

FRAUD in life and disability insurance

Final report of the Life & Disability Fraud Task Force



April 2017



Contents

Executive summary	3
Introduction	4
Types of life insurance fraud	6
Types of disability insurance fraud	9
Results from survey of life insurers	12
Results from survey of disability insurers	15
Insurer anti-fraud activities	17
Results from survey of fraud bureaus	18
Results from survey of prosecutors	21
Recommendations	23
Sample list of life-insurance fraud cases	24
Sample list of disability fraud cases	26
State laws and regulations	28
Bibliography	36
Members, Life & Disability Fraud Task Force	38

Executive Summary

Like other lines of insurance, there are a variety of ways to commit fraud involving life and disability insurance. In life insurance especially, types include faking death, murdering policyholders, underwriting fraud, fraudulent loans, stranger-owned insurance and fraud by agents and brokers. Life insurers report that underwriting fraud is the most severe form of fraud perpetrated against them. Organized ring activity in life insurance also appears to be a widespread concern with fraud by a variety of ethnic gangs.

Disability scams include lying on applications, misrepresenting illnesses or injuries, failing to report work-related income, illegally claiming on multiple policies and “dead money” schemes.

Anti-fraud efforts involving life insurance and disability insurance pale in comparison with fraud-fighting activities in other lines of insurance. The reason most likely is that the incidence of fraud in life and disability is perceived to be less than in other types of insurance.

Yet, anti-fraud efforts by insurers and government agencies vary more greatly in life and disability than in other lines. Some insurers sponsor robust anti-fraud programs while others seem to lack commitment to detecting and investigating insurance crime. Many disability carriers do not actively engage state fraud bureaus and law enforcement in taking their cases.

There's widespread concern that many fraud bureaus and prosecutors lack the resources and expertise to successfully tackle life and disability cases.

Most state fraud bureaus and prosecutors are much less involved in life and disability cases than in other lines. They report receiving few referrals from insurers, and cases often are not well documented or fully investigated. Several also cite the fact that there is no central organization in either industry to serve as a liaison to law enforcement. Other issues that hamper investigations and prosecutions include the complexity of many cases, and added costs involved in international investigations of some life-insurance cases.

Recommendations to better combat fraud include enhanced investigator training, more-collaborative relationships between insurers and law enforcement, reviewing state statutes that hamper fraud investigations, and creating central liaison offices to work with law enforcement.

Introduction

Insurance fraud overall in the United States has been deemed to be either moderate or severe by most experts and published reports, depending on the line of insurance and area of the country. A closer review of published literature on insurance fraud finds that most fraudulent activity occurs in three areas: health insurance, auto insurance and workers compensation. The focus on these three areas can be seen in the number of arrests and convictions, specific state statutes, training programs, and level of activity by insurers and government agencies.

By contrast, there appears to be much less focus on fraud in life and disability insurance. Little research has been conducted to understand the severity of fraud in these two lines, and how government and insurers are countering life and disability fraud.

To this end, the board of directors of the Coalition Against Insurance Fraud in 2014 created a special task force to explore the dimensions of fraud in these two areas, as well as fraud-fighting capabilities and obstacles to preventing and detecting fraud schemes.

Specifically the task force was charged with:

- Researching the magnitude of life and disability fraud;
- Identifying the most-common types of life and disability insurance scams;
- Exploring best practices in detecting and preventing life and disability fraud;
- Understanding how various enforcement bodies combat life and disability fraud; and
- Recommending public-policy initiatives and other measures to better counter life and disability fraud.

The task force reviewed literature of existing studies, compiled lists of various types of fraud committed in life and disability fraud, reviewed existing state anti-fraud statutes, and interviewed and surveyed three major anti-fraud constituent groups: insurers, prosecutors and state fraud bureau directors. Methodology also included compiling technology solutions for detecting life and disability fraud.

Findings — Types of fraud (life insurance)

• **Fake death.** Faking one's death to cash in on a life-insurance policy is a long, time-honored practice. The schemes seemed to reach a peak in the mid-1990s when immigrants in the U.S. started returning to their homelands and suddenly “dying.” In one popular scam, Haitians returned home, bought a fake death certificate, headstone, and even paid for a staged burial parade that was videotaped to support the claim. The stated cause of death might be a traffic accident or heart attack. Often the “body” was quickly “cremated.”

Other countries where faking deaths have been popular include Ghana, Syria, the Philippines, Chile, Jamaica, Iraq, Afghanistan, Pakistan and eastern European countries. Insurers and law-enforcement officials have long suspected that insurance fraud — including fake deaths — are used to fund Middle East terrorist organizations.

Many buy life policies solely to commit this scam. Others have long-time existing policies, and perhaps face financial hardship or just see an opportunity to cash in.

Some schemes are amateurish and easily detectable. Others are quite sophisticated and involve elaborate planning in staging the fake death with accomplices, oftentimes family members. Funeral directors also have been convicted of aiding such scams.

In one elaborate ruse, a couple in Texas in 2005, exhumed a corpse, placed it in their car and set it afire. The wife claimed the corpse was her husband and sought to collect on the life insurance policy.

Cause of most reported deaths in these cases is drowning with a body never found.

When the wave of fake deaths hit in the early 1990s, many insurers were unprepared. They either didn't detect the scams or didn't have the capabilities to resist them. The early success of many of those life-insurance scams likely encouraged others to attempt faking their own deaths.

By the mid to late-1990s, most insurers had adopted anti-fraud strategies to counter suspect claims. More in-house investigators were hired, and foreign suspect claims, though expensive to investigate, were scrutinized more carefully. Private investigation firms with ties

to law enforcement agencies in many countries expanded operations, and made it easier and cheaper for insurers to pursue suspect claims.

Today, most reports of fake deaths occur in the United States although some have an international aspect to them. The Coalition has logged nearly 100 arrests and convictions for fake-death scams in recent years.¹

• **Murder for life insurance.** Unlike how this crime is portrayed in the movies, it is perhaps the most horrific aspect of insurance fraud. While victims typically are spouses and lovers, the greed for life insurance money increasingly has been a motive in the murders of children and business partners.

This type of fraud has a long history going back to previous centuries when there was little, if any, regulation of who could take out policies on whom.

