
Four Faces:

Why some Americans do — and don't —
tolerate insurance fraud.



A study on public attitudes

October 1997



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The Coalition Against Insurance Fraud was launched in 1993 as a broad-based effort to combat a national, multi-billion-dollar problem. It is the only national organization dedicated exclusively to fighting insurance fraud through public advocacy and public education.

The Coalition's mission is to use the combined energy and resources of consumers, government organizations and insurers to combat all forms of insurance fraud as a means to restrain insurance costs for consumers and insurers, and to bring greater fairness to, while maintaining the integrity of, the insurance system in the United States.

The current objectives of the Coalition include:

- ✓ Working to implement new and existing laws and regulations that will directly and indirectly prevent, deter or help detect insurance fraud, and seek appropriate remedies, including restitution, against those who commit insurance fraud. Such initiatives must be cost effective and practical.
- ✓ Communicating the scope of the insurance fraud problem and potential solutions to all major audiences as a means to increase awareness, provide deterrence, change attitudes and build support for anti-fraud measures.
- ✓ Serving as a clearinghouse of insurance fraud information; conducting research on issues so the coalition and policymakers may make more knowledgeable decisions on how to combat insurance fraud effectively and efficiently.

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EXECUTIVE SUMMARY

Introduction and Background

This study was conducted to gain insight on why public tolerance of insurance fraud seems to be increasing. Both qualitative and quantitative research was used to attempt to understand how public attitudes about fraud are formed and what factors influence them.

The coalition commissioned a national research firm to conduct a series of consumer focus groups as well as a telephone survey of 602 households in the United States. Among the areas explored in the focus groups and survey include opinions about insurance fraud and insurance providers.

Focus Group Findings

Respondents offered the following possible reasons for committing insurance fraud:

- to save money or reduce costs.
- to get expensive work done they would not otherwise be able to afford.
- to “get back” at insurance companies.

Respondents acknowledged that fraud leads to higher premiums, but believed that premiums would continue to rise even if fraud were eliminated. Nor would premiums be lowered, they said. Respondents also felt the public has a moral obligation to report fraud, but most said they would not themselves report a fraudulent act for various reasons.

Reasons cited why people resist committing insurance fraud include a strong sense of right and wrong and fear of being caught and punished. Respondents said insurers could discourage fraud by rewarding customers for “good behavior,” such as providing rebates or credits for not filing claims over a period of time, and aggressively pursuing customers who do commit fraud.

Quantitative Research

The objectives of this research included:

- Understanding public perceptions of unethical behavior;
- Determining experience with and attitudes toward the insurance industry;
- Measuring public perception of unethical insurance behavior;
- Determining personal knowledge of, and experience with, insurance fraud; and
- Measuring attitudes toward curtailing and punishing insurance fraud.

Using cluster analysis, researchers found that 98 percent of the sample could be

grouped into one of our subgroups depending on their levels of tolerance and certain perceptions of why people commit insurance fraud. For the purposes of this study, the subgroups are identified as Realists, Conformists, Moralists and Critics.

The Realists have a low tolerance for insurance fraud but realize it occurs. They may feel some behaviors are justified depending on the circumstances; they don't advocate strong punishment. This group represents 21.6 percent of the survey's respondents.

The Conformists are fairly tolerant of insurance fraud, largely because they believe many people do it, making it more acceptable. For that reason, they tend to believe in more moderate forms of punishment. This group makes up 26.4 percent of the survey's respondents.

The Moralists have the least tolerance of insurance fraud. They believe there's no excuse for this behavior and are the most willing to punish perpetrators severely. This is the largest group of respondents—30.7 percent of the surveyed population.

The Critics have the highest tolerance for fraud and tend to blame the insurance industry for people's behaviors because they believe insurers don't conduct business fairly. They want little or no punishment for perpetrators. This group represents 21.2 percent of the survey's respondents.

Demographically, the four cluster groups varied only slightly.

Survey Findings

- **Unethical behavior.** Virtually all respondents (98%) believe using someone else's credit card is highly unethical. They were somewhat less likely to consider as unethical the failure to declare income on a tax return. Two forms of insurance fraud — padding a claim and misrepresenting an incident to obtain coverage for a loss — fell in between at 91% and 93%, respectively.
- **Insurance industry.** Nearly three-quarters of respondents (73%) rate their company either very positive or fairly positive, and 74 percent have similar feelings about their agent. On the other hand, 53 percent rate the industry in general as either very or fairly positive. Insurance agents are held in about the same regard irrespective of cluster subgroups. The Conformists and the Moralists are more likely to feel positively about their company and the industry in general.
- **Insurance premiums.** More than half (63%) say they believe insurance premiums are either very or fairly reasonable. Among the cluster subgroups, the Conformists and the Moralists again are more likely to feel positively about insurance premiums and to rate them as very or fairly reasonable.
- **Claims experience.** Respondents who had filed life and homeowners claims were more likely to have positive attitudes towards insurers.

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- Respondents who demonstrated a positive attitude toward insurers tended to have lower levels of tolerance for fraud.

Perceptions of Insurance Fraud

- Most respondents believe so-called “soft fraud,” such as padding claims, is common. The Conformists are the most likely cluster group to believe these actions are common, while the Critics are the least likely to believe insurance fraud is common.
- About two-thirds agree that insurance premiums increase regardless of claims history and that companies make undue profits. About six in 10 agree that people who commit fraud are only looking for a fair return on premiums paid; nearly the same number (56%) agree that rates are based on the assumption that fraud occurs.
- 63 percent of respondents felt that a person’s moral character was the prime deterrent to committing insurance fraud. Most respondents also said they were personally concerned about insurance fraud. Moreover, nine in ten respondents said they believe insurance rates are higher as a result of fraud. When asked to estimate the amount by which premiums are higher as a result of fraud, the mean response was 37 percent.

