Public records that are readily obtainable from subscription databases to which most investigators have access include property information, liens, judgments and bankruptcies, much civil litigation (or at least the basic information regarding lawsuits), professional licenses, and corporate affiliations. These records can provide vital clues to a possible fraud – either misrepresentations made on an application, or reasons to suspect that a death may have been either faked or resulted from causes other than those claimed.

With a signed release from an insured or his next-of-kin, additional records can be obtained fairly quickly as well, such as tax withholding information, criminal records in many states, and underwriting information from other insurance companies who may have written policies for the same insured. Transportation in the United States is generally efficient and relatively inexpensive, so investigative interviews are relatively easy to conduct as well.

Such a dual-track approach to conducting death claim investigations – conducting research in both the country of death and in the United States simultaneously – on US policyholders who die overseas has often revealed information in our cases pointing to possible fraud.

By way of illustration, we recently conducted an investigation in a Middle Eastern country of the death of a middle-aged man who had recently been issued a life insurance policy. He denied any medical history on his application, and claimed a substantial net worth and annual income. He reportedly went back to his native country to visit family, when he suddenly suffered a heart attack and passed away after a short period in a coma.

The report from his port-mortem examination revealed severe and long-standing health issues, none of which had been disclosed on his application. Those findings led us to undertake a more extensive investigation of the insured in the United States. The insured and his family members were found to have a lengthy history

of filing automobile-related personal injury lawsuits, and a recent bankruptcy was uncovered for the insured which had not been disclosed on his application. The most significant findings, however, occurred during interviews we conducted in the United States.

In an interview with the agent who wrote the policy, he disclosed that he had written the face amount of the policy issued by our client based on the amount of a prior insurance policy the insured had held with a different insurance company. That previous policy had not been disclosed on the insured's application with our client. We then obtained the application with the prior insurance company, on which the insured had admitted treatment for hypertension – one of the underlying causes of death noted in the post-mortem exam, but about which no mention was made on our client's application. More importantly, a doctor's name was provided on the earlier insurance application which was left off of our client's. Upon obtaining that doctor's records for the insured, a plethora of severe and long-standing illnesses was discovered including, among others, hypertension, diabetes and chronic headaches.

Additionally, we discovered in interviews with family members that the insured had been living on disability insurance. The insured had specifically denied ever having applied for or receiving disability insurance on our client company's insurance application. Moreover, other misrepresentations became apparent. The insured had understated his weight by 50 lbs., and he had misrepresented the ages of his parents at their deaths on our client's application.

None of the aforementioned discoveries would have been made had not a US investigation of the insured been undertaken. Relying solely on research in the country where the death occurred yielded proof of death, but the insured's history in the United States, where he had spent the prior 20 years, was critical to showing the fraud.

In this particular case, the insurance company had us undertake the US portion of the research *after* we had completed research in the foreign country of death, because there was sufficient evidence of a potential fraud based on the post-mortem exam obtained in the foreign country. We advise clients, however, to have us undertake at least database research in the United States on an insured at the same time that they engage

us to research the circumstances of that insured's death overseas. It is an inexpensive method of developing a wealth of information that may yield clues to a potential fraud that may not be apparent from the foreign country research alone. Underwriters already use some databases, such as Accurant, to develop basic information, and this is a good practice. Investigators, however, have access to additional, very exhaustive, databases which can greatly supplement the retrieval of public record information on an insured in the United States and point up significant issues after a claim is submitted.

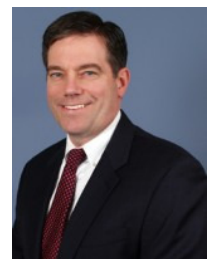
About Veritas Intelligence

Veritas Intelligence enables its clients to succeed in complex or hostile business environments. To this end, Veritas Intelligence provides a broad range of investigative, intelligence, financial and research services to help clients reduce risks, solve problems, and capitalize on opportunities.

Veritas Intelligence is headquartered in the Washington, DC metropolitan area with a branch office in London, United Kingdom. Veritas Intelligence serves a global clientele of law firms, financial institutions, multinational corporations, insurance carriers, investment organizations, non-profit organizations, and high net worth individuals. Our operational hubs in the Washington, DC area and London oversee our global network of investigators who are located across the world.

William F. Marshall, President & CEO

Prior to founding Veritas, Mr. Marshall was Managing Director of global investigations firm GlobalSource LLC. He has also served as the head of the North American Investigations Division of ArmorGroup, Senior Investigator for the Investigative Group International, and as an Intelligence Analyst with the U.S. Drug Enforcement Administration, specializing in money laundering methodologies, trends and detection techniques.



ⁱ *Al-Jazirah* broadcast, Dec. 27, 2001, translated by the Foreign Broadcast Information Service. Available:

http://www.fas.org/irp/world/para/ladin_122701.pdf

ⁱⁱ *Congressional Research Service*, “Taliban and the Drug Trade”, Raphael F. Perl, October 5, 2001, p. 1

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ⁱⁱⁱ CNN, *Lou Dobbs Tonight*, June 17, 2005. Available:

<http://www.studentnews.cnn.com/TRANSCRIPTS/0506/17/ldt.01.html>

^{iv} *Insurance Fraud Subcommittee of the IAIS*, October

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^v *People’s Daily Online*, “3 Jailed for Supporting al-Qaeda in Germany”, December 6, 2007. Available:

<http://english.peopledaily.com.cn/90001/90777/90853/6315838.html>

^{vi} “US Cracks Down on Corporate Bribes,” Dionne Searcey, *Wall Street Journal*. May 26, 2009

^{vii} “Worried About Your Global Partners?” Scott Motitz, Maximilian Block, *Directors and Boards*, January 1, 2008.

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