

Insurance Fraud Prominent in Today's Economy

Insurance fraud continues to grow in the United States and is reaching into the hundreds of billions of dollars annually. With America's sagging economy threatening well into 2009 and beyond, fraud fighters are observing many kinds of insurance schemes spiking as stressed policyholders try to bilk insurers to help bail them out of financial distress. Insurance fraud normally increases during a troubled economy. The credit crunch, sub-prime meltdown, and general economic distress have led more insureds to seek a bailout through insurance money.

The number of auto insurance fraud incidents in the United States has risen dramatically, costing drivers over \$6 billion each year in excess auto insurance payments. Officials in nearly a dozen state and local jurisdictions around the U.S. report clear warning signs that the instances of so-called "owner give-ups" are rapidly spreading. Signs include recent increases in suspected vehicle arsons, rising investigations of suspected give-ups, and in some cases a spike in arrests for fraud, the Coalition Against Insurance Fraud reported. Drivers will typically torch their vehicles, sink them in waterways, abandon them in remote areas, sell them to chop shops, or pay someone a few hundred dollars to "get rid of it." The insured then reports the vehicle stolen.

Abandoning a car and reporting it stolen rose by almost 33 percent in 2008 in New York, according to the state's fraud bureau. In Pennsylvania, law enforcement saw insurance fraud and related crimes jump 30 percent in 2008 over 2007, with car insurance fraud accounting for 46 percent of total fraudulent claims.

Another area of concern is arson for profit, a costly crime that is putting firefighters and innocent families in danger when people set fire to their homes, businesses, and vehicles. The insured often attempt this to evade excessive mortgage payments, or in an effort to have insurance companies bail them out before foreclosure or repossession. Arson is a serious crime; in fact it causes more damage than any other property crime combined in this country." Arsonists set fires that destroyed \$878 million worth of property in 2007. These fires include factories, residential buildings, churches and motor vehicles, according to the National Fire Protection Association (NFPA). An Insurance Research Council study indicates that 14 percent of arson suspects are motivated by a desire to defraud an insurance company, but other studies find the percentage is higher.

A Pennsylvania woman was charged on May 7th with setting fire to her Plymouth Meeting, Pa. hair salon. In what may be a sign of the times, prosecutors say she wanted to collect insurance money because she was having financial problems. Two former employees told police that the owner was having financial problems and couldn't make ends meet. Montgomery County district attorney Risa Ferman says a check of her financial background showed debt of hundreds of thousands of dollars: "Clearly her business was in a very bad way and she saw the pot of gold at the end of the rainbow. Unfortunately for her, it wasn't money that was hers.

Vessel or Boat Fraud is another area with increased numbers of claims. Some of those disposing of their boats are in the same bind as overstretched homeowners and business owners: they face steep payments on an asset that is diminishing in value and decide not to continue. They either default on the debt or take bolder measures. Some of the boats are paid in full; however they are too expensive to maintain. Either the owners cannot sell them because the secondhand market is overwhelmed, or they cannot afford additional mooring and maintenance fees. They cannot afford to spend hundreds of dollars a month mooring and maintaining them. There are two common means used by fraudsters to dispose of a vessel. The first is by removing the name and registry numbers, rendering the boat and the owner untraceable, and then abandoning the boat in a waterway where it may be discovered. The second means is to dispose of them by sinking them in deep bodies of water; where locating and recovering them are unlikely. The insureds will make a claim for theft and attempt to collect their money from the insurance company.

Experts on workers' compensation premium fraud say declining economic conditions have resulted in more employers falsifying employee classification, understating payrolls or attempting to evade coverage requirements. The Coalition Against Insurance Fraud, reported "a trend towards passing laws making premium fraud a specific crime." California, Florida, Illinois, New Jersey, New York, and Texas are among the states that have made workers' compensation premium fraud a specific felony. This is, in part, because of growing attention being paid to the so-called 'underground economies' of many states. Premium schemes also will be influenced by how U.S. President Obama deals with the flood of immigrants who fuel the underground economy, the coalition's Dennis Jay notes. Unabated, illegal immigration could encourage the social and economic conditions that allow premium fraud to thrive, thus immigration policy will need to consider the impact on costly societal problems such as premium fraud.

If you look beyond the high dollar costs and economic decline, you'll also see honest, hardworking Americans whose lives, businesses, careers, and families are damaged or even ruined by insurance fraud crimes.

- People lose their savings. Trusting citizens are bilked out of thousands of dollars, often their entire life savings, by insurance investment schemes. The elderly are especially vulnerable.
- Health is endangered. People's health and lives are endangered by swindlers who sell nonexistent health policies or doctors who perform unnecessary medical care to illegally inflate health insurance claims.
- Premiums stay high. Auto and homeowner insurance prices stay high because insurance companies must pass the large costs of insurance fraud to policyholders.

- Consumer goods cost more. Prices of goods at your department or grocery store keep rising when businesses pass higher costs for their health and commercial insurance onto customers.
- Honest businesses lose money. Businesses lose millions in income annually because fraud increases their costs for employee health coverage and business insurance.
- Innocent people are killed and maimed. People die from insurance schemes such as staged auto accidents, life insurance scams, and arson — including children and families. People have been murdered for life insurance benefits.

Government at all levels, federal, state and local, understand these issues and realize that insurance fraud can no longer be looked at as a victimless crime or just the insurance companies' problem. As such, many states have mandated anti-fraud initiatives and anti-fraud plans to help combat this growing problem. Sixteen states currently require anti-fraud training; nineteen states require insurers to file a fraud plan, which includes tactics to combat fraud.

As economic recovery appears to be a lengthy proposition, industry members must do their part to become familiar with and combat insurance fraud.

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