Today, the typical cases that come to light mostly involve spouses murdering spouses. In a few notorious cases, men have intentionally married well-off women to kill them for large payouts. And in some cases, perpetrators have killed more than once. Death in such cases comes in a variety of ways – shooting, drowning, being pushed off a cliff, electrocution, etc.

Unless the perpetrator gets convicted or there's other overwhelming evidence, insurers usually pay these claims.

Murder for life insurance has been curtailed in recent years by regulations and laws that require the beneficiary to have an insurable interest in the person named on the policy. In addition, after a spate of deaths of infants and other children, some states have banned the sale of high-dollar life insurance on the lives of children unless there's a clear reason, such as a child having large assets or high potential earnings.

Another positive development in recent years is a system established by life insurers for police departments to check if a homicide victim is named on a life insurance policy. Several perpetrators have been arrested and convicted thanks to this system.

¹ The Coalition Against Insurance Fraud maintains an arrest and conviction database for all types of insurance fraud. It includes more than 25,000 records logged since 2006.

The Coalition has logged more than 160 cases of murder for life insurance in recent years.

- **Viaticals, life settlements and stranger-owned life insurance (STOLI).** The deadly AIDS epidemic in the 1980s created a market for terminally ill patients to sell their life policies to third parties for more than the cash value, but for less than the net death benefit. It didn't take long for schemers to take advantage of the situation by convincing terminally ill patients to lie about their conditions, take out policies, and then sell the policies on the secondary market. Hundreds of millions in life policies were turned into tradable commodities, and bought and sold during the 1990s.

A flurry of substantial fraud cases spurred legislators and insurance regulators to curtail this scam. By the end of the 1990s, the number of transactions dropped significantly. However, insurers report they routinely investigate insurance agencies about stranger-owned policies that are either fraudulently acquired or illegally transferred or cashed in.

- **Fraudulent loans against life policies.** This scam originated with dishonest insurance agents who had access to essential client information required to take out a loan against the policy. The agents would submit a change of address for policies they control and then request a loan.

This scam also is perpetrated by people who get access to stolen personal identity information and then phish insurers until they find an identity that has a life policy tied to the ID. They then will either take out a loan against the policy or surrender it for cash value.

In other schemes, the perpetrator is a family member at the same address of the policyholder who requests the loan, and grabs the check in the mail.

- **Underwriting fraud.** Lying on insurance applications occurs when the consumer wishes either to reduce the cost of the policy or obtain one in situations where they may not if the truth was known. The classic case is when an applicant denies tobacco use when they smoke, or hides life-threatening illnesses. They may lie about their age or other factors that

are used to price policies. Impostors may be deployed to stand in when insurers require a medical exam.

- **Agent and broker fraud.** Most schemes by insurance producers involve “churning” or “twisting” policies whereby clients pay more for less coverage. Another popular scam involves creating phantom policyholder and collecting big upfront commissions. Agents and brokers also have stolen funds from client policies, which is more prevalent with insurance producers who also serve as financial advisers to clients.

Findings — Types of fraud (disability insurance)

- **False illness/injury.** This appears to be the one of the most-frequent types of disability fraud. A policyholder will file a claim based on a phantom illness or injury. In some cases, the underlying illness or injury is legitimate but the claimants fail to inform the insurer they returned to work. The claimant may create fake medical reports and bills to support the scam.

Disability scams range from merely presenting a false claim to sophisticated scams aided by doctors and lawyers who entice people to file fraudulent claims.

A review of more than 350 cases compiled by the Coalition show perpetrators come from a wide range of occupations. Police officers, fire fighters and medical professionals seem to be disproportionally represented. This type of fraud is perpetuated against both private insurers and government disability programs, including Social Security.

- **Misrepresentation on applications.** Fraud occurs here when an applicant lies on an application to gain coverage or reduce policy premiums. Misrepresenting may include current health records, age, income or employment status. In some cases, applicants may also use fake identities to help qualify for coverage. Application fraud occurs in all lines of insurance. The incidence of fraud is difficult to gauge because much is thought to go undetected. There’s no evidence that application fraud in disability is greater than other lines of coverage.

- **Collusion between claimants and agents/brokers.** Insurance producers have colluded with customers to either help them gain coverage or file false claims. A few cases have been developed where an agent helps an existing customer falsely apply for coverage after a disability occurred. This type of fraud is thought to be relatively infrequent, but does occur.

- **Claiming on multiple policies.** It's legal to own more than one disability policy. In fact, many people own both an employer-sponsored policy and an individual one they bought on their own. However, in claiming benefits under the policies, most if not all policies and state laws dictate there should be some coordination of benefits so duplicative benefits are not paid out. There is no evidence that this type of fraud is widespread, but it does occur.

Similar to claiming on multiple policies, there have been cases where policyholders receive benefits from workers compensation while also claiming benefits under an individual disability policy. Under policy provisions and state law, receiving duplicate benefits is not allowed and violates insurance-fraud laws in most states.

- **Unreported income and employment.** Similar to workers-compensation scams, legitimate claimants receiving disability benefits illegally get side jobs or find ways to receive income, oftentimes under the table. Under provisions of almost all insurance policies, claimants are required to report income and income sources. This is the most common type of fraud committed, according to more than 300 cases compiled and reviewed by the Coalition.

- **Dead money.** This type of fraud occurs when a claimant dies, but claims payments continue to the benefit of family and friends. Once a claimant dies, payments should cease. It is the responsibility of the deceased family, attorney or estate executor to notify the insurer of the death. In some cases, family members have forged signatures and created documents to falsely verify the claimant is still alive and eligible to continue receiving benefits. Doctors have been bribed to sign off on insurer-required medical forms attesting that the claimant is still disabled.

Dead money cases seem to be rare and probably less so today with the use of detection tools, such as the Social Security Master Death Index. Several cases have been found where payments continued long after the claimant dies; in one case, more than 10 years.

One red flag of dead money scams is a request to change the name on the benefit check to “FBO (insured name).” Many banks refuse to cash checks made out to people they know are deceased, but will cash checks made out to “For the benefit of” the deceased’s name.