Personal Experience with Fraud

- 31% say they know someone who has committed insurance fraud. However, only 17 percent of those respondents say they have reported someone for committing fraud.

Curtailing and Punishing Fraud

- Respondents overwhelmingly believe insurance companies should take a number of actions to curtail insurance fraud. About nine in 10 respondents believe the industry should verify applications more carefully; inform people how fraud increases costs; lower premiums for people with few or no claims; investigate claims more thoroughly; and prosecute suspected fraud more often.
- 57% believe people should be prosecuted for lying and falsifying information. Nearly the same number (53%) say that denying the unjustified portion of the claim also is highly suitable. The Critics are far less likely to believe the suggested consequences were appropriate, and more likely to believe all claims should be processed with no questions asked.

Recommendations

The coalition recommends that the insurance industry develop and fund an intensive, ongoing public information campaign to educate the public about insurance fraud,

specifically convince the Realists that insurance fraud is not a victimless crime and communicate to the Conformists that fraud is not as widespread as they believe it to be. Moralists need messages reinforcing their low level of tolerance for this crime, and the Critics must be convinced that fraud is a major contributor to the rise in insurance premiums and that insurers are working hard to detect and deter fraud.

Other recommendations include:

- Careful and cost-effective verification of applications targeting material misrepresentations should be a standard practice by all insurance companies. This practice also should be communicated to applicants to dispel any possible notion that insurers do not check applications thoroughly.
- Claim submissions should be scrutinized for evidence of potential fraud and investigated accordingly.
- Company anti-fraud activities should be widely publicized so consumers know the risk of committing fraud and are aware of what insurers are doing to protect their customers from the cost of this crime. Diligent efforts need to be undertaken to uncover situations where anti-fraud efforts have led to reduced rates for consumers. Such cause-and-effect relationship needs to be publicized as broadly as possible to convince consumers that they will benefit from anti-fraud efforts.
- In assessing which claims practices engender the most customer satisfaction, companies should consider the potential positive implications for attitudes about insurance fraud. The claims process should be viewed as an opportunity to build credibility with insureds, which likely will help to lower their tolerance for fraud.
- The insurance industry should explore the feasibility of a reward system to encourage the reporting of fraud.
- Prosecutors, especially elected officials, should recognize that consumers overwhelmingly support prosecution of insurance fraud. They should educate themselves about this crime, manage their resources in a way that allows more attention to be given to insurance fraud, and take an active and aggressive role in publicizing fraud cases.
- Fraud bureaus, which are most familiar with fraud's warning signs, should play the lead role in consumer outreach and education about the nature and extent of insurance fraud. States lacking fraud bureaus should direct the insurance department to undertake the outreach efforts while evaluating the need to establish a bureau.

INTRODUCTION AND BACKGROUND

The genesis of the coalition's study of public attitudes toward insurance fraud began with a board of directors meeting in late 1995. At that meeting, the board listened to a presentation of the latest findings from the Insurance Research Council's Public Attitude Monitor, a periodic study of how Americans feel about various insurance-related issues.

The board heard the disturbing news that after several years of a downward trend in public tolerance of insurance fraud, the 1995 PAM study showed a sharp upswing, to near-historic highs, in the level of public tolerance of fraud, defined by the IRC as padding claims to make up for past premiums paid or for a deductible on a claim.

However, the study did not reveal any insights into why these attitudes had changed, or indeed, why they existed in the first place. The coalition strongly believes that public attitudes are crucial to curtailing fraud. For example, public willingness to tolerate what's known as "soft" fraud contributes to an atmosphere in which individuals may easily rationalize padding claims or ripping off the system in other ways, knowing there's no social stigma attached to these actions. In addition, public support is needed to pass legislative initiatives designed to curb insurance fraud.

Therefore, the board decided it was appropriate for the coalition to explore the reasons behind Americans' tolerance of insurance fraud, which the coalition would define more broadly to include all forms of insurance fraud; in this instance, the study would focus on fraud committed by applicants and/or claimants, with or without the collusion of others involved in the insurance process, such as doctors, lawyers, insurance agents, auto repair specialists or adjusters.

The board assigned this task to the coalition's Public Information Committee (PIC). In early 1996, the committee met and agreed that more accurate information about motivations would help the coalition determine the best ways to design a public information campaign to change those attitudes. Further, member organizations, especially insurers, would value the information as an additional tool to use in formulating public outreach programs. To that end, the PIC formed a task force to determine the best ways to gain a better understanding of the motivations behind public feelings about fraud, and to make recommendations for effective strategies and programs to reverse the upward trend.

The task force (see Appendix A) was formed in the summer of 1996. In addition, Dr. Sharon Tennyson, assistant professor in the Risk and Insurance Department of the Wharton School of Business at the University of Pennsylvania, agreed to serve as a consultant to the task force. Dr. Tennyson, who has experience in researching public attitudes about insurance fraud, also performed additional analyses of the data.

The task force adopted an early thesis that understanding attitudes was key to chang-

ing them, and that it was essential to explore the general public's attitude toward the industry and their knowledge of insurance and the claims process to fully understand attitudes about fraud. In framing this research project, the task force raised several questions about potential correlations, including:

- Could consumers' feelings of powerlessness and/or "big industry vs. small consumer" in the claims process lead to them striking back by committing fraud?
- What is the nature and extent of the belief that insurance fraud is a "victimless crime"? Are there correlations between fraud tolerance and the perception of companies making excessive profits?
- Is there a belief that insurance is a kind of savings account, or other misunderstandings about insurance?
- Do perceptions of procedural fairness in the claims process influence attitudes toward fraud?

