

# Fraud Focus



Coalition Against  
Insurance Fraud

FALL 2008

## RESOURCES ARE HOLDING UP, BUT IS THAT GOOD ENOUGH?

*Economy, fraud epidemic could outstrip anti-fraud resources*

With America's economy stuck in a trough, insurer anti-fraud resources appear to be holding up fairly well compared to the budgetary Weed-Whacking that's paring the mortgage, investment banking, airline and auto industries.

So say senior executives in a recent coalition survey of special investigation units (SIUs) at 41 property-casualty insurers.

For now, fraud-busting resources appear stable and even expanding somewhat, and the picture looks fairly similar for 2009. This may reflect a dawning awareness among growing numbers of insurers that fraud fighting can be a financial contributor rather than simply another cost center.

"SIUs are coming to the forefront as one of the aids to the bottom line in a flat market," says Scott A.

Strain, CFE, director, special investigations, for American Family Insurance. "Most insurance companies are close to zero growth. They're turning to every part of the company and saying, do you have an impact in stopping the bleeding? I can tell you, our ROI at American Family is significant."

### Outlook uncertain

But despite the seemingly decent resource outlook, are insurers equipping their troops to turn the corner on this hydra-headed \$80-billion crime? Or has fraud grown so large that SIUs need leviathan leaps in assets, not just decent skips and jumps? Is good enough good enough today?

Also dogging the outlook is potential blowback from mid-September's Wall Street meltdown. Will unforeseen shakeouts ignite insurer belt-tightening that depresses anti-fraud resources?

Though firm conclusions are elusive, the coalition's SIU survey could prompt a lively debate about the anti-fraud community's state of readiness. For now, at least, here's what senior anti-fraud executives tell the coalition:

- More than seven of 10 execs say their dedicated SIU resources have stayed the same or increased moderately from last year to this year;
- Another one of 10 execs see a "substantial" increase;
- About as many say their resources have decreased to varying degrees; and

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### Total insurer resources Boosting fraud fight

In an ideal world, insurer resources go well beyond funding special investigative units.

Numerous departments become part of a coordinated strike team, building a company-wide culture of fraud fighting. The special investigative unit is the nerve center.

Here's what anti-fraud execs say about the total resources their insurers devote to fighting fraud:

- Four of five say total resources have stayed the same or increased in the last year;
- In fact, nearly half sees either a moderate or substantial increase; and
- Only about one of 10 says overall anti-fraud resources are down.

In the best possible world, the communications department, for example, works on the public — warning the public to avoid committing fraud, and showing people how to avoid being scammed.

Claims staff, adjusters and agents are well-trained to spot suspicious claims. The legal department is deeply involved in countless legal aspects of the fraud fight. Underwriting and marketing also support the effort.

At least that's how it should work.

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**Resources holding up**

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- Next year's outlook appears to be about the same.

Many SIUs also have more boots on the ground this year.

■ Fully half of SIUs say they gained more investigators. One insurer doubled its investigative staff, another grew 75 percent and several SIUs grew by as much as a third since last year. But what's unclear is how large these staffs were to begin with.

■ Nearly two of five SIU managers say their investigator levels have remained stable over the last year.

■ Only five SIUs actually lost investigative firepower, but some took hard hits. One unit lost 90 percent of its investigators, another lopped off 20 percent; and

■ Two of five managers say they expect to land more investigators in 2009, and half say things will remain the same. Less than one of 10 managers expects to lose investigators.

**Outsourcing levels off**

Outsourcing of SIU operations also appears to have slowed down. Many insurers have vended out all or part of their SIUs over the last few years. The reasons vary — cutting costs, reducing management hassles, seeking better fraud-busting models. But the vast majority of SIUs see no increase in outsourcing this year or next.

*SIUs may not  
have enough assets  
to stay ahead  
of their largest  
growing threats.*

Despite the encouraging overall resource trend, it's unclear that SIUs have enough assets to stay ahead of their largest growing threats.

Some of the biggest fraud losses come from large, corporate-style rings that are operating with greater frequency around the U.S. Using a surprisingly detailed knowledge of insurer payment systems, fraud rings can mass-produce millions of dollars in bogus medical claims against auto, workers comp and health insurers relatively quickly.

