

Fraud Focus



FRAUD FIGHTERS LOOKING FOR NATIONAL AWARENESS

White paper urges study of large-scale public-outreach campaign

In the battle to win the hearts and minds of the American public, it's time for fraud fighters to think big—really big. They should explore a unified national outreach campaign that's backed by enough talent, money and persistence to help make a larger dent in insurance fraud than is now possible.

That's the key conclusion of a new white paper by the Coalition Against Insurance Fraud. Titled *United We Brand*, the white paper grew from a consensus of consumer groups, insurers, regulators and other fraud fighters at a public-outreach summit hosted by the coalition and Chief Claims Officer Roundtable in September 2005.

"If it's proven feasible, a national anti-fraud campaign would become a mammoth branding exercise—the most ambitious effort ever to brand insurance fraud as a costly national scourge that the U.S. should decisively unite against," says the coalition's white paper.

Fraud fighters can't simply arrest this crime out of existence. They also must win America's full visceral support, the summit attendees agreed. This is the job of public outreach. It's a potent mix of clear-headed strategic thinking supported by editorials, videos, websites, billboards and other tools designed to convince an often lukewarm nation to help fight—and avoid committing—insurance fraud. And it all should be backed up with solid research.



A costly crime

But that's a big job. Insurance fraud is costly and stubborn. It remains one of America's biggest crimes year after year, looting at least \$80-billion annually, the coalition estimates. If Insurance Fraud Inc. was a legitimate corporation, it would rank 17th among the Fortune 500 in annual revenue.

But collectively, public-awareness efforts by fraud fighters are fragmented and often a second-tier priority, the coalition's white paper warns. Most efforts are thinly budgeted, understaffed and lacking in true campaign-style thinking. Nor do most fraud fighters conduct hard research to help make their outreach efforts a more-accurate science.

Public-awareness efforts are credited with saving countless lives by increasing awareness of cancer risks, AIDS, diabetes, obesity and other health risks. A unified national campaign could have a major impact on America's fraud fight as well, the coalition's white paper urges.

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Outreach campaign: Who pays, who plays?

At first blush, a unified national outreach campaign is appealing. But getting from that first glimmer to a fully-funded program is challenging.

Who will fund the effort? Insurers, probably.

But to seriously dent fraud, the campaign may require a longterm multi-million-dollar commitment. Will insurers pony up that much money, and for possibly years?

Who runs the campaign? Certainly insurers will have prominent seats at the table. But which insurers, and who decides?

What role would other key players have, such as fraud bureaus, consumer groups, key ethic groups, the Coalition Against Insurance Fraud, National Insurance Crime Bureau, insurance regulators and others?

How will campaign leaders measure success? By lower public tolerance of fraud? Increased arrests and convictions? More calls to fraud hotlines?

Right now, the campaign is a larger bundle of questions than answers. And the biggest one: Is it even feasible?

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Fraud Gets Down to Basics

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If a national effort finally does reach full throttle, it likely would be a diverse mix of campaigns—some bigger than others. Insurance fraud is too diverse for a single, one-size-fits-all campaign that targets all swindles across all lines. The expansive effort also could cost tens of millions of dollars a year.

The campaign could focus on any number of targets, such as:

Swindlers (or potential swindlers): Should a campaign go after hardened criminals such as arsonists and staged-accident kingpins? What about small fry scammers—your normally honest neighbor who lies about where his car is garaged, or tacks a few dresses onto her home burglary claim?

Victims (or potential victims): Should a campaign focus on seniors, who are regularly zapped by scams? Or small businesses, who've been sold fake health coverage? What about average consumers? Or Hispanics, the nation's largest minority group at 42.6 million people? Or our large population of Asian immigrants?

Scams: How about specific frauds such as staged accidents? Auto arsons? Premium theft, sliding and other scams by crooked insurance agents? Bogus workers compensation claims or premium scams? Disaster swindles such as padded damage claims after hurricanes or floods?

Locales: Maybe focus on certain states, cities or regions that are rife with costly frauds such as staged accidents, auto arsons or sale of fake health insurance?

Any campaigns also should be driven by rigorous quantitative research. Crime data, for instance, can help reveal if a targeted fraud problem is large enough to justify the campaign resources. Post-campaign research can help measure results.