The group agreed that a national survey would be the best way to uncover this information. Further, task force members agreed that focus groups would be valuable, both to suggest questions for a survey and to clarify the group's perceptions of what needed to be studied. Shugoll Research of Bethesda, Maryland was hired to conduct the focus groups, design the survey instrument and carry out the research.

Qualitative Research

The coalition's task force recommended conducting focus groups to aid with the development of the survey instrument, not as a means of coming to specific conclusions or recommendations. The task force believes that while focus groups are valuable, in this instance the relatively small number of participants should not be construed as a statistically representative sample.

This phase of the research was conducted in early 1997 and centered on six focus groups, two each in Philadelphia, Chicago and Indianapolis. These cities were chosen on the basis of geographical factors identified in the IRC's PAM study that indicated certain regions have different levels of tolerance for insurance fraud. The cities were selected to represent areas of high, medium and low tolerance, respectively.

The focus groups were held both to suggest questions for a survey and to reduce preconceived notions from the task force's perceptions of what needed to be studied. The objectives of this phase were to:

- Assess respondents' attitudes toward insurance;
- Evaluate respondents' recent insurance claims experience;
- Explore respondents' reactions to scenarios involving unethical insurance behaviors; and

-
- Assess respondents' attitudes toward insurance fraud.

The respondents were placed in groups of eight to 10 people each, after screening to eliminate certain professions. The groups were mixed to ensure a balance of age, gender, race, education, income level, marital status and types of insurance coverage, including those who had no insurance.

The moderator used a guide developed by Shugoll and the coalition when leading the discussions (see Appendix B), which included the following topics:

- Impressions of insurance and whether impressions change based on the type of insurance, advantages and disadvantages of having insurance, reasons for not buying insurance or limiting coverage, and what might encourage consumers to buy insurance;
- Insurance claims experiences within the past two years, including positive and negative aspects of the experience, the agent's role, and what might improve the experience;
- Reactions to several scenarios describing unethical insurance behavior, how prevalent respondents believed that behavior to be, anticipated outcomes, and whether the behavior is believed to be legal or illegal; and
- Reasons for unethical behavior, implications of such behavior, what insurance companies can do to discourage such acts, and the consumer's role in reporting unethical behavior.

Respondents offered the following possible reasons for committing insurance fraud:

- to save money or reduce costs.
- to get expensive work done they would not otherwise be able to afford.
- to "get back" at insurance companies who some perceived are more interested in making a profit than providing good service, and who some perceived as a faceless institution.

Respondents acknowledged that fraud leads to higher premiums, but believed that premiums would continue to rise even if fraud were eliminated. Nor would premiums be lowered, they said.

Respondents felt the public has a moral obligation to report insurance fraud, but most said they would not themselves report a fraudulent act. Deterrents mentioned included not wanting to get involved, fear for their safety, not knowing extenuating circumstances that may have led to the act, that there was no injury to anyone, or not wanting to report a friend or relative.

Some people felt those who didn't commit insurance fraud did so because of a strong sense of right and wrong; others believed it was simply fear of being caught and

punished. Respondents had two suggestions for companies to discourage fraud: reward customers for “good behavior,” such as providing rebates or credits for not filing claims over a period of time, and aggressively pursuing customers who do commit fraud. Questions that further explored the reactions and opinions described above were incorporated into the survey instrument.

Quantitative Research

The findings of the qualitative study were presented to the coalition and were used to identify and give priority to issues that would be explored further during the quantitative phase of the study. The objectives of this research included:

- Understanding public perceptions of unethical behavior;
- Determining experience with and attitudes toward the insurance industry;
- Measuring public perception of unethical insurance behavior;
- Determining personal knowledge of and experience with insurance fraud; and
- Measuring attitudes toward curtailing and punishing fraud.

Figure 1A

Respondents' Profile

	Total	Realists	Conformists	Moralists	Critics
GENDER					
Male	50%	53%	52%	43%	53%
Female	50%	47%	48%	57%	47%
AGE					
18-24	6%	4%	9%	5%	4%
25-34	18%	22%	20%	18%	20%
35-44	25%	26%	28%	28%	20%
45-54	23%	24%	18%	22%	28%
55-64	12%	14%	9%	14%	11%
65 or older	16%	10%	15%	17%	17%
Refused/ No Answer	0%	0%	1%	0%	0%
MARITAL STATUS					
Single, Never Married	14%	14%	15%	17%	16%
Married	65%	68%	60%	65%	67%
Widowed	6%	4%	9%	6%	3%
Separated/ Divorced	15%	14%	15%	17%	12%
Refused/ No Answer	0%	0%	0%	0%	2%

The study consisted of a 15-minute telephone survey (see Appendix C) conducted March 3-12, 1997 with a random sample of heads of households 18 and over. The sample was balanced by gender and certain professions were excluded from the survey. A total of 602 respondents were interviewed and the results are accurate to within 4.0 percentage points with a 95 percent confidence level. However, we should caution that due to the nature of random selection of telephone listings, the sample shows a slightly higher number of whites than make up the general population.

Analysts performed a cluster analysis based on three questions: acceptability of various unethical insurance behaviors; rationales for performing unethical insurance behavior; and suitability of suggested conse-

quences or punishments for unethical behavior. This multivariate analysis identified four subgroups that shared levels of tolerance and perceptions of why people commit insurance fraud. For the purposes of this study, the subgroups are identified as Realists, Conformists, Moralists and Critics.

The Realists have a low tolerance for insurance fraud but realize it occurs. They may feel some behaviors are justified depending on the circumstances; they don't advocate strong punishment. This group represents 21.6 percent of the survey's respondents.

