Property and Casualty Insurance:

Insurance Fraud

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Did you know about the impact that insurance fraud has on everyday hardworking consumers and businesses? The Coalition Against Insurance Fraud estimates that at least $80 billion a year is stolen through insurance fraud. This money does not come out of thin air; it is taken out the wallets of other insureds. Because of insurance fraud people can lose their savings, have their health endangered, have increased premiums, consumer goods raise in price, honest businesses lose money, innocent people are murdered, and employees lose jobs. I hope to make everyone aware of what exactly insurance fraud is, the different kinds of insurance fraud, and what is being done as well as what can be done to help stop it.

Insurance fraud is best defined as “when people deceive an insurance company or agent to collect money to which they are not entitled”. It can occur in two ways, hard or soft insurance fraud. Hard fraud is when someone purposely fakes an accident or loss to collect money from insurance companies. Soft fraud is when people tell “white lies” to their insurance company. It might be considered a small lie and people do not think it matters but it is does matter because these white lies add up and cause increases insurance costs for everyone. Also, any type of insurance fraud is classified as a crime in all states.

Whilst insurance fraud may be classified as hard or soft, we can also examine another category: buyer or seller fraud. When you think about insurance fraud you probably think about the insured trying to manipulate the insurance companies for
money. While this is true, insurance fraud also occurs on the sellers end, making the insured or policyholder the victim. There are several ways insurance agents could scam people including: selling phony insurance, selling you unnecessary insurance, stealing your premiums or getting you to waste money on fake investments.

One possible method of scamming that an agent might use is to sell you fake insurance. They might sell you fake coverage from a fake company, or even fake coverage from a legitimate company's name. You will receive a policy or proof of insurance that looks real but it actually worthless. If someone who fell for this scam were to suffer an actual loss they could lose thousands of dollars.

Insurance agents might try to sell you insurance that you do not want or need. It could be real insurance but it is probably expensive, unnecessary and maybe already covered by a current policy. They do this through churning, twisting, and sliding. Churning is when agents convince people to use their built-up value of their current policy to buy a "better" policy despite the fact that the insured's current policy is sufficient. The agent gets commission while the insured must build up their policy's cash value again. Twisting is when an agent twists the truth about your policy to get you to change it sooner. Sliding occurs when an agent slips you an extra coverage you never requested. This can add hundreds of dollars onto your premium which the agent would simply pocket. James Lee Graff, an independent insurance sales agent, robbed around 30,000 people of more than $40 million in stolen health insurance premiums. These people were left to pay their medical bills themselves. James Quiggles, direction of communication at the Coalition Against Insurance Fraud, made this statement about insurance fraud:
That’s the most prevalent agent scam, the client pays the agent the premium, expecting the agent to forward it on to the company. But instead, the agent pockets the money and issues a fake policy that looks real. But the client is completely uncovered (Quiggles).

Another method of seller fraud is when insurance agents get you to invest in something worthless such as a viaticals, which is an investment on life policies for terminally ill people. It is a real investment for some people, but can be phony. Promissory notes would be another worthless investment. Agents promise quick and high returns for investing in promissory notes but often times the notes do not even exist.

If an insurance agent scams someone it might mean that person does not have any real insurance that would cover them when they have a legitimate claim, which could cost thousands of dollars. They could also be out thousands of dollars on worthless policies or investments. What can be done to prevent this? First, insurance buyers should find out if the agent and company are licensed in their state. Also, contact the Better Business Bureau to see if any complaints had been filed against them. If an agent is selling insurance for a price seems too good to be true, it probably is. Always pay premiums by check or money order payable to the insurance company and get a receipt. Never sign blank forms or allow your agent to sign forms for you, and get a copy of all forms that you do sign. Make sure that your insurance company is in good health and can actually pay claims. Most importantly, know what your current policy does and does not cover. If the insured follows these steps they can avoid fraud by insurance agents.
More commonly occurring is insurance fraud by the buyers or insured. Fraud by buyers typically falls under automobile insurance claims, health care insurance claims, life insurance claims, and property insurance claims.