Need more science

"Few fraud fighters appear, however, to rigorously research their outreach efforts. Thus there's little science to guide front-end program development—and even less science to measure downstream results," the white paper says.

Research also helps in developing effective anti-fraud messages, the white paper says. Most messages now are variations of two themes:

To honest consumers: Fraud costs you money;


To perps and would-be perps: You'll get caught and go to jail.

"But there's no publicly known research to credibly prove these messages work. Rather, these messages are based largely on tradition, street experience and gut instinct," the white paper says.

In fact, many would-be fraudsters aren't worried about hard time in a cold and lonely jail cell, reveals statewide research by the Pennsylvania Insurance Fraud Prevention Authority (IFPA). What bugs them most is that being busted will hurt and embarrass their families, especially their kids.

Some of IFPA's newest TV and print spots thus feature sad-eyed little children. One headline reads, "You'll face criminal charges. Your kids will have to face their friends."

A national insurance-fraud campaign is a compelling idea. It's never been done on such a Biblical scale. In the months ahead, anti-fraud leaders will first decide if the effort is feasible. The coalition's white paper will help guide those talks.

"It's an ambitious vision, fraught with risk and high barriers, but also great upside potential to help reduce America's \$80-billion claim drain," the white paper says. "Insurance fraud is so vast that even relatively modest changes in behavior and attitudes could yield enormous aggregate benefits that justify the investment." 

The white paper can be downloaded from www.InsuranceFraud.org or received by e-mail by sending a request to WhitePaper@InsuranceFraud.org.



Mass. chasing down auto-premium dodgers

Car owners in Massachusetts border towns are ducking high auto premiums by registering their vehicles in neighboring New Hampshire. Police have been nabbing scofflaws in the border towns of Lawrence and Methuen, Mass. for about 3 ½ years. They've issued about 600 tickets in each city. Lawrence police slap a bright orange sticker on the windows of suspected cons, saying "Warning, if you are a resident of Lawrence or if your vehicle is garaged in Lawrence, it must be registered in Lawrence." To trigger charges in Methuen, police must prove a vehicle has been in an out-of-state community for 30 days of the year. Police are going after the cons because they make auto premiums higher for law-abiding drivers, and anger honest consumers who see others getting away with the ruse. An unmarried 35-year-old woman with a clean driving record could pay \$337 more to insure a 2000 Toyota Camry in Lawrence than in nearby Windham, N.H., Liberty Mutual says. Methuen and Lawrence police are working with the Massachusetts fraud bureau and AG's office.

Violent videos training kids to commit insurance fraud?



Kids are learning how to get respect from peers by committing auto-insurance fraud in the newest version of a video game called *Saint's Row*. Players cruise around a cityscape, stealing cars, completing missions and making money. Here's what one reviewer says: "In addition to the pimping and street race missions you can enter at any time to get respect and money (with) Insurance Fraud missions. These

were pretty hilarious, tasking you with causing as much harm to yourself as you possibly can. We wound up on a bridge connecting the business district and Saint's Row throwing ourselves in front of traffic to earn enough injury money to get to the next level. By pressing down on the left control stick you can 'rag-doll' yourself and become a lifeless, flopping mess in front of cars. If there are any witnesses around while you deliberately cause injury to yourself, you'll get witness multipliers that increase the amount of (insurance) money you earn per 'accident.'" Visit www.saintsrow.com to see the carnage in action-packed color.

Study: Teach seniors to avoid sleazy sales pitches

Take note, insurance-fraud communicators: Simply educating seniors about financial literacy won't necessarily prevent them from being swindled. Seniors also must learn how to recognize and resist the sales pitches of con artists, an SEC commissioner said about a recent NASD study of seniors bilked by investment scams. The study bursts the stereotype of older victims as lower-income people, often women, who don't know much about finances. Victims are most likely to be financially literate, male, educated and wealthy, the study says... Americans have a love-hate relationship with lying, a separate public-opinion poll by the Associated Press and Ipsos says. Two thirds of people say it's ok to lie sometimes, even though half also say lying is never justified. Interestingly, four of 10 people say they've never lied or cheated. But many of those same people say they might have told a lie in the past week. The wealthier and more-educated people are, the more they defend lying. As for those little white lies, sizeable numbers of people say it's ok to exaggerate a story to make it more interesting, lie about your age, and lie about being sick to take a day off from work. So maybe it's only a short jump from telling little white lies about your age to telling bigger ones to your insurer? 🌐