The Conformists are fairly tolerant of insurance fraud, largely because they believe many people do it, making it more acceptable. For that reason, they tend to believe in more moderate forms of punishment. This group makes up 26.4 percent of the survey's respondents.

The Moralists have the least tolerance of insurance fraud. They believe there's no excuse for this behavior and are the most willing to punish perpetrators severely. This is the largest group of respondents—30.7 percent of the surveyed population.

The Critics have the highest tolerance for fraud and tend to blame the insurance industry for people's behaviors because they believe insurers don't conduct business fairly. They want little or no punishment for perpetrators. This group represents 21.2 percent of the survey's respondents.

Demographically, the four cluster groups varied only slightly. Realists tend to be slightly more educated, while Conformists are slightly less educated. Perhaps as a result of their education, Realists have significantly higher income levels than the other segments. However, there is a difference in the gender makeup of the Moralists, which has a higher percentage of females. This could have implications for the development and distri-

Figure 1B

Respondents' Profile

(continued)

	Total	Realists	Conformists	Moralists	Critics
CHILDREN					
Have children covered on household's insurance	35%	39%	35%	38%	30%
Don't have children covered	62%	59%	63%	61%	64%
Don't Know/No Answer	3%	2%	2%	1%	6%
HOUSING					
Own	73%	76%	68%	71%	74%
Rent	24%	22%	30%	25%	20%
Other	3%	2%	1%	0%	2%
No Answer	0%	0%	1%	0%	2%
EDUCATION					
High School Diploma or less	37%	26%	44%	36%	38%
Technical or 2-Year College	9%	8%	6%	12%	10%
Some College	21%	22%	20%	20%	23%
College Degree	21%	29%	24%	18%	15%
Graduate Work	2%	2%	2%	3%	2%
Graduate Degree	9%	13%	4%	10%	11%
Don't Know/No Answer	1%	0%	0%	1%	1%

bution of marketing messages.

Other than noting that Conformists are more likely to be found in the east region of the country and less likely in the south, the balance of the results showed no significant variations among the subgroups. (See Figures 1A-1D for respondents' profiles).

Perceptions of Unethical Behavior

The study attempted to put attitudes toward insurance fraud into a larger context, considering it in relation to other unethical behaviors. Respondents were asked to consider four actions and rate each on a scale of one to 10, one being completely unethical and 10 being completely ethical. The four actions were:

- Using someone else's credit card that was found in a public place.
- Submitting an insurance claim for more than the amount of the damage ("buildup").
- Failing to declare all income on a tax return.
- Misrepresenting an incident to obtain insurance coverage for a loss not covered under the terms of a policy.

Virtually all respondents (98%) believe using someone else's credit card is highly unethical (rated a 1, 2 or 3 on the scale; see Figure 2). They were somewhat less likely to consider as unethical the failure to declare income on a tax return. Both forms of insurance fraud fell in between, with approximately equal numbers of respondents declaring that misrepresenting the nature of an incident was highly unethical

Figure 1C

Respondents' Profile

(continued)

	Total	Realists	Conformists	Moralists	Critics
RACE					
White	87%	87%	86%	87%	87%
Black	7%	5%	8%	8%	6%
Hispanic	3%	4%	3%	2%	2%
Asian	1%	0%	1%	1%	1%
Native American	1%	1%	1%	0%	1%
Refused/ No Answer	1%	2%	1%	1%	3%
INCOME					
Below \$25K	19%	9%	25%	17%	24%
\$25K-\$34,999	18%	17%	18%	19%	18%
\$35K-\$49,999	22%	26%	22%	20%	20%
\$50K-\$74,999	18%	19%	18%	19%	17%
\$75K-\$99,999	7%	12%	4%	8%	2%
\$100K+	6%	10%	4%	6%	4%
Refused/ No Answer	10%	7%	9%	11%	15%
Mean	\$48,850	\$57,030	\$43,960	\$49,910	\$43,290
RESIDENTIAL AREA					
City	28%	36%	26%	27%	24%
Suburban	33%	27%	33%	33%	38%
Small Town	22%	22%	22%	25%	17%
Rural	17%	15%	18%	15%	20%
Don't Know/ No Answer	0%	0%	1%	0%	1%

Figure 1D

Respondents' Profile

(continued)

	Total	Realists	Conformists	Moralists	Critics
REGION					
East	20%	23%	28%	15%	15%
South	26%	26%	14%	30%	33%
Midwest	22%	19%	24%	22%	24%
West	28%	30%	29%	30%	24%
No Answer	4%	2%	5%	3%	4%

(93%), as was buildup (91%).