“Can law enforcement or insurers handle this alone? I don't think so,” says Kenneth W. Jones, CPCU, AIC, vice president, investigative services for Travelers Insurance. “Fraud rings are constantly changing and getting more sophisticated. It can be difficult to figure out their next move. Working together to break up those rings is one of our biggest opportunities for partnership between insurers and law enforcement.”


Fresh fraud exposures are churning on other fronts as well, further stretching SIU resources.

The troubled economy is igniting spikes in desperation-fueled fraud such as vehicle and home arsons, and bogus health claims.

Longer term, the U.S. is swelling by nearly 10 million people a year. The statistical odds thus favor a steady growth in insurance schemers. Greed is that primal a force.

But the debates about anti-fraud resources are only partly about ROI and insurer profitability. Insurer resource decisions also can profoundly affect millions of average Americans, who must deal with the potentially life-altering impact of swindles.

“I think the view of SIUs as a bunch of ex-cops standing around the water cooler is changing,” says Jones, of Travelers.

“We're being embedded in the claims staff and involved in the company's whole workflow, working on stopping bad players in the system. We're preventing money from falling into the hands of criminals so we can help keep premiums affordable and people safe.” 

## California scheming: Employers ducking comp

**Golden State employers** are becoming increasingly aggressive about dodging paying their full share of state-required workers comp premiums. Many immigrants are part of the state's vast underground economy (see *Fraud Focus*, spring 2008). Crooked employers hide employees in shell companies or mislabel them as independent contractors to try and fool comp insurers into charging lower premiums. Or in some cases, buying any coverage at all — 12.4 percent of California businesses don't carry any workers comp, state officials report. The state issued 567 complaints against employers in 2006 and 2007. This compares with 473 complaints against employees suspected of fake injury claims. State regulators had levied about \$4 million in fines against scofflaw businesses through mid-2008. Altogether, state fraud investigators have staged 46 raids against businesses they suspect are cheating their employees out of coverage. Investigators found 17 employees silk screening and pressing T-shirt components in Vernon. A search of the shop found no paperwork showing that the employees had valid workers comp coverage, authorities say. The shop was hit with \$37,000 in fines.




## More U.S. newcomers getting rich on Medicare schemes



America is the land of Milk and Money for many recent immigrants who've figured out how to cheat Medicare out of millions with little fear of being caught. Emboldened Cuban gangs in Florida, Armenians in Los Angeles, West Africans in Houston and Russians in New York have launched increasingly brazen Medicare cons, according to a *Miami Herald* series. One gang being taken down in Miami reveals how aggressively urban fraud guerrillas have become. Cuban brothers Carlos, Luis and Jose Benitez fled the U.S. recently after the FBI began probing \$84 million in Medicare payments that were washed through crooked Miami check-cashing services, investigators say. The brothers, who emigrated to Florida in 1995 and became citizens in 2000, set up a network of HIV drug-infusion clinics in South Florida to mass-produce phony treatments. The Benitez brothers used the money to buy plush homes, a helicopter and even a water park. Virtually all of the goodies were located in the Dominican Republic. But once they heard the FBI's footsteps, the Benitez brothers fled back to Cuba and remain fugitives. Working with Dominican authorities, the FBI has seized their assets. HIV-related schemes are a hot item in Florida. They're so profitable that bogus HIV clinics are spreading upstate in search of more easy Medicare cash.

## FraudBlog: The online conscience of fraud fighters

Like Frank Sinatra's ode to New York City, insurance fraud never sleeps. But neither does *FraudBlog* ([www.InsuranceFraud.org/blog](http://www.InsuranceFraud.org/blog)) The coalition's no-holds online forum has become the conscience of the fraud fighters and the public. *FraudBlog* covers the waterfront, digging deep for unexpected insights. It's contrarian and controversial, compassionate and caring. *FraudBlog* bluntly contradicted the FBI's news releases that the agency was increasing health fraud busts. It scolded Toyota for prime-time ads that encouraged drivers to illicitly wreck their cars for insurance money. A warm and touching good-bye to retiring NICB president Bear Bryant showed *FraudBlog's* softer side. The blog took on health insurers for excessive rescissions of policies, and questioned how miniscule sentences for serious fraud offenses could serve justice or deter other fraud criminals: "Still, many cases leave us shaking our heads. We've seen people steal more than \$1 million and never set foot inside a jail, while others receive two years for lying on an auto application," the blog said in urging more creative sentences such as requiring fraud convicts to go on the public speaking circuit about their crimes. 