In Brief

Auto arsons for insurance money are partly to blame for the steady increase in arson in the **Las Vegas** area, officials say. Many people are inspired by the **high-rolling** lifestyle and buy expensive vehicles they can't afford... New York has denied workers comp insurers a 7.5-percent premium hike because their anti-fraud efforts are "anemic, at best," insurance superintendent Howard Mills says. One insurer referred only 320 suspicious claims to its SIU out of 40,000 policies... "**Florida** has some of the worst auto-insurance fraud problems of any state. The fraud fighters have mounted an energetic response but need more-effective tools to encourage prosecutions," the coalition's Jim Quiggle said in a recent article in the *Orlando Sentinel*... **New York City** mayor Michael Bloomberg has proclaimed Nov. 29 as Insurance Fraud Prevention Day. This will be part of an outreach effort by the New York Alliance Against Insurance Fraud... **Robert Veliz** will head Washington State's new fraud bureau in a push to thwart \$400 million in annual fraud losses... Fraud fighters in **South Carolina** have sponsored an essay contest for middle and high school students. The essay question: "What is bodily injury fraud and who really gets hurt?"... Helping unravel a complex staged-accident ring in Dallas that tried to steal \$1 million in fake injury claims has earned Geico investigator **John Coachman** the Investigator of the Year award from the International Association of SIUs.

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Solving a taxing insurance problem

Prosecutor uses tax laws to chase down medical providers who bilk insurers

BY BRYAN GILMER

After toiling late one night in 1980, California prosecutor Albert MacKenzie was thinking about a crooked chiropractor who had stolen hundreds of thousands of dollars in phony treatment claims.

"Insurance fraud cases are among the most difficult of all cases to prosecute," says MacKenzie, a Los Angeles County Deputy District Attorney. "There are many murder cases that are far easier than insurance fraud."

MacKenzie realized it might take several years to gather enough evidence to prosecute the suspect for insurance fraud. In the meantime—if the thief didn't flee the country—he'd continue robbing numerous health insurance companies.

How can I nail this crook right now? MacKenzie wondered.

"It occurred to me that the guy's got to be committing tax fraud," he remembers. That was the same way the government finally nailed an elusive Al Capone in 1931.

More than seven decades later, the U.S. insurance system is littered with modern-day medical Al Capones. And MacKenzie has devised a little-used but effective way to hunt down these elusive insurance swindlers: Tax fraud.

The Internet and e-mail didn't exist when MacKenzie launched his new strategy.

"I just called around to a dozen insurance companies the next day, and I had them pull all the checks that had been issued to this guy. Back in those days things weren't quite as sophisticated.

"But after a period of time, they accumulated a large number of checks.

"I looked at the backs of the checks and saw that they had all been cashed at a neighborhood check-cashing stand. He'd go over there in his Mercedes, and he got to cut to the front of the line because he was their VIP customer."

Next, MacKenzie phoned California's

deceptively simple, system that has saved millions of dollars and nailed dozens of scammers.

He's now pursuing tax charges against some 300 medical providers in Los Angeles who have stolen more than \$200 million in insurance money, he says.

One doctor has scammed \$23 million in workers comp money, he says.

MacKenzie also is prosecuting the doctor for overbilling. MacKenzie added up the billable hours that doctor had submitted, and discovered he'd charged for more hours than there are in each day he said he'd treated patients.

A dentist rang up \$3.9 million in fraudulent insurance billings and did not file tax returns.

Key to MacKenzie's system is a large e-mail contact network he's compiled. It includes the main targets of medical swindlers: private insurers, state insurers such as Medi-Cal, and large self-insured employers such as the Los Angeles County government.

Investigating health-fraud suspects can be numbingly complex and arduous using insurance-fraud statutes. Prosecutors must gather and sift through piles of medical bills, charts, and other complex and arcane medical data. Often they must first convince smaller players to turn state's evidence against the ringleaders. Then they must convince a court that it all adds up to criminal fraud.