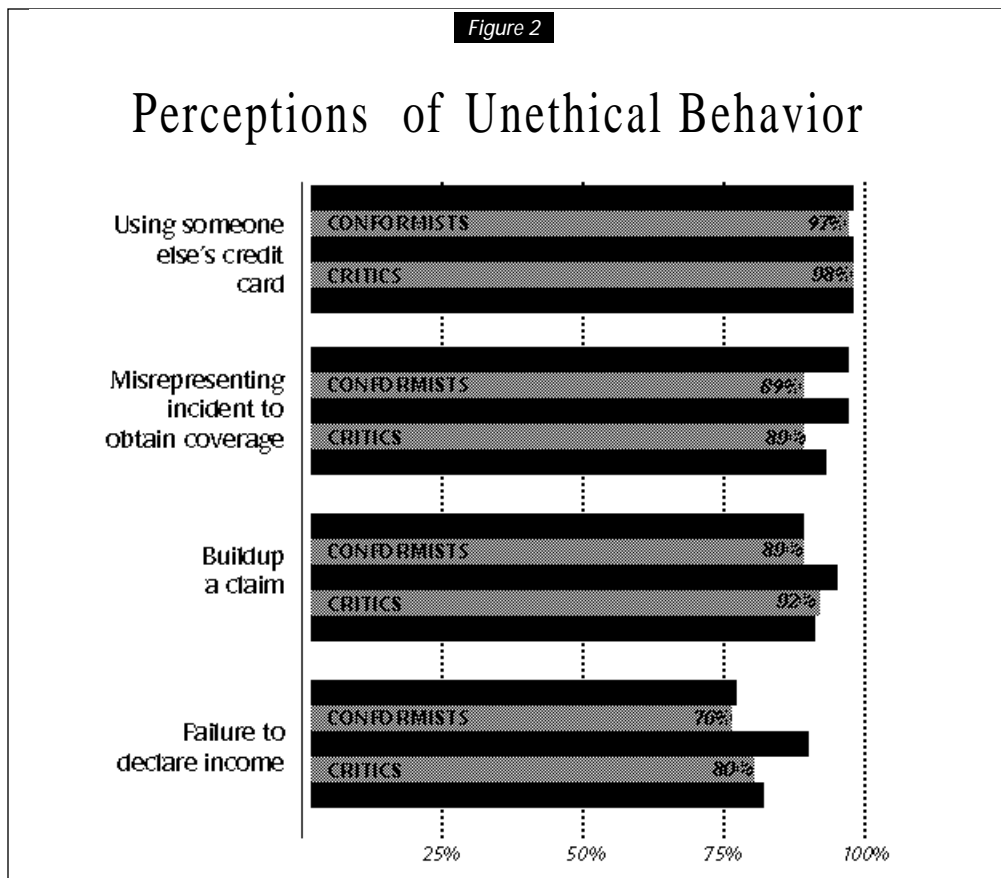
Both the Moralists (97%) and the Realists (97%) were more likely to consider misrepresenting the nature of an incident as highly unethical. However, only the Moralists were more likely than the others to consider buildup to be highly unethical (95%).

Claims Experience and Attitudes Toward the Insurance Industry

Only two percent of the survey's respondents have no insurance at all. About nine in 10 respondents have auto and health insurance, while about 80 percent have homeowner/renter insurance and life insurance. About four in 10 respondents have disability coverage. While there were some differences noted in types of coverage by location, race and education, the types of coverage do not vary significantly by cluster segments.

In the last two years, about 40 percent of respondents had filed an insurance claim. Of those who had filed a claim, about half (52%) filed a health insurance claim, and 39 percent filed an auto claim. Far fewer filed a homeowner/renter claim (16%), or claims for disability (3%), life insurance (1%) or workers compensation (1%). Again, while there were slight differences noted in claims experience by income, education, race and family size, there were no meaningful differences among cluster segments.

Respondents were asked to rate the insurance industry in general, as well as their

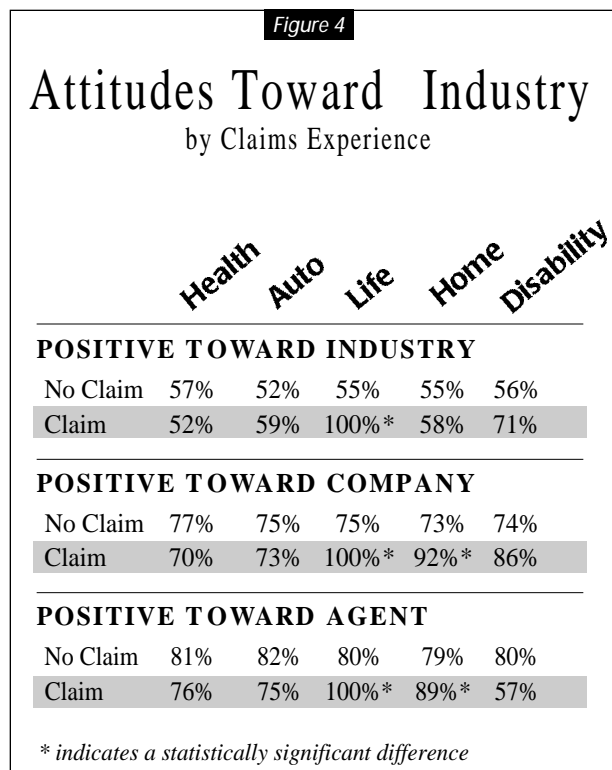
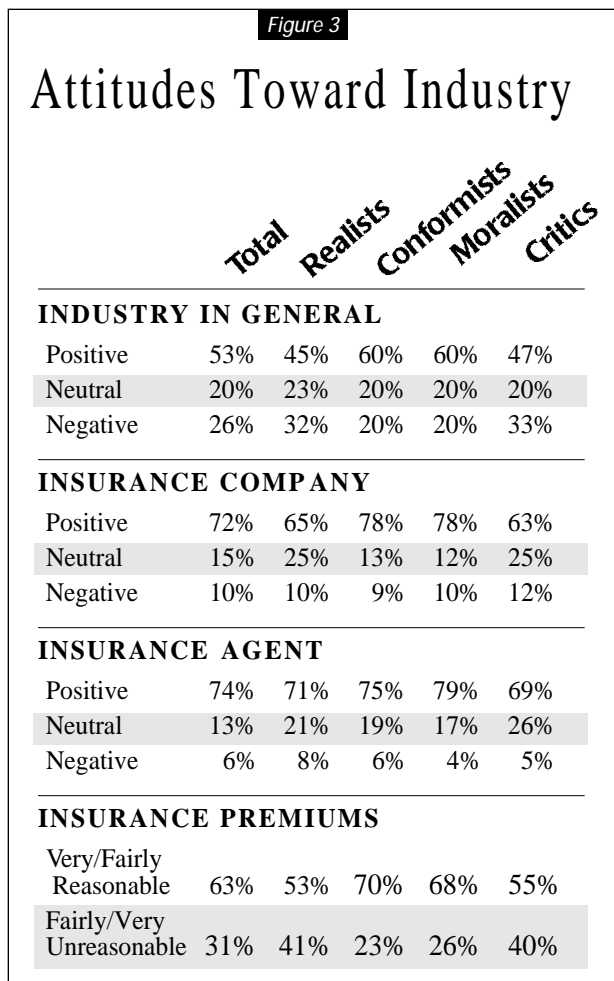