## In Brief

Medical ID theft is the **fastest-growing form of identity theft** in America today, the coalition's Jim Quiggle said in a recent *Chicago Tribune* article. "With almost 50 million people considered uninsured today, medical ID theft may become a growing problem as more people become desperate enough to turn to crime to find treatments they cannot otherwise get."... **Allstate sued Dr. James M. Liguori** for \$1.5 million for allegedly exploiting New York's no-fault auto law by charging for bogus nerve conduction velocity studies and other tests... Justo Padron **was eaten alive** for insurance fraud. He owned a South Florida clinic that allegedly billed Medicare for **obsolete HIV treatments**. The FBI spotted him one night. Padron ran off and leapt into a nearby lake, and was **chomped to death by a nine-foot alligator**... Whistleblower Cleveland Tyson **earned \$56 million** for turning in a health insurer that scammed Medicare out of millions. His employer Amerigroup had charged Medicare for treating patients the **insurer actually had denied treatment**... Fraud can wreak an emotional toll. Lekenvish Alford of Omaha, Neb. was in jail for insurance fraud when daughter Alazia **was killed in a drive-by shooting**. "I blame myself every day and I just wish I could've been there," she laments... Joe Wehrle has been named to **head the National Insurance Crime Bureau**. He succeeds Robert "Bear" Bryant, who recently retired.

**More Fraud News at**  
[www.InsuranceFraud.org](http://www.InsuranceFraud.org)

# Driven to desperation?

*Sour economy, high gas prices spur drivers to dump vehicles for insurance payouts*

BY JAMES QUIGGLE

**A woman strangely parked her late-model car** just feet from the stormy Gulf Coast waters by Gulfport, Miss. as Hurricane Gustav closed in. She jumped into a waiting SUV and zoomed off, leaving her car to the mercy of the raging wind and surging ocean.

Yuba County, Calif. resident Helen Marler torched her Jeep Liberty to escape the \$600 monthly payments, and her husband plunked his Nissan Titan into a river to collect a \$29,000 insurance payday, prosecutors allege.

## Dumping vehicles

With inflation spiking, credit crunching, foreclosures mounting and gas prices hovering just below \$4 a gallon, many cash-strapped drivers are dumping expensive or unwanted vehicles and then trying to defraud insurers out of windfall payouts.

So-called vehicle giveups appear to be increasing in many areas of the U.S., reflecting yet more fallout from America's troubled economy. The mounting evidence often is inexact and anecdotal. But the warning signs are rapidly taking shape, an investigation by the Coalition Against Insurance Fraud reveals.

"Spikes in people dumping their vehicles are the norm in an economic downturn. The vehicles are easy to report stolen and the fraud is more difficult to verify. It's a way out, a way to get out from under vehicle payments and let the insurance company pay off the loan," says Douglas Ashbridge, director of special investigations for Farmers Insurance Group.

Torching the doomed vehicle with gasoline, lighter fluid or other accelerant is a popular approach. But drivers also sink their auto in lakes, rivers and canals; abandon them in remote deserts or woods; and even sell them to chop shops or on the Internet.



Whatever the scam, larcenous drivers usually lie to their insurer that someone stole the auto. They're gambling an insurance check will pay off burdensome vehicle loans or leases, or help ease other economy-driven debts such as high mortgages.

"We're seeing more giveups pretty much across the board," adds Ashbridge.

In fact, an increase in suspected owner giveups nationally — reported stolen vehicles recovered burned or flooded — track steadily upward with rising gas prices and increasing job losses, reveals the National Insurance Crime Bureau.

The Coalition Against Insurance Fraud's investigation of 10 locales revealed these results:

■ **New York.** Arrests for owner giveups have spiked 25 percent over last year, the insurance department says. The department logged 101 busts for all of 2007, but had recorded 93 cases by August 2008. Most busts came in New York City.

"We have been seeing overall a spike in owner giveups downstate compared to last year," says Frank Orlando, head of the New York fraud bureau. "Owners are giving up their vehicles due to high leases, the economy and prices of gasoline."

■ **New Jersey.** Suspected vehicle arsons have shot up quickly: 59 possible torchings in 2004, 76 in 2005, 90 in 2006 and 94 in 2007, the state fire marshal says.