Frequency & Severity

Individual vs. employer group vs. government-issued disability insurance

Each source of disability insurance – whether individual policies bought from private insurers, group policies at work or Social Security – has its own unique characteristics and fraud exposure. A review of referrals and case data indicate fraud is much more common with individual policies than with group insurance.

One reason perhaps is the oversight that employers tend to place on claiming behavior and some of the restrictions within policy language. Another possible explanation is that policyholders pay individual premiums unlike receiving disability coverage as an employee benefit. Therefore they may feel they’re entitled to get some of those premiums back. Individual policies also tend to pay out richer benefits.

Social Security has its own problems with disability fraud, although there are many similarities with typical frauds against private insurers. The Social Security Administration has come under criticism for alleged lax scrutiny in approving questionable disability applications and claims². Several multi-million-dollar cases suggest the government program may be an easier target than private insurers. One case in Kentucky featured a conspiracy involving a lawyer, doctor and administrative law judge who fed hundreds of ineligible

² GAO: SSA Could Do More to Prevent Overpayments or Incorrect Waivers to Beneficiaries; <http://www.gao.gov/products/GAO-16-34>

claimants through the system, costing the program more than \$600 million, prosecutors say.³

Practice and Perceptions

This study included surveys and discussions with insurers, state fraud bureau directors and local, state and federal prosecutors to understand their involvement in combating life and disability fraud, and understand their perceptions of fraud and anti-fraud solutions. Surveys were conducted from September 2015 through the spring of 2016.

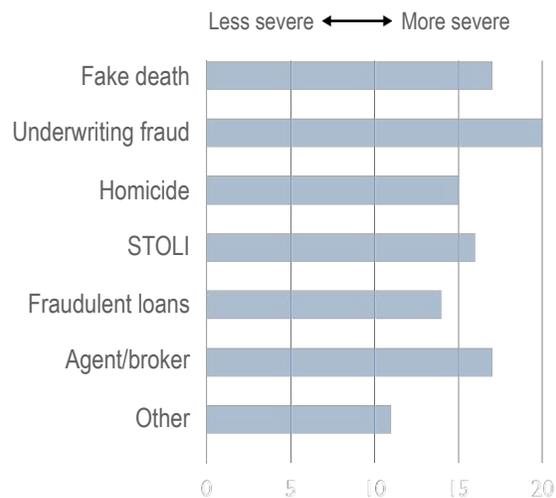
Nearly 50 insurers were surveyed and/or interviewed, including members of the Life & Disability Task Force.⁴ Below are some of the findings:

Results from life insurer survey

Q. How would you gauge the level of severity your company experiences in the following fraud types?

All average responses fell between “slight” and “moderate.” Thirty percent of insurers deemed underwriting fraud as “severe.” Ten percent labeled fake deaths, stranger-owned insurance, fraudulent loans and agent/broker fraud as “severe.” Overall, underwriting fraud was seen as the most-severe form of fraud.

Other fraud types included identity theft and impersonation to make beneficiary changes. One respondent also cited over-billing by inspection services on fictitious applicants.



³ Retired judge, doctor, lawyer in Kentucky charged in \$600M disability scam, <https://www.justice.gov/opa/pr/retired-judge-attorney-and-psychologist-indicted-600-million-social-security-fraud-scheme>

⁴ See Appendix IV for list of task force members

Q. How many total suspect fraud referrals did your SIU receive last year?

Responses ranged from 75 to nearly 3,000. Average was 262.

Q. How many fraud investigations did your SIU open last year?

Average number of investigations initiated was 140. Number ranged from two to 312.

Q. How many referrals did your SIU submit to fraud bureaus last year?

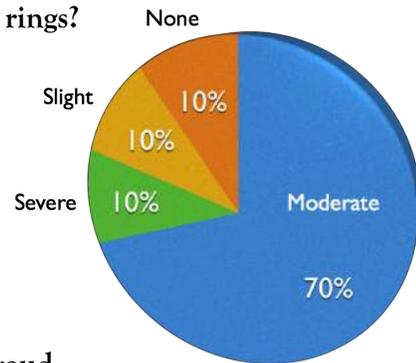
Average number of referrals submitted was 331. Number ranged from 0 to 2,500. Two respondents said they referred no cases to fraud bureaus.

Q. What percentage of investigations resulted in adverse decisions last year?

Average percentage is approximately 35 percent. Percentages ranged from 0 to 70. All but one was under 50 percent.

Q. How would you gauge the level of fraud by organized rings?

A significant majority (80 percent) categorized the level of fraud perpetrated by organized rings as either “severe” or “moderate.” While scams by organized rings are not new, several SIU directors indicated that more ring activity has been detected in recent years.



Q. Which organized rings represent the most frequent fraud attempts against your company?

Most-common reply cited “gypsy” or “traveler” rings. Others cited: Russian mafia, Armenian mafia, Chinese floating population, birthing tourism, ID theft rings and West African groups.

Q. Does your SIU provide anti-fraud training and/or awareness to claims and other departments?

All survey participants reported they provide anti-fraud training to other departments in their companies.

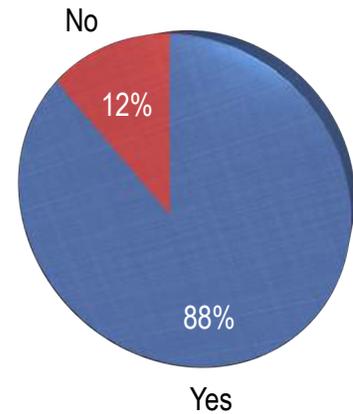
Q. What is the most challenging obstacle your company faces in combating insurance fraud?

Most-cited challenges involved adequate resources, including maintaining SIU staffing levels. Other responses included:

- Organized fraud rings;
- Contestability laws;
- Leakage prevention;
- Retaining experienced frontline claim, underwriting and support staff;
- Training and retaining frontline staff in claims, underwriting and customer- service roles;
- Increasing incidence of agent and broker fraud; and
- Obtaining sufficient evidence/documentation to prove suspected fraud.

Q. In addition to mandatory reporting does your company pursue rescission or civil litigation against people who commit fraud against your company?