own insurer and agent, on a five-point scale from very positive to very negative. Nearly three-quarters of respondents (73%) rate their company either very positive or fairly positive, and 74 percent have similar feelings about their agent. On the other hand, 53 percent rate the industry in general as either very or fairly positive (see Figure 3). Insurance agents are held in about the same regard irrespective of cluster subgroups. The Conformists and the Moralists are more likely to feel positively about their company and the industry in general.

More than half of the respondents (63%) say they believe insurance premiums are either very or fairly reasonable. Among the cluster subgroups, the Conformists and the Moralists again are more likely to feel positively about insurance premiums and to rate them as very or fairly reasonable.

An additional analysis appears to indicate there may be a relationship between claims experience and consumers' attitude toward the industry, companies and agents. Figure 4 includes a breakdown of those who had filed claims in the last two years, by line of insurance, and compares attitudes with those who had not filed a claim. There are significantly greater percentages of people who have generally positive attitudes

toward all three segments among those who had filed life insurance claims. In addition, there are also significantly more positive feelings toward the company and the agent among those who had filed a homeowners insurance claim.

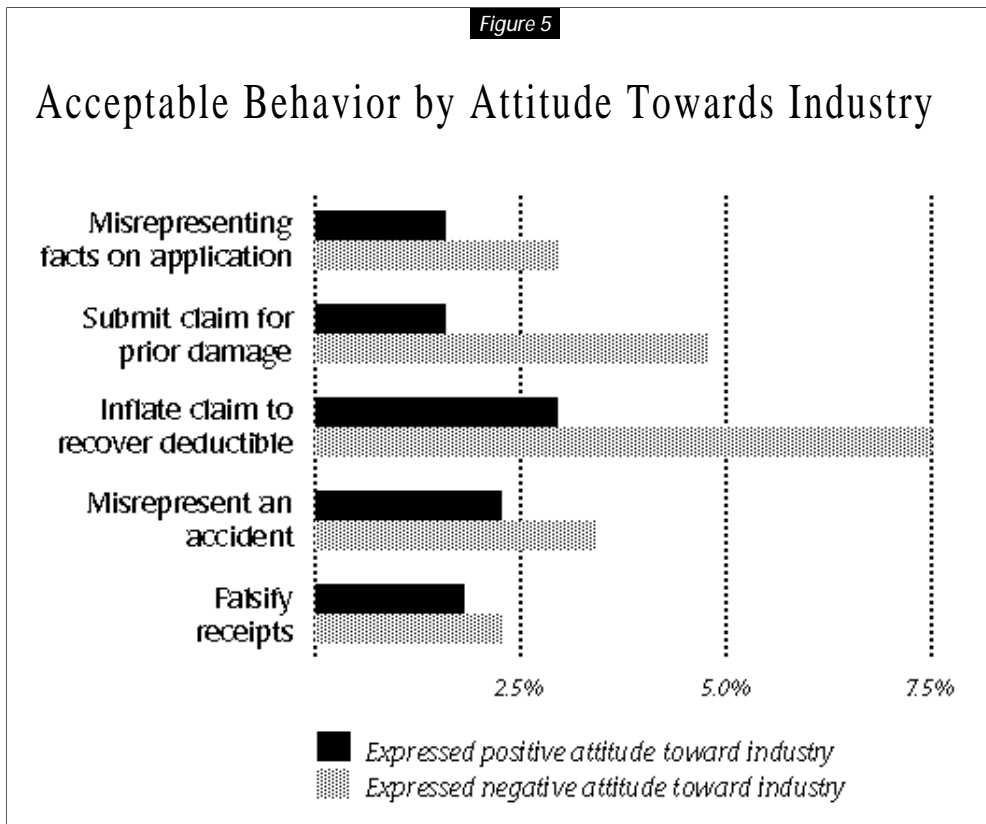


In the other lines of insurance, there are some indications that the claims experience may be related to attitudes toward the industry, the company or an agent. However, we caution these differences are not statistically significant. Rather, the data suggest there are circumstances that need further research to be fully understood.

There is also some evidence that there may be a relationship between attitudes toward the insurance industry in general and attitudes toward fraud. Table 5 illustrates those who have a less positive view on the industry tend to be more accepting of various types of fraud.

There were statistically significant differences noted when respondents were asked about the acceptability of submitting a claim for prior damage and the acceptability of inflating a claim to cover a deductible. Nearly 5 percent of those with a less positive view of the industry believe the former is acceptable, compared to 1.6 percent of those with positive views of the industry. Similarly, 7.4 percent of respondents with a less positive view believe inflating a claim is acceptable, compared to 2.9 percent of those with a more positive view of the industry.