## Spike in claims

Fraud investigators also saw a spike in suspected auto giveups this summer, adds John Butchko, special assistant with the state AG's office. "We're seeing the troubling signs of an increase in suspicious claims," Butchko says.

Three educators in arson-prone Essex County — including two school principals and a guidance counselor — allegedly had vehicles torched for insurance money all within a month earlier this year.

■ **Ohio.** Vehicle arsons reached 3,168 last year, up from 2,872 in 2006, the state fire marshal says. Notably, unemployment in the Buckeye State also hit a 15-year high in July.

In Columbus, vehicle fires rose from 140 in 2005 to 202 for \$1.02 million in

losses in 2006, according to the city's arson division.

"I'm sure giveups are coming, with gas prices so high," says Michelle Brugh, chief of Ohio's insurance fraud bureau. "I wouldn't be surprised if giveups went up, so we're taking a proactive approach."

■ **Mississippi.** Police have discovered dozens of vehicles suspiciously abandoned close to the surging Gulf waters as Hurricane Gustav closed in. Vehicles were left on piers, beaches and other unusual places where surging waters and high winds could easily wreck them.

■ **California.** Insurers have referred 40 percent more suspected giveups to the insurance department the fiscal year that ended June 30 over the previous year, the state fraud bureau says. Cases in San Bernardino County — the state's fourth most-populous county — and San Joaquin Valley have increased in recent months, according to news reports. And in Fresno County, 12 people ran an insurance ring that burned vehicles for clients, prosecutors charge.

## Investigations lengthy

Actual arrests have remained fairly steady statewide, though criminal investigations often are lengthy, cautions Dale Banda, retiring head of the fraud bureau.

■ **South Carolina.** Suspected arson schemes of all kinds, including vehicles, soared up to 200 percent from 2006 to 2007, according to an insurer survey by the South Carolina Insurance News Service.

■ **Utah.** The fraud bureau is investigating 30 suspected giveups, compared to its normal caseload of one or two, says Joe Christensen, head of the state fraud bureau.

■ **Arkansas.** The fraud bureau logged 18 suspected vehicle giveups just in July and August — including three arsons. Normally the fraud bureau investigates one or two giveups an entire year, says Cory Cox, director of the unit.

■ **Florida.** Recorded vehicle fires have fallen in Florida, the state fire marshal says, and owner giveups overall are decreasing slightly, says the state fraud di-

## Desert trackers find dumped vehicles — and suspects

Remote deserts around Las Vegas are popular boneyards for unwanted vehicles abandoned for quick insurance payouts.

But local fraud investigators are skilled desert trackers. Henderson police officer Joel McGinnis relies on getting a fast jump on schemers. He sleeps with his police monitor. When a suspiciously abandoned vehicle is discovered — any time of the day — McGinnis races to question the driver.

Often he knocks on the suspect's door while the vehicle is still smoldering, and before the suspect has even reported the vehicle "stolen." McGinnis may catch the surprised suspect off-guard enough to say incriminating things.

A task force covering Clark County also sweeps the deserts with helicopters.

An area outside of Las Vegas called the "saddle" is a popular dumping ground. Airborne cops plot a suspicious vehicle with hand-held GPS locators then return to investigate, says Lt. Robert DuVall of the Las Vegas Police Department.

"Out here in the desert, the most common way to get rid of a vehicle is by burning. Most is arson, but we have some vehicles that are just beaten to death," he says.

vision's Maj. Jack Kelley. But State Farm Insurance sees a different trend.

"We've seen a substantial increase in vehicle fires in Florida and New York,"

*Bottom line, fraud fighters are rapidly mobilizing as suspected giveup cases pile up.*

says Dennis Schulkins, Claim Consultant with State Farm's investigative unit. "How much you can attribute to arsons based on the economy is unclear. But clearly when there's an economic downturn you'll see an increase in opportunistic fraud. I think that's the situation we're now in."

■ **Las Vegas.** Suspected vehicle giveups account for about 25 percent of the caseload of an auto-theft task force covering the Las Vegas metro area.

"Those are picking up. The national average is about 18 to 20 percent, and in my professional opinion we're a little higher than the national average. We're seeing more of it as a result of

the economy," says Las Vegas Police Lt. Robert DuVall, a task force member.

## SUV values drop

Many dumped vehicles around the U.S. are gas-sucking SUVs. Overall, SUV resale values have plunged 50 percent in the last year, or triple the normal depreciation, says Kelley Blue Book.