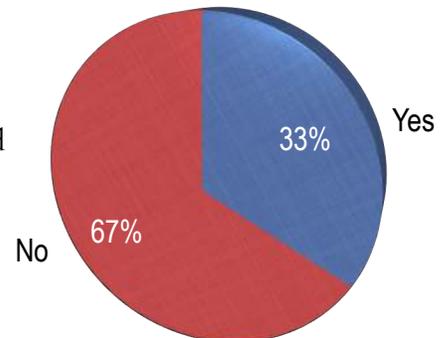
State laws allow insurers to rescind a policy if they can prove the policyholder committed fraud. Laws and some court decisions differ on the ability of insurers to rescind policies for fraud after the contestability period. Most insurers say they do take advantage of the ability to rescind.



Some insurers also initiate affirmative litigation to seek redress in civil courts against fraudsters. Insurers have used civil remedies to recoup lost claims payments as well as investigative costs.

Q. Do you routinely engage state fraud bureaus, law enforcement and local prosecutors to take your cases, which would include proactively meeting in person and not just submitting referrals?

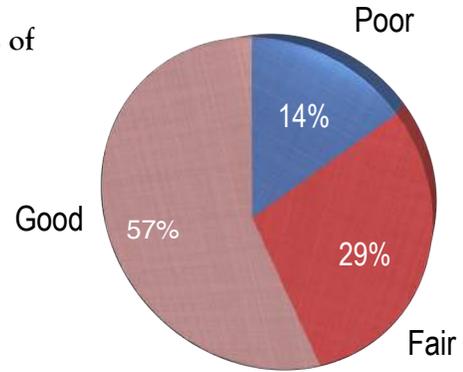
Two-thirds of insurers say they routinely engage fraud bureaus and law enforcement. Some of the examples given include building one-on-one relationships, actively presenting cases to them, following up frequently to offer assistance on cases being



investigated and offers to conduct informal and formal training to agency investigations. Some insurers also request agencies to speak at in-house SIU meetings so insurer investigators can learn how to build better cases to present to agencies.

Q. How would you describe the ability and willingness of prosecutors and fraud bureaus to accept your cases?

No life insurer rated the ability and willingness of prosecutors and fraud bureaus to accept cases as “excellent.”



Q. How many total FTEs does your SIU employ?

All responses were in single digits except for one response of 120 FTEs.

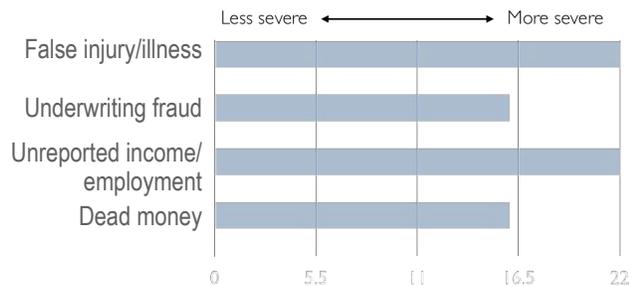
Other survey findings:

- Approximately a third of respondents said they accept referrals via their websites;
- A third also conduct anti-fraud outreach, including sending warning letters to claimants, posting fraud information on websites, distributing brochures and participating in various industry anti-fraud activities; and
- Most (88 percent) have some international fraud exposure.

Results from disability insurer survey

Q. How would you gauge the level of severity your company experiences in the following fraud types?

No insurer said any type of disability fraud was severe. False injury and unreported income/employment were reported to be moderate, while underwriting fraud and dead-money cases were deemed to be less severe.



Q. How many fraud investigations did your SIU open last year, and how many were referred to state insurance fraud bureaus?

Insurers reported opening an average of 230 cases. Number of cases ranged from a low of less than 200 to a high of 260. Average number of cases referred to fraud bureaus was 110. This suggests some insurers may be opening cases they shouldn't, or failing to report suspect cases to fraud bureaus.

Q. What percentage of investigations resulted in adverse decisions?

Overall, approximately 29 percent of investigations resulted in adverse decisions. By comparison, property/casualty insurers report that nearly 50 percent of their cases resulted in adverse decisions.⁵

Q. Does your SIU provide anti-fraud training and/or awareness to claims and other departments?

All survey participants reported they provided anti-fraud training to other departments in their companies.

Q. What is the most challenging obstacle your company faces in combating insurance fraud?

Answers fell into three broad categories:

- Internal resources to combat fraud, specifically acquiring and keeping investigators;
- Difficulty in detecting some fraud, especially the ease with which some claimants have in securing fraudulent medical documentation; and
- Unwillingness of law enforcement to accept cases.

Interestingly, an obstacle that wasn't cited was the lack of support for anti-fraud efforts by senior leadership. This also was cited in previous insurer SIU surveys.

Q. In addition to mandatory reporting, does your company pursue rescission or civil litigation against people who commit fraud against your company?

All participants reported they do not pursue policy rescission or civil litigation.

⁵ SIU Benchmarking Study, Coalition Against Insurance Fraud, 2016

Q. Do you routinely engage state fraud bureaus, law enforcement and local prosecutors to take your cases, which would include proactively meeting in person and not just submitting referrals?

No participant reported engaging fraud bureaus, law enforcement or local prosecutors to take cases.

Q. How would you describe the ability and willingness of prosecutors and fraud bureaus to accept your cases?

No respondent described the ability and willingness of prosecutors and fraud bureaus as “excellent.” Approximately half rated them as “good,” and half as “poor.”

Q. How many total FTEs does your SIU employ?

No respondent reported more than 10 SIU employees. Average was six.

Insurer anti-fraud activities

Participating insurers also were asked to share “best practices” to prevent and investigate suspected fraud. Among the practices cited:

- Distributing red flags to all claims staff on a regular basis, especially just prior to holidays when claim frequency increases;
- Creating a special anti-fraud newsletter for claims staff that includes red flags, case profiles and fraud trends;
- Producing videos to re-enact fraudulent schemes for employees to understand how fraud is committed;
- Recognizing claims staff who do a superior job in detecting suspect fraud with a special monthly award;
- Creating a collaborative team of fraud-fighters that meets regularly to discuss fraud trends and refine anti-fraud strategy;
- Developing communications standards to report on anti-fraud activities across disciplines in the company, as well as communicating up to senior management;
- Confirming address changes with policyholders to prevent fraudulent loans against life policies;

- Setting standards for analysts to refer cases within one business day of identifying one or more red flags, and track material changes in benefit payment or status of claim;
- Obtaining from disability claimants Authorization to Obtain and Disclose Information form signed and dated within the last 12 months; and
- Creating clear standards on criteria for submitting referrals to state fraud bureaus.

