Introduction to Insurance Fraud
A crime for which we all pay

Michael Buchanan,
National Insurance Crime Bureau
Objectives

By the end of this presentation, you’ll be able to:

- Define insurance fraud
- Identify indicators of fraud
- Name two different ways to attack fraudulent claims
- Plus topics you want to cover
Fraud Defined

- An intentional perversion of truth in order to induce another to part with some valuable thing or to surrender a legal right.
- Fraud in insurance might be defined as the abuse of the insurance mechanism for financial gain.
Fraud is:

Stealing

Or

Theft
Seriousness of Crimes

1. Crimes against people
2. Crimes against property
3. Fraud
The Fraud Problem

- $30 billion a year
- Costs each family $200-$300 per year
Is It Fraud?

- Schemes include:
  - “Honest” people inflating claim to cover deductible
  - Less “honest” people taking advantage of a situation
  - People who wake up in morning thinking of ways to steal from insurance companies
For the rest of the presentation…

- “Parties” to fraud
- Fraud schemes
- From application to prosecution
- Attacking fraud
- Review and test
“Parties” to Fraud

1st Party

The insured
“Parties” to Fraud

1st Party
The insured

2nd Party
The 1st party’s insurance company
“Parties” to Fraud

1st Party
The insured

2nd Party
The 1st party’s insurance company

3rd Party
A claimant against the 1st party
Who Are the Fraudulent Parties?

1st Party
- Application
- Claim

3rd Party
- Fraudulent claims

Others
- Medical personnel
- Body shops
- Durable medical goods supply firms
- Public adjusters
Why Do Insurance Companies Care About Fraud?

- Cutting fraud saves money.
- Saving money means more profits.
- Saving money may mean reduced premiums for policyholders.
Why Do Insurance Companies Care About Fraud?

- It is a good public image to be viewed as a fraud fighting company.
- It is the right thing to do.
- Finally, some states mandate that insurance companies fight fraud.
Parties to Fraud: Conclusion

- Review
- Question and answer
The Schemes

- Pool your knowledge
The Schemes

- Residential and commercial building damage
- Staged or enhanced burglaries
- Application fraud (rate evasion)
- Policy fraud
- Counterfeit documents
- Bodily injury fraud arising from slip and fall
- Product liability
- Premium fraud
- Workers’ comp
The Schemes (continued)

- Medical mills
- Doctor/lawyer kickback schemes
- Staged and caused accidents
- Fraudulent vehicle thefts
- Bodily injury fraud arising from vehicle accidents
- Enhanced vehicle collision damage
- Paper accidents
The Schemes (conclusion)

- Review
- Question and answer
Insurance Fraud

From application to prosecution

The fraud “process”
- How it happens
- Who’s involved
- How a fraudulent claim moves through the insurance system
Insurance Fraud

From application to prosecution

- Applicant gets insurance from agent
  - Innocent agent
  - Not-so-innocent agent
  - Applicant may lie about himself or the property being insured

- Applicant or a third party makes a claim against the policy
  - Totally bogus claim
  - Inflated claim
Insurance Fraud

From application to prosecution

- Claim is “called” into the first report center or to the claims office.
- Claim representative has anywhere from 150 to 300 pending claims at one time.
- Gets four or five new ones each day.
- State mandates that claims be processed in an expeditious manner (30 to 45 days).
- Claims people are often rated by the claims they resolve...not the amount paid.
Insurance Fraud

From application to prosecution

Claims representative

- Conducts investigation
  - Interviews insured
  - Interviews claimant(s)
  - Interviews witness(es)
  - Gets police report
  - Gets receipts
  - Has proof of loss signed by insured and/or claimant
Insurance Fraud

From application to prosecution

Appraiser

- Looks at the damaged property.
- Determines the dollar value of the damage.
Insurance Fraud

From application to prosecution

SIU (Special Investigation Unit)

- Investigates to assist claim representative in determining if claim is meritorious or not.
- If a claim is determined to not be worthy of payment...
  - The claim representative along with his/her supervisor will make a decision about denial
Insurance Fraud

From application to prosecution

- Sometimes…depending on the company, a business decision will be made to pay a claim even though it may not merit payment.
- Justified by balancing the cost of “defending” the denial against the cost of the claim.
Insurance Fraud

From application to prosecution

- When SIU identifies a questionable claim they submit it to the State Fraud Bureau, a local law enforcement or prosecuting agency and to NICB®.
- NICB® will review to determine if the questionable claim is or has potential for multi-claim, multi-carrier investigation.
NICB Questionable Claims