"We're seeing more of the high-cost consumer-type vehicles being dumped than others. This means the big gas-guzzling vehicles, mainly in the SUV category," says Ashbridge of Farmers Insurance.

Bottom line, fraud fighters are rapidly mobilizing as suspected giveup cases pile up.

"A lot of people who do this are pretty decent people who decided to take a short cut," says Las Vegas Police Lt. DuVall. "I would tell anybody and everybody that police departments are starting to take a strong look at this. Police officers are investigating this."

A longer version of this article is available at [www.InsuranceFraud.org/carFires.htm](http://www.InsuranceFraud.org/carFires.htm).



*James Quiggle is director of communications for the Coalition Against Insurance Fraud.*

**In Brief**

**Arson** A Bensalem, Pa. man blew the roof off his home and injured several firefighters in an explosive arson-for-insurance scheme. Robert Schector received up to five years in prison...**Auto** Some Connecticut drivers are buying bogus insurance cards to stay on the roads. But state investigators have caught on, and are cross-checking DMV records to snare cheaters...**Workers comp** A California prison guard claimed workers comp money after allegedly falling 20 feet from a Folsom Prison guard tower. But surveillance showed June Lucena operating a jet ski and cavorting on a water slide. She received seven years in jail...**Staged accidents** After staging 31 car crashes, San Jose, Calif. resident Khai Van Nhin received a stiff nine years in the slammer. Each crash involved drivers claiming they were forced off the same road into a guardrail. His gang made \$500,000 in phony claims...**Drug diversion** California pain doc Bernard Bass allegedly wrote more than 400 prescriptions for addictive painkillers in just two months — after losing his license. He allegedly wrote the same script for every patient...**Liability** Debbie Miller claimed she found a dead rat in her food at a Grand Chute, Wisc. eatery. She demanded \$500,000, but a lab analysis showed that the eatery had nothing to do with the rodent recipe. Miller received three years in prison...**Medicaid** Brooklyn dentist Alan Zukor allegedly bilked Medicaid out of \$1.4 million, including bills for 243 cavity fillings in one day.

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**Louisiana couple faces fraud, murder probes**


**A Baton Rouge, La. couple** went on a suspected four-year \$110,000 fraud rampage, and they're even being investigated for the suspicious death of their two-year-old girl. Cedric and Shelna Matamoros set fire to their apartment for insurance money, officials say. The intense blaze could've injured or killed nearby neighbors, including a family of eight. Cedric also filed a false workers comp claim after saying he was hurt when a truck he was driving for a cement company crashed, prosecutors allege. The couple also allegedly torched both their Ford Explorer and Expedition for insurance payouts, telling their insurer that someone had stolen the vehicles. Their daughter Malyasia also mysteriously was strangled one night. Officials are investigating whether the pair had a motive to kill her for life insurance. Cedric told police that an intruder broke into their house and strangled the toddler. He said he fired a 9 mm handgun at the supposed intruder. Investigators are looking into their story. The Louisiana State Police played a central role in the complex and lengthy investigation.

**Investigators smell rat over alleged repair scheme**

A California body shop bilked vehicle owners out of more than \$1.2 million in bogus auto repair charges — using mice as bait. Mehran Baranriz and Bitia Imani charged insurance companies for damage allegedly done by rats chewing on car wires. The duo allegedly kept a supply of dead mice at their Redwood City shop. They even painted the rodents black to look like rats, officials say. The pair placed the dead rodents in key areas under the hood, and told customers that “rats” had chewed up their wiring systems, authorities charge. Baranriz and Imani also allegedly sprinkled rodent droppings around the engines to make the suspected rat con look more realistic. Baranriz and Imani preyed on customers who mostly drove luxury cars like Mercedes and BMWs, telling the customers they'd need expensive new parts like an engine wiring harness, prosecutors charge. Mice damage to vehicles is a problem in California. The average damage costs \$1,900 to repair. But State Farm launched an investigation and discovered Baranriz and Imani charged an average of \$10,000 per repair — about five times the state average. Many insurer-billed repairs weren't even done, and supposedly damaged vehicle parts weren't replaced, authorities say. Baranriz and Imani each faces up to 60 years if convicted.