Results from fraud bureau survey

A total of 44 state insurance fraud bureaus were contacted about participating in a survey about life and disability fraud. Several declined because their jurisdictions did not include life or disability insurance. Others said they receive so few cases in those lines they didn't think their input would be helpful. A total of 13 participated fully in completing the survey. Two fraud bureaus said they were unable to provide individual statistics on the two lines of business because the cases are not individually categorized in their data systems.

Q. How would you gauge the overall level of fraud your agency experiences in life and disability insurance.

Fraud bureau directors overall gauged the overall level of both life and disability fraud as halfway between "slight" and "moderate." No fraud bureau deemed either as "severe."

Q. How many referrals did your agency receive in 2015 for disability fraud?

Average number of referrals received for disability fraud was 73. The range of referrals received was from 0 to 250. Two fraud bureaus reported they didn't receive any disability referrals.

Q. How many referrals did your agency receive in 2015 for life insurance fraud?

Average number of referrals received for life-insurance fraud was 127. The range of referrals received was from 1 to 529.

Q. How many investigations did your agency conduct in 2015 for disability fraud?

Average number of investigations conducted for disability fraud was 23. The range of investigations was from 0 to 132. Two reported they didn't initiate any disability investigations.

Q. How many investigations did your agency conduct in 2015 for life insurance fraud?

Average number of investigations conducted for life insurance fraud was 19. The range of investigations was from 0 to 73. Two reported they didn't initiate any life insurance investigations. The two were different insurers than the two that reported no investigations for disability fraud.

Q. How many cases did your agency refer for prosecution in 2015 for disability fraud?

Average number of cases presented for prosecution was 4.5. Cases ranged from 0 to 21.

Q. How many cases did your agency refer for prosecution in 2015 for life insurance fraud?

Average number of cases presented for prosecution was 2.6. Cases ranged from 0 to 17. Three fraud bureaus reported they present no cases for prosecution.

Q. Do your investigators that have specific expertise in investigating disability fraud?

More than half (58 percent) of fraud bureaus said investigators have specific expertise in disability fraud.

Q. Do your investigators that have specific expertise in investigating life insurance fraud?

Responses were evenly split. Half said yes, half said no specific experience.

Q. Are there any specific ways or methods that your investigators are trained for life and disability fraud investigations?

Several methods for training were cited by fraud bureaus, including:

- Attending industry meetings and webinars;
- Internal one-on-one training between experience investigators and new staff; and
- Online courses.

Most fraud bureaus do not appear to have specific training for investigating life and disability cases. Several mentioned they didn't believe specific training was available.

Q. What are obstacles your agency faces in either accepting or investigating life and disability cases?

- Life cases involving claimants or policyholders residing or dying off-shore;
- Inexact policy language that makes it difficult to determine culpability;
- Not enough staff to dedicate to life and disability cases;
- Statute of limitations involving some cases;
- Electronic policy applications making it difficult to prove who submitted it;
- Bringing out-of-state witnesses in to testify;
- Lack of good training;
- Lack of an all-claims database to determine prior claims or other companies that may have written policies;
- Some life application cases are low-level misdemeanors and not worth investigating;
- Death of suspect applicants in life cases;
- Confusing disability policy language;
- Referrals often have incomplete data;
- Burden of proof very high in some disability cases; and
- Differing opinions from IME doctors in disability cases.

Other comments:

- “Would be nice to have a central organization like the P/C and health industries to work with.”
- “Most insurers submit referrals with very little investigative effort. These cases are time-consuming and costly for us. One major insurer does a good job in investigating and packaging referrals and we take 90 percent of the cases they submit to us. They also hire ex-law enforcement, who help us.”
- “Disability fraud is too difficult to prove. We assign them lower level priority.”

Results from prosecutor survey

Coalition staff attempted to interview 25 prosecutors at the local, state and federal levels for statistics and insights on prosecuting life and disability fraud. Several declined, saying they prosecute so few cases they didn't have any real information to share. Others declined because of official policies that discourage participating in such research projects. The Coalition did obtain information from seven prosecutorial agencies. The small number is not sufficient to draw broad conclusions, yet these prosecutors did provide some insight.

Findings include:

- **Cases referred for prosecution:** Each reported 10 or fewer in the last 12 months for both life and disability cases. Of these, three or fewer were accepted for prosecution.
- **Expertise:** Most said they do not have staff prosecutors with expertise in life insurance (50 percent) and disability (33 percent) fraud.
- **Dealing with insurers:** Only one prosecutor said life insurers routinely engage them in taking cases. A third of respondents said the same of disability insurers.
- **Training:** Only one prosecutor reported specific training for disability fraud.
- **Presentations to insurers:** About half said they make presentations to insurers when requested to help claims and SIU personnel understand prosecutor needs in building life and disability cases. They report, however, such presentations are infrequent and often limited in scope.
- **Obstacles in prosecuting disability and life insurance fraud cited:**
 - Lack of admissible evidence;
 - Inadequate investigations by insurers;
 - Insurers don't always communicate effectively with prosecutors;
 - Claims association ignores our outreach efforts;
 - No association for prosecutors to liaison with insurers; and
 - No global association for insurers for international cases.
- **What insurers can do better:**
 - Understand burden of proof beyond a reasonable doubt;
 - More thoroughly investigate cases;
 - Maintain admissible evidence;
 - Schedule in-person appointments to discuss cases;

- Not redact information in claim files;
- Give prosecutors the entire claims file;
- Better interview parties instead of just forming conclusions;
- Document, document, document;
- Check every time a disability check before it goes out;
- Ask claimants better questions and secure more documents; and
- Stick to rules.