But now, MacKenzie can quickly gather devastating evidence against a swindle's kingpins by pressing a few buttons at his keyboard.



state tax agency. The chiropractor had received hundreds of thousands of insurance dollars, but had reported only \$28,000 of taxable income.

"We found that the amount of money he'd claimed on his tax forms was a fraction of what he'd gotten for these fraudulent health insurance claims. We prosecuted him for tax fraud, and he went to prison for five years," MacKenzie says.

In the 25-plus years since that eye-opening moment, MacKenzie has refined his approach into an effective, and

“We simply put out an e-mail to the network, and we say, ‘How much money did each of you pay this suspect?’” he says. Then each network member checks its payment records and e-mails MacKenzie the figure. “We add up the money.”

Meanwhile, California’s tax agency happily checks the provider’s returns. There’s almost always a big discrepancy between a suspect’s insurance receipts and their reported gross income.

“So far, I would say I’m batting about 99 percent,” he says. “About 25 percent (of crooked medical providers) right off the top don’t bother to file or pay taxes at all. The next group grossly underreports. I’ve only found one guy we’re looking at who has filed and reported a huge number.

“If I look at a suspect, whether it’s a federal, state or local agency who sends me a suspect, it’s about a 95 percent certainty that we’ll be able to show they’re committing tax fraud.”

MacKenzie wants his approach to go national. He’s been pitching it to other county, state and federal jurisdictions for the past few years.

MacKenzie can build cases quickly, and get handcuffs on suspects before they can cover up their scam or simply disappear overseas. Many swindlers flee the U.S. to join the ill-gotten money they’ve wired to Dubai, Russia, Armenia, the Cayman Islands or other havens beyond the reach of prosecutors in the U.S.

MacKenzie also can nab medical swindlers across diverse lines of insurance. Staged accident rings that pile up fake injury claims, and medical mills that drain health and workers comp insurers all should be looking over their shoulders.

“My theory is that the same crooks

Tax fraud makes insurance prosecutions easier

Prosecuting scammers for tax fraud has several benefits, says Albert MacKenzie, a Deputy DA for Los Angeles County. Among them:

His e-mail network makes it easy to obtain payment records from hundreds of insurers quickly, he says. From there, it’s a small step to get a lowball estimate of a crooked doctor’s insurance income to compare against state income-tax records.

And that evidence can be uncovered without a subpoena because insurers and the state tax office cooperate voluntarily, MacKenzie says. With that evidence in hand,

prosecutors have probable cause to get immediate search warrants for a tax-fraud investigation.

Executing those warrants also often uncovers evidence of other easily prosecuted crimes that increase the penalties.

Tax fraud can be prosecuted at the state and the federal levels. And using federal income-tax fraud statutes can target populous states that don’t levy income taxes, such as Florida.

And prosecuting for felony tax fraud can get a medical provider’s license immediately suspended in California and other states, he says.

are raping the entire health care system,” he says.

It’s also an effective way to nab shady lawyers. Prosecutors don’t have to prove attorneys knew their clients were lying to their insurers. And it’s effective when conventional fraud prosecutions would be nearly impossible. Such as when a crooked provider makes bogus claims using a dementia patient’s Medicare information, then claims the patient simply doesn’t remember the treatments.

When MacKenzie makes an arrest, he immediately notifies his network so the defrauded insurers can stop paying claims to targeted medical providers.

Full-time approach

After his first tax conviction, MacKenzie wielded his tax-fraud billy club from time to time over the next 20 years or so. Then in 2003, he convinced District Attorney Steve Cooley to fund a unit that uses this approach fulltime. The one-two punch of a fully dedicated tax-fraud unit coupled with his e-mail network may be unique among insurance-fraud prosecutors.

“Al MacKenzie appears to be the only prosecutor using this method fulltime,” says Dennis Jay, Executive Director of the Coalition Against


Insurance Fraud. “Insurers have pooled data before to gather evidence for insurance fraud prosecutions, but not for tax cases.”

MacKenzie wants his approach to go national. He’s been pitching it to other county, state and federal jurisdictions for the past few years. In fact, Hawaii is already interested, he says.

He also invites fraud fighters to tap into his e-mail network if they suspect they’re dealing with shady providers. Just e-mail him at albertmackenzie@hotmail.com or call him at 213-580-3357.