**Agent leaves 500 Michigan drivers without coverage**

Agent swindles of clients continue to bedevil prosecutors and regulators around the U.S. Two recent cases point out some of the problems: A Michigan agent swindled 500 clients, leaving them driving the roadways with bogus auto policies. Isaac “Clarence” Chandler of Alpine Township, Mich. posted notices on telephone poles and handed out business cards to strangers touting his cheap auto policies. The seeming policies sold for \$40 apiece, and Chandler promised the coverage would be activated within two or three days. The policies were fake, but carried the names of legitimate insurers and local agencies. Chandler doctored the insurance forms on his home computer after stealing local insurance agency information to make the fake policies look real. One client had no coverage when he was involved in a crash that killed an 88-year-old woman. Chandler received at least six years...Meanwhile in Utah, an agent stole so much premium money from so many clients that prosecutors stopped counting after reaching 150 charges. Philip Timothy used their money to buy trailers and a high-end Harley Davidson motorcycle, and never bought clients their promised coverage. Timothy also failed to return \$44,000 in premium payments to an oil business that canceled its insurance policy. Altogether, Timothy swindled more than \$300,000 from 60 clients, promising insurance coverage for their money but failing to deliver it. He received six months. 



## Auto schemes one priority for 2009 session

The doors of statehouses will start swinging open in less than four months. But 2008 being an election year, much of our success could hinge on what happens in the voting booths this November.

Governors, legislators and insurance commissioners all will come and go. Balances of power will shift. The true impact will take several months to sort out, but auto fraud will loom large in several states.

Fraud fighters in **Texas**, **Ohio** and **Connecticut** want to limit outsider access to police accident reports. Fraud rings use the reports to identify accident victims and try to badger them into seeking bogus injury treatment. New laws could limit report access to only accident victims, their lawyers, insurers and legitimate journalists for the first 60 days after an accident.

### Michigan tackles crash rings

In **Michigan**, watch for a measure making it a crime to recruit for staged accident gangs, and to hire recruiters. A move also may be afoot to create an auto insurance fraud prevention authority. It would give grants to help investigate, bust and prosecute auto schemes. An agency with one clear mission can apply great pressure on auto schemes around the state.

Look for pushes to create a fraud bureau in **Indiana**, and there are preliminary talks in **Illinois** (the largest state without such a unit). The Hoosier state is one of just 11 states without a multi-line fraud bureau to provide a hub for anti-fraud efforts.

In **New Mexico**, watch for a bill letting courts aggregate stolen insurance money when sentencing fraudsters. Money from several schemes could be added up at sentencing. The more money stolen, the stiffer the sentence.

There may be a push to make insurance fraud a specific crime in **Oregon**, one of just three states without such a law (**Alabama** and **Virginia** are the others).

Now is the time to start planning legislative strategy. The window for passing

fraud laws could be small when statehouses open up. Many sessions will last just a few months or even weeks. State budget crises also will soak up much attention, leaving less room for fraud bills.

### Stress for success

Fraud fighters who are primed and ready will stand the best chance of success.

Here are several key startup steps. For more, contact the coalition's Howard Goldblatt at 202-393-7332 or howard@InsuranceFraud.org. Also see a more-detailed action guide at [www.InsuranceFraud.org/legGuide.htm](http://www.InsuranceFraud.org/legGuide.htm)

- **Form a leadership group.** Create a planning council to direct your strategy. Keep it reasonably lean to allow swift decision-making. Develop a soup-to-nuts plan of attack.


- **Identify gaps in fraud laws.** Survey the state's landscape and determine the gaps in fraud laws.

- **Research the issue.** Why do you need a law? Gather compelling data and real-life cases that show the need.

- **Draft a bill, or a good outline.** Groups such the coalition, NCOIL and NAIC have model bills on diverse fraud topics. Identify and approach bill sponsors. You'll need sponsors in both chambers. Are these legislators committed? Do they know insurance fraud? Have clout?

- **Learn the legislative leaders.** Know the doorkeepers who can make or break your effort. What committees review fraud bills? Know where the legislative leaders stand so you'll know if they're friends, foes or undecided.

- **Recruit allies.** There's power in numbers. Talk to prosecutors, insurance department, the AG. Include the business community and consumer organizations. Reach out to insurer trade groups and key insurers in your state.

- **Educate legislators.** Meet with your home-district legislators and key committee members to discuss fraud concerns. Arrange tours of anti-fraud facilities in your state. This should be ongoing, year in and year out. Also try to get fraud on the agenda of all-industry lobbying days at the state capitol. 