Recommendations

- Check to determine if statutes of limitations need to be extended in some states to accommodate the complexity and lengthy timespan of some investigations. Statute of limitations should be triggered from the time the suspected fraud is detected;
- Consider a central entity to serve as liaison with fraud bureaus and law enforcement, and to help insurers collaborate;
- Consider a benchmarking study to gather metric and best practices if enough insurers agree to participate. Benchmarking data can help gauge how each industry fares in pursuing fraud, and could help some insurers justify investing more resources in anti-fraud activities;
- Categorize and publish comprehensive compilation of training resources for insurers, fraud bureaus and prosecutors;
- Seek more funding for prosecution, perhaps similar to California's specific grant programs;
- State lawmakers should consider expanding the authority of fraud bureaus in those states where their investigative and prosecutorial scope is limited to health, auto and workers-compensation fraud;
- Insurers that do not actively engage fraud bureaus and prosecutors in their cases should consider reaching out to law enforcement, cultivating more relationships and understanding their needs and criteria to actively pursue cases. At the same time, fraud bureaus and prosecutors should seek to give presentations on how they pursue cases at insurer and insurer association meetings.

Appendix I: Sample life insurance fraud cases

- 12/28/2016 – [Utah woman facing charges in murder-for-hire investigation](#), FOX 13
Now
- 12/26/2016 – [Life insurance agent in New Jersey charged in commissions scam](#), Tapinto.net
- 12/15/2016 – [Man shoots fiancée in N.Y. for \\$100,000 of life insurance](#),
BuffaloNews.com
- 12/13/2016 – [Man charged with attempting to collect \\$500K life policy on stranger](#),
NJ.gov
- 11/18/2016 – [Funeral director off to prison for stealing premiums from clients](#), The Recorder
- 10/22/2016 – [Life insurers tighten e-policy underwriting](#), Business Standard News
- 10/13/2016 – [Six get life term for faking death to claim insurance](#), The Tribune
- 9/28/2016 – [Insurance agent in Florida stole IDs to use in commissions scam](#), WFTV.com
- 9/6/2016 – [Businessman in Florida pleads guilty to faking his death](#),
Jacksonville.com
- 8/16/2016 – [Irish travelers accused of defrauding life insurers in South Carolina](#), The State
- 8/9/2016 – [Funeral home owners in West Virginia filed death claims on 100 living people](#),
Charleston Gazette-Mail
- 7/29/2016 – [Agent in New Jersey accused of stealing nearly \\$1M from elderly friend](#),
Tapinto.net
- 7/22/2016 – [A Look at the weird, wild world of death fraud](#), Bloomberg
- 3/29/2016 – [Woman in N.C. accused of posing as dead mom to buy life policy](#), North Carolina Department of Insurance
- 2/16/2016 – [Insurance company alleges client lied on policy application](#),
PennRecord.com
- 11/13/2015 – [Ex-wife of funeral director in Mass. pays \\$106K to settle fraud charges](#),
Gazettenet.com

- 11/5/2015 – [Car dealer in Oregon enjoyed "adrenaline rush" in bilking life insurers](#), Oregon Live
- 10/7/2015 – [Life agents have duty to report suspected fraud to insurers](#), Life HealthPro
- 8/13/2015 – [Online death records makes life insurance fraud easier, expert says](#), WSBT.com

Appendix II: Sample disability fraud cases

- 12/29/2016 – [Lawyer in Kentucky accused of masterminding \\$600M disability scam](#), WTOP.com
- 12/13/2016 – [Dozen EMS workers in NYC charged with disability fraud](#), New York Daily News
- 12/6/2016 – [Woman in Kentucky cashed dead husband's disability checks for 11 years](#), United States Department of Justice
- 10/13/2016 – [Couple used IDs of prison inmates to file \\$317K in false insurance claims, authorities say](#), New Jersey 101.5
- 9/12/2016 – [Ex-judge in New Mexico sentenced to prison for disability fraud](#), United States Department of Justice
- 8/24/2016 – [Vietnamese woman has hand, leg severed to reap \\$157K in disability money](#), VNExpress
- 6/8/2016 – ['Wicked Tuna' star gets probation for committing disability fraud](#), The Seattle Times
- 4/27/2016 – [Woman in North Carolina accused of faking broken arm to collect disability](#), North Carolina Department of Insurance
- 3/21/2016 – [Doctor ordered to pay insurer \\$2M for aiding disability scam](#), WSB-TV.com
- 1/24/2016 – [Kia hamster fraudster pleads 'no contest' to disability fraud](#), My News LA
- 1/29/2016 – [Buffalo school principal pleads guilty to disability scam](#), WIVB.com
- 5/1/2015 – [Baton Rouge woman tries to steal disability money, State Police say](#), Chron.com
- 3/2/2016 – [Pa. man claiming disability caught working on house](#), WGAL.com

- 3/30/2015 – [Army veteran in Kentucky accused of faking disability to get benefits,](#)

Military.com

- 2/17/2015 – [Woman in California charged with forging doc's signature on disability claims,](#)

California Department of Insurance

- 1/21/2015 – [Federal agent in Texas pleads guilty to disability fraud,](#)

InsuranceFraud.org

- 8/10/2010 – [Chesapeake relatives charged in insurance scam,](#) The Virginian-Pilot

Appendix III: Specific Laws & Regulations

Disclaimer: For those states without specific life & disability insurance-fraud laws and/or regulations, it can be inferred from their insurance fraud law that life and disability fall under the general insurance fraud law. This does not include specific viatical fraud laws either.

*States not listed did not have any disability/life insurance fraud laws or regulations.

ALABAMA

LAWS

Disability

- Insurer not liable for loss if insured working illegal job or trying to commit felony.
- <http://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/27-19-25.htm>

REGULATIONS

Both

- Insurer can be fined up to \$10,000 if they violate regulations of law/code.
- <http://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/27-19-109.htm>

ARKANSAS

LAWS

- **23-81-802. Definitions:** Fraudulent life settlement act defined.
- <http://www.insurance.arkansas.gov/PandC/Insurance%20Code%20&%20related%20chapters/Chapter81.htm>

REGULATIONS

Both

- **23-72-113.** Insurer must pay beneficiary unless contract voided by fraud.
- <http://www.insurance.arkansas.gov/PandC/Insurance%20Code%20&%20related%20chapters/Chapter72.htm>

CALIFORNIA

REGULATIONS

Disability

- 1871.8 - requires insurers and employers to tell workers they must report money earned while on disability or it is fraud.