“It really piques our interest because over the last two years, scams by medical providers seems to be the fraud crime most out of control,” the coalition’s Dennis Jay says.

“The very first thing you want to do is stop the flood of money. But the corrupt medical providers can be very smart about how they adjust to the pressure.

“They’re good at staying beneath the radar and avoiding detection. And if they do get caught, they know how to minimize the damage. But going after them with tax violations could have a measureable impact.” 

Bryan Gilmer is a freelance writer based in Durham, N.C.

In Brief

Agent Pennsylvania agent Jon Bowen stole more than \$21,000 in client premiums to finance his gambling habit. He told some clients to pay him in cash, and had one write a premium check to him personally... **Auto** Talk about bad timing: Two men were pushing a Honda Civic off a cliff outside of Los Angeles to defraud their insurer when a sheriff's deputy happened by. Jaime Samaniego and Samuel Torres confessed on the spot... **Arson** Owners of the Burbank, Calif. recording studio that mixed the sound for the movie *Dances With Wolves* allegedly torched the building for \$2.5 million in insurance. A surveillance camera caught someone resembling one owner near the studio when it was destroyed... **Disaster** Don Washington said Katrina floodwaters carried away his Hummer, Crown Victoria and BMW 745 in Louisiana. But he actually had pawned two vehicles, which the shop sold after he defaulted on loans, the Louisiana State Police say... **Life** Cynthia Sommer killed her Marine Sergeant husband Todd with arsenic for \$250,000 in life insurance money to get breast implants and run off with her secret boyfriend, California prosecutors say. The San Diego woman faces possible death if convicted... **Health** Dr. Thomas Merrill received life in Florida prison for causing the deaths of addicted patients by prescribing them narcotic painkillers as part of an insurance billing scheme.

CRIME NEWS
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**Staged-accident ring fleeces insurers for millions**

A **staged-accident ring** that terrorized drivers on Southern California freeways was busted after maneuvering motorists into more than 125 crashes that milked insurers for about \$4 million in fake injury claims, the state insurance department says. About 600 people were involved. The suspected gang swooped cars in front of motorists and then jammed on their brakes to cause rear-end collisions, officials say. Other suspected ring members drove cars in adjacent lanes, thus preventing the victims from swerving to avoid the crashes. They targeted commercial vehicles, SUVs and elderly drivers. The injury claims allegedly were funneled through Franklin Chiropractic, in Cathedral City. Ramon Alfonso Zanoletti allegedly paid "cappers" for staged and "paper" accident cases. He then obtained lawyers to process fake injury claims for "injured" passengers, and referred them to the clinic. Zanoletti's wife, who was the clinic's administrator, told the patients to sign up for multiple chiro treatments they never received, prosecutors charge. She allegedly told some patients to sign in 30 times or more, then generated the medical bills and reports. Chiropractor Clarence Franklin then allegedly signed off on exams, treatments and consultations he never performed.

Pretend princess moves from asylum to jail cell

The new palace for a phony Saudi princess will be a jail cell. Antoinette Millard received a year in a New York City prison after trying to steal \$262,000 by lying to her insurer that someone stole her expensive jewelry. She was a regular at swanky cocktail parties and charity benefits after convincing Manhattan's high society she was Saudi royalty. But in truth, Millard was the daughter of a Buffalo steelworker. She rang up more than \$1 million in credit card bills while living her royal lie, and soon grew desperate for money. So she took her jewelry from her bank safe deposit box, sold the rocks, then lied to her insurer that thieves stole them from her right on the sidewalk. She received a year in a mental institution last year, and was elected to the coalition's Insurance Fraud Hall of Shame (www.InsuranceFraud.org). But Millard spent less than three months at the facility before being arrested on a fugitive warrant while shopping at a mall in Jacksonville, Fla. Millard claimed she was trying to confront her shopping demons as part of her therapy. But security officials grew suspicious because she kept buying and returning expensive jewelry. Millard will receive psychiatric treatment in prison.