An example of automobile insurance fraud is when someone tries to say that his or her car was stolen. However, they actually sold the car to a body shop to be sold for parts then reports it stolen. Another method they might use is to sell the car to an overseas buyer without any paperwork and after shipping it overseas, report it stolen. When there is a car accident, the driver and accident victim might collaborate in insurance fraud. They inflate the value of the vehicles so that the payoff from insurance is much higher. Some of these accidents are staged by “staged accident rings”. They stage an accident and collect money on small damage or fake injuries. Nearly 1,200 people in 13 different communities were arrested for involvement in staged crashes in Massachusetts. Some people might have car damage, report to the insurance company at an inflated value, collect a check from them, and never get the car fixed or have it fixed at a much lower price. People do not see this causing harm (soft fraud) but because it occurs so often it does increase premiums for other customers. A real example of automobile insurance fraud occurred in 2009, when a Houston chemistry teacher, Tramesha Fox, was charged with insurance fraud and arson. She was several months late on a car payment so she offered passing grades to two students that were failing to steal and burn her car, allowing her to collect the insurance money. Although this occurred in 2009, illegitimate automobile insurance claims still occur often and to this date.
According to the National Health Care Anti-Fraud Association, the U.S. spends more than $2 trillion on health care annually. At least three percent of that ($68 billion) is lost to fraud each year. Typically, Health care professionals are behind health care insurance fraud. The health care provider will bill health insurance companies an extremely high fee for a standard procedure, or bill services that never even occurred. If you go in for a routine check-up but the doctor bills the insurance company some sort of surgical procedure, the patient becomes a victim of fraud. Doctors may also conduct unnecessary tests, such as if you go into the doctor for a sore back and they order a series of tests that have nothing to do with your back. In 2012 the federal government recovered a record $4.2 billion from medical providers who fraudulently billed government health programs such as Medicare. A perfect example of health care insurance fraud was when Dr. Jorge Martinez, an Ohio pain management specialist, tried to scam insurance companies out of $60 million, receiving about $12 million for narcotic drugs and diagnostics tests that were never performed. He billed insurance companies for over 100 patients a day for years and now he is serving life in prison for the crimes he committed. In California, a medical clinic operator Tam Vu Pham paid over 5,000 healthy people to have surgeries performed on them so he could get more than $96 million from insurance companies. Another instance of health care insurance fraud was when Dr. Stephen Schneider ran a “pill mill” by selling insurer-paid prescriptions in Wichita, Kansas that led to 68 overdose deaths. Dr. Schneider was prescribed a 30-year prison sentence by the justice system.
Life insurance fraud typically involves faked deaths. Faked deaths are so common that they have become the plot of many movies, shows, and books. Someone will take out a life insurance policy on themselves and make their spouse their beneficiary. The policy has to be in effect for so long for the beneficiary to collect the life insurance in the result of death, so after it has been in effect for that period of time the insured will fake their death. The spouse will collect the death benefit and often times will disappear. Back in 2005, Clayton Daniels who was already on the run from the law after sexually assaulting a 14-year-old girl, came up with a plan with his wife Molly to collect on Clayton’s $110,000 life insurance policy. They dug up an elderly women from her grave, dressed her in Clayton’s clothes, put her body in his car, then set it on fire and pushed it off a cliff. The insurance company however insisted on a DNA test, which came back as not matching. Investigators also found that the fire was started in the drivers seat, and Clayton resurfaced weeks later with dyed hair. He was posing at Molly’s new boyfriend, Jake Gregg. This poorly thought out scheme landed them 20 years in prison. James Quiggles reported the following about the crime:

Life insurers take faked deaths very seriously, and it’s not an uncommon crime. Faked deaths happen often enough that life insurers have very sophisticated investigations to chase after these claims. Why? Because the claims can be $500,000 to $1 million or more. They don’t just plop that kind of money on the table (Quiggles).

Molly and Clayton’s case is one of many. John Darwin was thought to have died in a canoeing accident. His wife collected the life insurance money and five years later he
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turned up alive and claimed to have no memory of the past five years. Allegedly he was secretly living in a house next door to his wife. They both were given six years in prison.