- <http://www.leginfo.ca.gov/cgi-bin/displaycode?section=ins&group=01001-02000&file=1871-1871.9>
- 10128.57 (8) - requires insurer to terminate policy if fraud or deception in use of benefits.
- <http://www.leginfo.ca.gov/cgi-bin/displaycode?section=ins&group=10001-11000&file=10128.50-10128.59>

FLORIDA

REGULATIONS

Both

- **624.401** Need authorized certificate to sell insurance or it is automatically insurance fraud.
- http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&URL=0600-0699/0624/0624.html

Life

626.9541 #4 - Misrepresenting financial conditions as a life insurer.

- http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&URL=0600-0699/0626/Sections/0626.9541.html

626.9541 (k) - Misrepresentation in insurance applications.

- http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&URL=0600-0699/0626/Sections/0626.9541.html

732.805 1 (b) - Life insurance policies and fraud via marriage. www.insurancefraud.org

- http://www.leg.state.fl.us/statutes/index.cfm?mode=View%20Statutes&SubMenu=1&App_mode=Display_Statute&Search_String=life+insurance+fraud&URL=0700-0799/0732/Sections/0732.805.html

GEORGIA

LAWS

Life

O.C.G.A. 33-25-13 (2010) 33-25-13. - No insurance money if murder committed.

- <http://law.justia.com/codes/georgia/2010/title-33/chapter-25/33-25-13/>

Disability

Making false representation based on disability on an insurance policy.

- <http://law.onecle.com/georgia/33/33-1-9.html>

HAWAII

REGULATIONS

Life

Life settlements and contracts must contain fraud warning statement.

- <http://law.justia.com/codes/hawaii/2009/volume-09/title-24/chapter-431e/hrs-0431e-0043-htm>

IDAHO

LAWS

Disability

41-2126.- Illegal occupation.

- <https://www.legislature.idaho.gov/idstat/Title41/T41CH21SECT41-2126.htm>

ILLINOIS

LAWS

Disability

§ 25.5., Particularly (f) - if committing fraud, ineligible to receive disability etc, benefits.

- <http://codes.findlaw.com/il/chapter-820-employment/il-st-sect-820-305-25-5.html>

Life

REGULATION

Sec. 1515. - License required to give out life insurance policies. No solicitation, etc.

- <http://www.ilga.gov/legislation/ilcs/ilcs4.asp?ActID=1249&ChapterID=22&SeqStart=1599000000&SeqEnd=-1>

KANSAS

REGULATIONS

(c) Prohibited acts in selling life insurance i.e. misrepresentation or false statements.

- <http://www.ksinsurance.org/documents/departments/regulations-adopted/article-2/40-2-14.pdf>

KENTUCKY

LAWS

DISABILITY

304.47-020 1 (g) False statement about disability on application.

- : <http://www.lrc.ky.gov/statutes/statute.aspx?id=30182>

LIFE

Unlawful acts under life insurance settlements. Entire document.

- <http://www.lrc.ky.gov/statutes/statute.aspx?id=17256>

MAINE

REGULATIONS

Life

No solicitation of life insurance (broker or insurer) unless in accordance with law.

- <http://legislature.maine.gov/statutes/24-A/title24-Asec2152-A.html>

MASSACHUSETTS

LAWS

LIFE

- (2) Not hiring someone convicted of felony to sell life insurance.

<https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter175/Section223B>

Agents should not make false statement regarding selling of life insurance policies.

- <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter175/Section127>

REGULATIONS

DISABILITY

Section 108J. - Can't demand higher premiums based on insured's past/future travels.

- <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter175/Section108J>

MISSISSIPPI

LAWS

LIFE

Agent fraud

- <http://law.justia.com/codes/mississippi/2013/title-83/chapter-7/general-provisions/section-83-7-11/>

NEBRASKA

LAWS

LIFE

Must be at least 10 years old to be insured.

- <http://www.nebraskalegislature.gov/laws/statutes.php?statute=44-705>

DISABILITY

(3) Making a false statement about a disability.

- <http://nebraskalegislature.gov/laws/statutes.php?statute=44-6604>

NEVADA

LAWS

LIFE & DISABILITY

NRS 688A.370 - Reinstated policy can be contested if fraudulent element.

- <https://www.leg.state.nv.us/nrs/NRS-688A.html#NRS688ASec370>

NEW HAMPSHIRE

LAWS

LIFE

Acquiring premiums by fraudulent means.

- <http://law.justia.com/codes/new-hampshire/2006/nhtoc-xxxvii/408-13.html>

Posing as an agent is insurance fraud.

- <http://law.justia.com/codes/new-hampshire/2006/nhtoc-xxxvii/408-8.html>

Agent's license can be revoked if caught for fraud.

- <http://law.justia.com/codes/new-hampshire/2006/nhtoc-xxxvii/408-12.html>

NEW YORK

LAWS

LIFE

S 176.40 (and all that follows under that statute)

Fraudulent life settlement act defined & penalties for doing so.

- <http://ypdcrime.com/penal.law/article176.htm#p176.40>

DISABILITY

- S 176.00 (e) & 5 - Disability fraud included under definition and in commercial
- http://ypdcrime.com/penal.law/article176.htm?zoom_highlight=disability+insurance

NORTH CAROLINA

LIFE

LAWS

Broker/insurer/agent fraud.

http://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/BySection/Chapter_58/GS_58-33-100.pdf

PENNSYLVANIA

LIFE

REGULATIONS

Agent and broker fraud

- failure to disclose basic info about a policy
- <http://www.pacode.com/secure/data/031/chapter83/chap83toc.html#83.6>.

RHODE ISLAND

DISABILITY

REGULATIONS

False representation to avoid paying disability.

- <http://webserver.rilin.state.ri.us/Statutes/TITLE28/28-39/28-39-24.HTM>

LIFE

REGULATIONS

Corporations can't misrepresent themselves when selling life policies.

- <http://webserver.rilin.state.ri.us/Statutes/title27/27-4/27-4-5.HTM>

LAWS

General penalty statement.

- <http://webserver.rilin.state.ri.us/Statutes/title27/27-4/27-4-4.HTM>

Brokers may not commit fraudulent life settlement act.