Seattle talk-show host is axed over fraud charges

The career of a popular Seattle radio talk-show host is in shambles, thanks to charges that he made a claim on a phantom auto policy after a minor traffic accident last year. Mike Webb, a liberal host on KIRO radio, incurred \$6,000 in damage when his Lexus crashed on June 28, 2005. He allegedly didn't have auto coverage, and bought an auto policy online from Geico for \$151 the next day. But he then told a Geico adjuster he'd bought the policy back in May. Webb handed over bank statements he said proved the insurance payments were made in May and early June. But Geico says its computer records prove Webb didn't buy the policy in May. His policy number also matches with June issue dates, prosecutors say. Webb also produced a Geico document allegedly showing a May policy startup date. But the document is bogus because Geico's nameplate was in the wrong font, prosecutors say. KIRO fired Webb after the charges surfaced, but he's fighting hard in court. A hacker who hates his show might have caused the discrepancy, Webb says. There also might be a long lag between the time an online policy is confirmed and when it goes into effect, he says. Webb's case ended in a mistrial in mid-September, and prosecutors say they will retry him. 



States tackling accident gangs

Fed up with mounting fraud losses by staged-accident rings, growing numbers of states are considering bills to jam the brakes on menacing gangs that have looted auto insurers for years.

Florida led the pack last year, passing the toughest reforms of any state in almost a decade. Among other things, Florida made it a crime to stage car crashes solely on paper, and limited access to police reports that gangs use to try and badger real crash victims into making fake injury claims.

Florida led the pack last year, passing the toughest reforms of any state in almost a decade.

Reformers in **Pennsylvania, Connecticut, New York** and **Texas** already are gearing for pushes in 2007. If these states actually do step forward, auto fraud could potentially be a defining legislative issue for fraud fighters next year.

Lawmakers in **Pennsylvania** already have held hearings on several fraud bills that track Florida's law.

In **Connecticut**, reformers will be especially focused on preventing fraud rings from getting their hands on police accident reports.

In **Texas**, fraud fighters will take aim at so-called runners—the recruiters for staged-accident gangs. The effort will be spearheaded by the state's hub group of fraud fighters, the Texas Committee on Insurance Fraud. It's an amalgam of insurers, regulators, the coalition and NICB, plus consumer and business activists.

Fraud bills also could resurface in **New York** again after fizzling this year. Legislative turf wars have made New York a graveyard for auto-fraud bills for years, despite billions in fraud losses. But a new governor will take office next year, which could pump much-needed oxygen into the moribund effort.

Speaking of which, another oxygen boost for accident gang-busters could come from hub groups of state insurance lawmakers and regulators.

For starters, the **National Conference of Insurance Legislators (NCOIL)** recently passed a wide-ranging model bill covering staged accidents and other auto schemes. The model largely tracks Florida's fraud law. It's a cafeteria of workable ideas that other states can use in drafting their own bills.

Among the reforms, the model would:


- Make it a crime to recruit for staged-accident rings, or hire recruiters;
- Make it a specific crime to stage an accident;
- Restrict access to police accident reports for 60 days; and
- Empower a state to suspend the driver license of anyone convicted of auto insurance fraud.

A model also is being drafted by the anti-fraud task force of the **National Association of Insurance Commissioners (NAIC)**. The NAIC hopes to finish the model next year.

Fla. reg: Need more proof

Insurers must better document their anti-fraud efforts, says a new regulation issued by **Florida's** department of financial services. Insurers in all lines must refer suspected frauds directly and electronically to the department; track the date they detected and reported each suspected swindle; outline their process for identifying and referring suspicious claims; and set minimum standards for employee anti-fraud training.

The **NAIC** has inked a deal with the **U.S. Department of Defense** to provide useful insurance material to help military personnel make smart buying decisions. In a major scandal, crooked insurance agents recently conned thousands of trusting service personnel into buying overpriced life coverage they didn't need.

In a related move to protect military personnel, the **U.S. Senate** passed a bill giving state insurance departments jurisdiction over insurance sales on military bases. 