According to Pennsylvania Insurance Prevention Authority, Homeowners insurance fraud is committed whenever a person knowingly submits a false claim on a homeowners or renters policy for more than the loss sustained. Types of this insurance fraud might include overstating the value of stolen items, lying about extent of damage, intentionally damaging property, staging a fake burglary, making a claim for a loss that had already been paid, creating supporting evidence such as receipts, staging an accident, and lying about and/or inflating medical bills for treating injuries. Future executive, Marc Thompson, dug himself into debt. He set fire to his home to collect $730,000 in insurance money. He attempted to make it appear as a suicide by leading with 90-year-old mother down to the basement. He doused the house in accelerant and set it on fire. Thompson was given a 190-year prison sentence. James Quiggles reported that:

People in small but increasing numbers were burning down their homes. Often the houses went up in smoke and flames just before the homes were to be foreclosed. People were upside-down on their mortgages, they felt cornered financially, and in acts of desperation, they burned down their own homes (Quiggles).

Lost property claims also occur frequently. Someone might report their TV stolen, which was worth $500, but they claimed it was worth $2000.
A frequently occurring insurance scam is the “slip and fall”. The idea of this scam is to go into any store or business and purposely slip and fall, then claim some sort of injury that the insurance company will have to pay for. Isabel Parker, 72, used the slip and fall scam across 49 department, supermarket, and liquor stores. She totaled $500,000 from insurance claims. Millions of dollars each year are paid out to this scam.

$80 billion a year is no joke. That is why insurance companies are taking many measures to fight back against fraud. They are using anti-fraud units or Special Investigation Units. These investigators have typically law enforcement backgrounds. These units use sophisticated software to try and identify schemes and large fraud rings. Insurers are trying to educate consumers on how to protect themselves from getting scammed. Many insurance companies have toll free numbers you can contact if you think you've discovered insurance fraud. They are training their employees such as claims adjusters to more easily spot fraud. Companies are also suing people who try to scam them by bankrupting them to send a message to others that it is not worth the risk. The state government is helping as well. State insurance regulators have created fraud bureaus in almost every state. State fraud prosecutions have tripled over the past three years, and they have been creating tougher laws against fraud. Along with the insurance companies and states, the federal government is actively fighting insurance fraud. The FBI, U.S. Postal Service, Medicare, and Medicaid are heavily involved. They support strong punishment and stiffer prison terms. There are also many anti-fraud organizations created to fight against fraud. One of many coalitions was founded in 1993 after
several organizations were reporting a heavy increase in insurance fraud. It is the Coalition Against Insurance Fraud, which is a coalition of insurance organizations, consumers, government agencies, and legislative bodies working together to create anti-fraud laws, educate the public, conduct useful research on fraud, and provide advice against insurance fraud. In the past decade, with the help of the Coalition Against Insurance Fraud cases for prosecution rose 14 percent, investigations increased by 18 percent, and referrals of suspected fraudulent actions increased by 4.5 percent.

Despite efforts from insurance companies, state government, federal government, and anti-fraud organizations insurance fraud still persists. The health system is an easy target, insurance fraud is considered a low risk crime, it has a low legal priority, and there are weak public efforts to stop the crimes. The troubled economy does not help efforts to stop swindlers. Also, new schemes are being created and fraud rings are expanding. The Coalition Against Insurance Fraud urges people to fight back still. Always report suspected fraudulent activity, and if an insurance transaction seems suspicious contact authorities with evidence. First however, people might want to look at their own stance on insurance fraud. About one of four Americans say that it is okay to defraud insurers, according to a survey conducted by consulting firm Accenture Ltd. According to a Progressive Insurance survey, nearly one in ten Americans would commit insurance fraud if they knew they could get away with it, and three of out ten Americans would not report the scams if they were committed by someone they know. The Insurance Research Council reported that one in three Americans say it is okay to exaggerate insurance
claims. What these people do not know is that they are screwing themselves and everyone else over in the long run because insurance fraud costs $300 in higher insurance premiums for the average household as reported by the National Insurance Crime Burea. If people think it is okay to scam insurers or allow others to without going unpunished, then no progress can be made. Although insurance fraud persists... the continuing help of anti-fraud organizations’ research, attempts to educate the public, and stricter laws and punishments, an eventual stop to insurance fraud can be reached.


<http://www.stoppinginsurancefraud.org/>.