- <http://webserver.rilin.state.ri.us/Statutes/title27/27-72/27-72-16.HTM>

Fraudulent life settlement acts (may want to use various part of the law)

- <http://webserver.rilin.state.ri.us/Statutes/title27/27-72/27-72-14.HTM>

SOUTH DAKOTA

LAWS

DISABILITY

False statement on app about disability - refer to (8)

- http://sdlegislature.gov/Statutes/Codified_Laws/DisplayStatute.aspx?Type=Statute&Statute=58-4A-2

TEXAS

LAWS

REGULATION

Sec. 111A.019 - report fraudulent life settlement act.

- <http://www.statutes.legis.state.tx.us/Docs/IN/pdf/IN.1111A.pdf>

LIFE

Prohibited practices - All of Section 111A.017, and then 018.

- <http://www.statutes.legis.state.tx.us/Docs/IN/pdf/IN.1111A.pdf>

Fraudulent life settlement act - (7) or search words fraudulent life settlement act.

- <http://www.statutes.legis.state.tx.us/Docs/IN/pdf/IN.1111A.pdf>

UTAH

LIFE

REGULATIONS

Prohibited owner acts.

- https://le.utah.gov/xcode/Title31A/Chapter36/31A-36-S111.html?v=C31A-36-S111_1800010118000101

Anti-fraud initiatives.

- https://le.utah.gov/xcode/Title31A/Chapter36/31A-36-S117.html?v=C31A-36-S117_1800010118000101

LAWS

Penalties.

- https://le.utah.gov/xcode/Title31A/Chapter36/31A-36-S118.html?v=C31A-36-S118_1800010118000101

Fraudulent life act - whole thing.

- https://le.utah.gov/xcode/Title31A/Chapter36/31A-36-S113.html?v=C31A-36-S113_1800010118000101

VERMONT

LAWS

LIFE

Fraudulent life settlements.

- <http://legislature.vermont.gov/statutes/section/08/103/03847>

Penalties for agents or fraudsters.

- <http://legislature.vermont.gov/statutes/section/08/103/03703>
- <http://legislature.vermont.gov/statutes/section/08/103/03837>

VIRGINIA

LAWS

Do not try to secure policy by fraudulent means.

- <http://law.justia.com/codes/virginia/2010/title-38-2/chapter-31/38-2-3103/>

WASHINGTON

DISABILITY

LAWS

Insurer pays disability policy if job illegal.

- <http://app.leg.wa.gov/RCW/default.aspx?cite=48.20.262>

LIFE

REGULATIONS

Life insurers must develop underwriting standards to protect juveniles.

- <http://app.leg.wa.gov/RCW/default.aspx?cite=48.23.345>

LAWS

License suspension.

<http://app.leg.wa.gov/RCW/default.aspx?cite=48.102.031>

WISCONSIN

REGULATIONS

Ins 2.18 - Criteria used for selecting life insurance agents & ween out fraud.

- http://docs.legis.wisconsin.gov/code/admin_code/ins/2/18

WYOMING

DISABILITY

LAWS

No payout if job is illegal and felony committed.

- <http://law.justia.com/codes/wyoming/2011/title26/chapter18/section26-18-125/>

Appendix IV: Bibliography

Life insurance fraud

- Ramotar, Cecil. "[Life Insurance](#)" *Combating Fraud and Minimizing Losses*." Gen Re, October 1, 2013, 13.
- "[Broken Trust: Elders, Family, and Finances](#)." Study on Elder Financial Abuse and Prevention, 2009, 38. Accessed June 1, 2015.
- "[United States of American v. Edward Vaysmann](#)." Harold D. Skipper, Ph.D., CLU, Georgia State University, April 14, 2010, 31.
- Dennis Jay, "[Life and Disability Fraud Need Not Take a Back Seat](#)." ICA News, March 15, 2011.
- New York Alliance Against Insurance Fraud, "[Consumers warned to be truthful on life applications](#)." October 18, 2010.

Disability fraud

- Bertoni, Daniel. "[Actions Needed to Reduce Continued Risk of Fraud and Improper Payments](#)." Gao.gov. May 1, 2015. Accessed August 13, 2015. <http://www.gao.gov/assets/670/669995.pdf>.
- "[Enhanced Policies and Management Focus Needed to Address Potential Physician-Assisted Fraud](#)." Gao.gov. November 1, 2014. Accessed August 13, 2015.
- "[How Some Legal, Medical, and Judicial Professionals Abused Social Security Disability Programs for the Country's Most Vulnerable: A Case Study of the Conn Law Firm](#)." Hsgac.senate.gov. October 7, 2013. Accessed August 14, 2015.
- Johnson, Honorable Chairman Sam. "[Follow-Up Report on Anti-Fraud Efforts Requested at the January 16, 2014 Hearing on Disability Fraud](#)." Ssa.gov. February 14, 2014. Accessed August 14, 2014.
- Stern, Theodore. "[Malingering Involving Insurance Fraud: When It Pays to Be Ill](#)." *Psychosomatics* 52 (2011): 280-82. Accessed August 14, 2015.

- "Summary of H.R. 2359 ["The Disability Fraud Reduction and Unethical Deception Prevention Act"](#) Waysandmeans.house.gov. May 15, 2015. Accessed August 15, 2015.
- Taylor, James. "[Facilitating Fraud How SSDI Gives Benefits to the Able Bodied.](#)" Cato.org. August 15, 2000. Accessed August 14, 2015.
- Dominic A. Carone, PhD, ABPP-CN, "[Malingering imposes large costs on insurance companies and society.](#)" Journal of Insurance Fraud in America, November 6, 2014.

Appendix V: List of Task Force Members

Carmen Russo, chair	John Hancock
James Sweetman	The Hartford
Steven Pierson	The Hartford
Marc Rothenberg	Prudential
Mary Grace James	Northwestern Mutual
Alice Smith	American Family
Craig Williamson	Farmers New World Life
Mark Hesse	The Standard
Marc Burdick	Axa US
David Melman	Shelterpoint Insurance
Joe Schaedler	Voya Insurance
Mark Lanford	MetLife
Coalition staff:	Dennis Jay
	Elijah Mercer



**Coalition Against
Insurance Fraud**

1012 14th St., NW
Washington, DC 20005
202-393-7330
www.InsuranceFraud.org

© The Coalition Against Insurance Fraud, Inc., 2017