While the differences in attitudes toward other fraudulent acts—applications fraud, misrepresenting the facts of an accident to gain a settlement, and falsifying receipts—were not statistically significant, the results also suggest a higher level of acceptability of these actions may exist among those with a less positive view of the industry. More

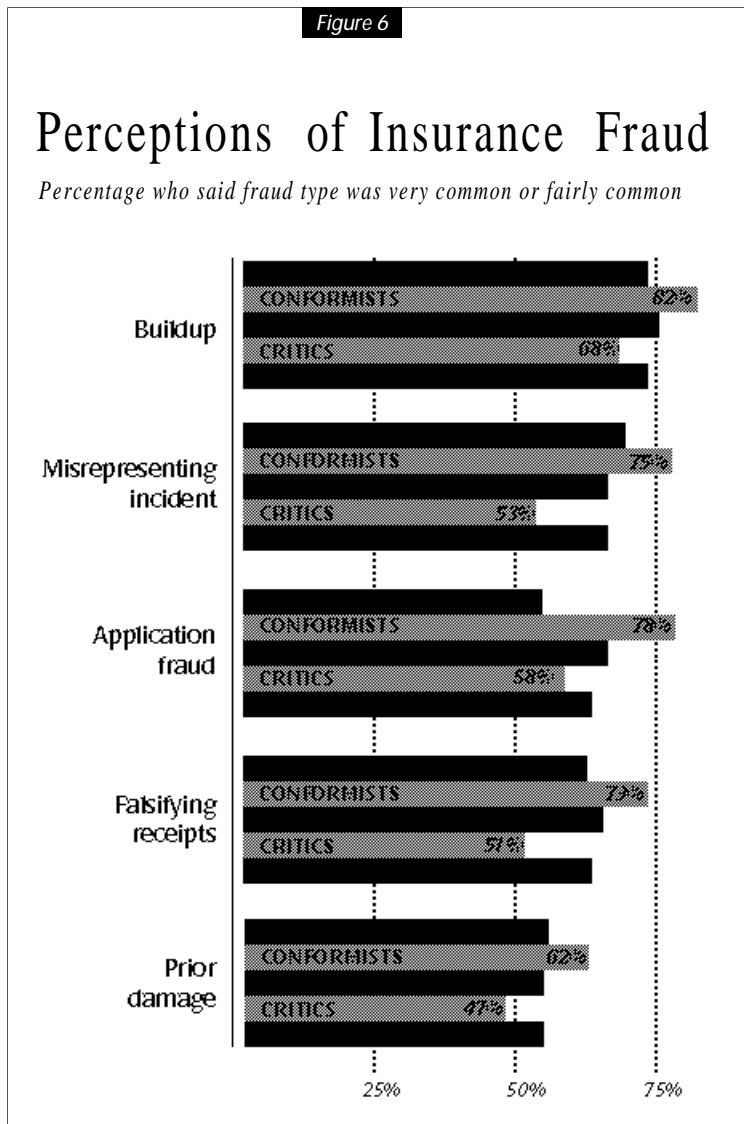


study is needed to clarify the results of this analysis.

Perceptions of Insurance Fraud

Respondents were asked to rate different types of insurance fraud based on how common they thought the actions were. The types of fraud were:

- Misrepresenting facts on an insurance application to obtain coverage or a lower rate (“applications fraud”).
- Submitting an insurance claim for damages that occurred prior to an accident being covered.
- Inflating a claim to help cover the deductible (“buildup”).
- Misrepresenting an incident to obtain insurance coverage for a loss not covered under the terms of a policy.



- Falsifying receipts or estimates to increase the amount of the settlement.

Most respondents believe these actions are common (see Figure 6). The most common action is believed to be inflating an insurance claim to cover a deductible (73% say it’s either very or fairly common). The action thought to be least likely to be common is claiming prior damage, though more than half the respondents (54%) believe this to be common. The Conformists are the most likely cluster group to believe these actions are common, while the Critics are the least likely to believe insurance fraud is common.

Respondents also were asked whether they agreed or disagreed with a number of reasons why people might commit insurance fraud. About two-thirds agree that insurance premiums increase regardless of claims history and that companies make undue profits (see Figure 7). About six in 10 agree that people are only looking for a fair return on

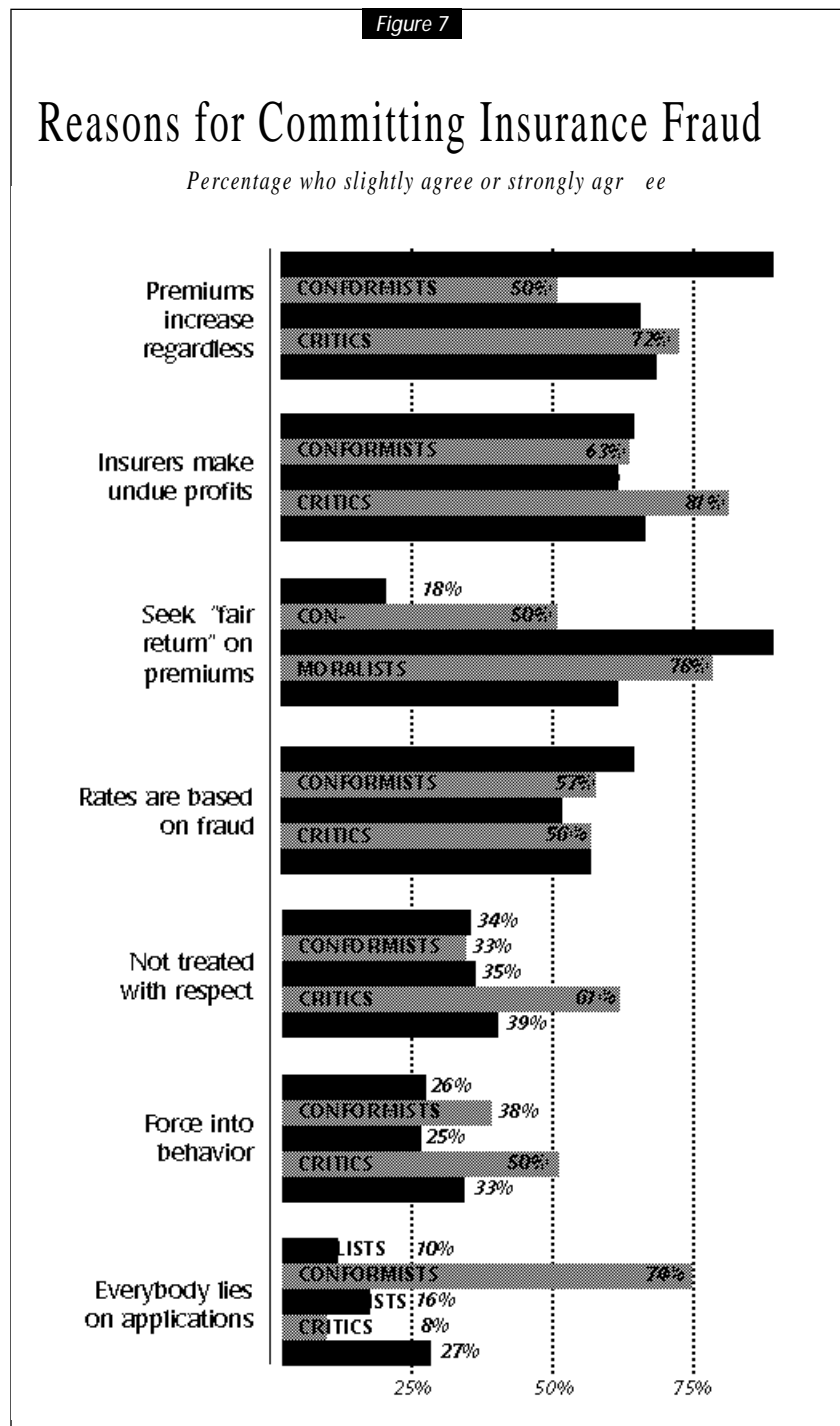
premiums paid; nearly the same number (56%) agree that rates are based on the assumption that fraud occurs. They are less likely to agree that people would not lie to insurers if they were treated with respect (39%); that people are forced into this behavior to get insurance (33%); or that nobody tells the truth on applications (27%).