In Brief

California's bar association wants to permanently disbar attorneys who commit insurance fraud. The state Supreme Court still must approve this change to the bar's ethics code... The **Utah** insurance department plans to push a bill to eliminate a law that sunsets the state's fraud bureau next July... **District of Columbia** lawmakers are working to clarify a law making it a crime for unlicensed insurers to sell bogus coverage in the District. A quirk in the current law makes it unclear if a wayward insurer can be prosecuted... The **Michigan House** has passed a bill doubling the maximum insurance-fraud sentence from the current four years to eight years. It also doubles the maximum fine to \$100,000... **Automakers** must notify consumers if a vehicle has an event data recorder (or black box), says a new federal rule that takes effect for the 2011 model year. The rule also will standardize what data must be recorded. Black boxes can help confirm if the vehicle is used in a fraud scheme... A model bill making it a crime to market and sell bogus coverage was approved by the **NAIC's anti-fraud task force**. The executive committee will review it in December... The **West Virginia** insurance department and the coalition will co-host an education program on the state's new fraud laws Nov. 2... **Hawaii** insurers are considering creating their own committee to draft and push fraud bills... **NCOIL** will hold its fall meeting Nov. 9-12, in Napa, Calif. Visit www.ncoil.org... The **NAIC** will hold its winter meeting Dec. 9-12, in San Antonio. Visit www.naic.org.

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Fraud fighters need busts and public outreach

By ROY MILLER

While researching testimony before our legislature, I ran across a fact sheet written by the coalition. It mentioned a study that says nearly half of property-casualty insurers agree that smalltime cheaters cost the insurance industry more than hardcore scammers such as leaders of staged accident rings.

It's refreshing that at least half of p-c carriers agree small-timers are such a serious threat. But it's also disconcerting that half of insurers miss this important point. An insurer can bleed to death from a thousand small cuts just as easily as from several large ones. In fact, more often than not, small scams go undetected and can infect into larger problems.

Federal law enforcement and some state agencies have fixated on busting large insurance crimes for at least the last 40 years. Big-time frauds are feel-good cases. They get elected officials positive news coverage and votes. Claims VPs and SIU directors also are congratulated by their C-suites, stockholders and policyholders.

But while prosecutors and insurers trade compliments at press conferences for busting yet another sleazy medical clinic, 1,000 small claim checks are being mailed to cheaters from the insurer's claims office just down the road.

Yet these smalltime claims by opportunistic cheaters go largely ignored. These are the normally honest people who pad a burglary claim by a couple hundred dollars, or lie about where their car is garaged to get cheaper rates.

Normally, law enforcement and fraud investigators have only a passing interest in busting thousands of little scams that, by volume, are time-consuming and may not earn fawning news coverage or public acclaim. Even if they were interested, there aren't enough fraud investigators and law-enforcement officers to arrest the small-timers out of existence. This leaves insurers with an unpleasant and ineffective solution—simply deny claims.

Probe all claims

This vacuum has spawned a no-harm, no-foul mentality that only encourages more cheating. In Pennsylvania, runaway fraud became so costly that it led to the creation of the Pennsylvania Insurance Fraud Prevention Authority, which funds investigations of *all* fraudulent claims regardless of size.

Oft-overlooked as a deterrent, however, is the symbiotic relationship between investigations and public outreach.

Those ominous anti-fraud ads, public service announcements and the like

usually won't deter hard-core scammers. Aggressive claim reviews and busts by law enforcement normally are the only ways to stop staged accident rings or cheating insurance agents. Bilking insurers is their career. You can only solve that problem by simply forcing them off the streets and into jail.


But public outreach can help drain the swamp of smalltime swindlers, the moral fence sitters who aren't committed to a life of crime.

Much to lose

These people usually don't consider themselves criminals, and most are basically honest. They may have a solid standing in their communities, and could be regular church-goers and devoted family members. Insurance fraud isn't their livelihood, and they have much to lose by making a stupid decision to file a false claim.

But public outreach works off perceptions; it's a battle for the hearts and minds of the public. To succeed as a fraud deterrent, public outreach must create perceptions of a reality that may not currently exist—that opportunistic scammers will be investigated, prosecuted and convicted. Changing their ingrained attitudes through public outreach will not happen overnight and can be expensive, but it's achievable.

We can't expect to win the long-term battle by attacking staged-accident rings while ignoring the smaller frauds. Over the longrun, aggressive public outreach and investigations are both essential for the anti-fraud effort to be fully inclusive—and effective. Neither arm operating alone can bring insurance fraud to its knees.

Thus we must finally commit to strong detection *and* public-outreach efforts. Only then will we have an encompassing anti-fraud effort that effectively chases down all bogus claims, no matter what size. 



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