## In Brief

Most legislatures are fairly quiet right now, but some action is taking place. **New Hampshire** has created a task force to study illegal misclassification of employees by businesses illegally trying to avoid workers comp premiums... **New Jersey** is looking to give the state's insurance fraud prosecutor a larger role in prosecuting businesses that fail to buy comp insurance... The **Connecticut** insurance department gained more authority to regulate discount medical plans and marketers of those discount plans... Stricter license review of medical providers who commit insurance fraud also is needed around the U.S., the coalition's Howard Goldblatt told PCI's fraud subcommittee. But progress requires a closer partnership among fraud fighters... **California** has extended the assessment on auto policies to help fund the state's anti-effort for five more years to 2015. The assessment was set to expire in 2010... The **Golden State** now prohibits health insurers from giving bonuses to employees for canceling or limiting a patient's coverage... **California** also is considering legislation requiring state review before a health insurer denies or rescinds a policy... **Ohio** now requires drivers to present a driver license or an official ID to register a vehicle. This goes after bogus state auto registrations... The **Massachusetts** legislature is looking at a bill clarifying when and why life insurers could deny a claim or rescind a policy... **Ohio** also is the latest of 12 states to ban controversial stranger-originated life insurance (STOLIs) this year... **The National Association of Insurance Commissioners** will hold its winter meeting in December 5-8 in Grapevine, Tex. Visit [www.naic.org](http://www.naic.org)... **The National Conference of Insurance Legislators** will hold its annual meeting November 30-23 in Duck Key, Fla. Visit [www.ncoil.org](http://www.ncoil.org).



## Increase fraud fighting in troubled economy

By DENNIS JAY

**These are trying times** for insurance companies. Premium growth is down, investments are lagging badly and the cost of doing business continues to climb. Property-casualty insurers have come a long way since record profits just three years ago.

The general economy hasn't been kind to insureds, either. People have been dumping their low-mileage, high-premium cars; there's a record number of abandoned properties; the worker pool is shrinking; and fewer people can buy health insurance on their own. All of this creates less demand for insurance products.

So it's natural that stories abound about cost reductions within insurance companies — including their anti-fraud operations. There are plenty of stories on the street about companies that have downsized their investigative staff, outsourced more anti-fraud activities, and delayed investment in new technology.

### Increasing resources

Interestingly, we hear just as many stories about insurers that have increased budgets over last year and plan to spend even more in 2009. In fact, a recent survey of 41 insurers by the Coalition Against Insurance Fraud found that nearly half have increased

resources for anti-fraud activities from last year either moderately or substantially (see *Page 1 story*). Only 12 percent say resources have declined.

Insurers aren't outsourcing anti-fraud activities in greater numbers either. Only 10 percent report more outsourcing in the last year, with the same percentage reporting less. The rest say there was no change.

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Looking ahead, 45 percent say they expect larger outlays for fraud in 2009 while only 13 percent indicate they'll work with smaller budgets next year.

So what's going on here?

There are likely two factors at work here. An enlightened insurer executive

recently explained to me that the current economic conditions call for more investment in anti-fraud activities. He said he continually reviews his operation to see where increased investment would produce the greatest return. With declining policy counts, investing in sales and marketing likely won't produce the returns they did just a couple of years ago.


### Right premium for risk

Same goes for other insurer operations. Smart insurers are beefing up their ability to stop money flowing out the door needlessly, either through enhanced training of claims handlers or better use of technology. Same also goes for strengthening their underwriting. Getting the appropriate premium for the true risk exposure is more important than ever when profit margins are slim.

The second factor is the sense that today's economic downturn fosters more fraud. During desperate times, decent people often commit desperate acts. The increases in auto giveups, home arsons and people stealing health benefits correlate with the downturn in the economy.

Add in the higher public acceptance of unethical behavior the coalition documented last year, and you can understand why more insurers are concerned about losses from opportunistic fraud.

So savvy insurers are investing in anti-fraud infrastructure, from tightening existing systems, to investing in predictive modeling technology to adding ground troops in hot areas across the country.

Financial advisers stress that a troubled economy is the best time to buy depressed stocks and real estate. Years from now you'll benefit handsomely. Same with insurers, except their investments in fraud will pay dividends almost immediately. 



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