- Single, most important tool in identifying fraudulent claims.
- Allows cross referencing on single claims.
- Builds intelligence, to identify patterns and trends.
- Used to initiate major cases.
- Used to increase public awareness regarding insurance fraud and vehicle crimes.
Insurance Fraud

From application to prosecution

- If NICB makes the questionable claim submission part of a multi-claim, multi-carrier investigation, it may be as long as two to three years before arrests are made and trials are conducted.
Insurance Fraud

From application to prosecution

Levels of proof

- **Preponderance of evidence**  
  - To prove, you must show that the existence of a fact in question is more probable than not

- **Beyond a reasonable doubt**  
  - It means simply that the proof must be so conclusive and complete that all reasonable doubts of the facts are removed from the mind of an ordinary person

\*[Civil, Criminal]
Insurance Fraud

From application to prosecution

Elements of proof

- Knowledge/intent to defraud
- Material misrepresentation
  - Must be the basis for claim/policy approval
- Monetary gain or expectation of gain
- Identification of the perpetrator
Insurance Fraud

From application to prosecution

- Review
- Question and answer
Attacking Fraud: Introduction

- We’ve learned about parties to fraud, proof of fraud, fraud schemes and the fraud "process."

- There are two ways to attack fraud:
  - One is proving that a claim has no merit. You can do that by investigating the fraud indicators. We’ll cover that next.
  - Later we’ll cover rescinding the policy.
Attacking Fraud: Fraud Indicators

- What are they?
- Who discovers them?
- What do you do when you identify them?
Attacking Fraud:

Actual fraud indicators

- Claimant, insured, applicant has a P.O. Box for an address.
- Claimant, insured, applicant is reluctant to use mail or telephone; provides all documents and handles all business transactions in person.
- Income is not compatible with value of vehicle/vessel to be insured.
- Minor accident produces major medical costs and often lost wages, household help, transportation and unusually expensive demands for pain and suffering.
Insurance Fraud

Actual fraud indicators

- Vehicle has numerous passengers claiming the same type of injuries.
- Parties have a history of prior claims (often of similar type losses).
- Business or insured is experiencing financial difficulties (e.g. bankruptcy, foreclosure).
- Neither works nor resides near the agency (if an in person application).
Insurance Fraud

Actual fraud indicators

- After injury employee is never home or spouse/relative answering phone states the employee “just stepped out,” or may have to contact him/her by pager or cell phone.
- Provides numerous receipts for inexpensive items, but no receipts for items of significant value.
- Leased vehicle (or Smart Buy) with excessive mileage for which the individual would have been liable under the mileage limitation agreement (especially if the lease expires within 60 days of the theft and/or recovered burned).
- Has had a driver’s license for significant period but no prior vehicle ownership and/or insurance.
Atacking Fraud:

Rescinding the policy

- You’ve seen how to attack fraud by identifying and investigating fraud indicators to disprove the merit of the claim.
- The second method of attacking fraud is to rescind a policy obtained under false pretense.
Attacking Fraud:

Rescinding the policy

A policy is a contract

- If the insured lied to get policy, then the contract is not valid.
  - Since the policy is not valid, rescind the policy...
  - And you don’t have to deal with the fraudulent claim.
Attacking Fraud:

- Review
- Question and answer
Review and Test

- Objectives
  - Define insurance fraud
  - Identify indicators of indicators of fraud
  - Name two different ways to attack fraudulent claims
- Question and answer
- Coming up next: A test
1. Preponderance of evidence is a lower level of proof than beyond a reasonable doubt.

a. True
2. What is fraud:

Stealing or theft
Test

True or false

3. The “first party” in insurance jargon is the insured’s insurance company.

b. False
4. In order to convict someone of a crime, elements of the crime must be proven beyond a reasonable doubt.

a. True
5. Fraud indicators are enough to deny a claim.

b. False
6. Two ways to avoid paying fraudulent claims are rescinding a fraudulent policy and identifying and investigating fraud indicators to prove no merit to the claim.

a. True
7. The claimant car, a 1989 Escort, has four passengers in it. According to the insured, who was driving his 1999 Lexus, the claimant car stopped suddenly in front of him for no apparent reason. All of the claimants are suffering from either a sore back or sore neck.

What are the fraud indicators?

The claimant car was a clunker
The insured was driving a high priced car
The accident was apparently “caused” by the claimant
And all of the claimants were suffering from the same injuries
Truly an Obscene five-letter word
QUESTIONS?