The Critics are more likely to cite insurers making too much money and causing people to lie to them. But the Moralists join them in being more likely to justify fraud as a way to get a fair return on premiums paid.

Conformists tend to justify fraud with their belief that everyone does it, while Realists are more likely to believe that premiums will continue to rise regardless of claims history, suggesting there's no incentive not to commit fraud.

Overall, 63 percent of respondents felt that a person's moral character was the prime deterrent to committing insurance fraud. Other reasons given included fear of being caught (15%), fear of prosecution (7%), a lack of opportunity to commit fraud (3%), and a person's religious beliefs (2%). Seven percent answered "other" and 20 percent "don't know."

Most respondents also said they were personally concerned about insurance fraud. Seventeen percent said they were "extremely" concerned, while 35 percent considered themselves to be "very" concerned and 36 percent "somewhat" concerned.

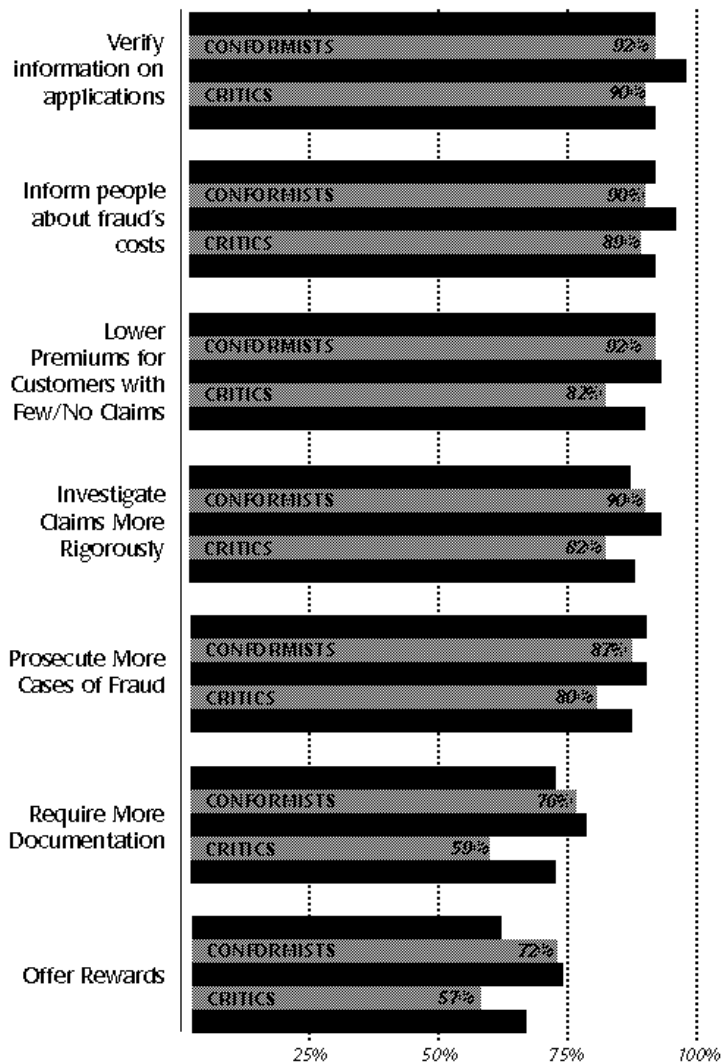


Just eight percent said they were “not too concerned” about insurance fraud, and four percent claimed not to be concerned at all.

Moreover, nine in ten respondents said they believe insurance rates are higher as a result of fraud. Of those respondents with negative or neutral views of the industry, more than eight in 10 respondents believe it’s true. When asked to estimate the amount by which premiums are higher as a result of fraud, the mean response was 37 percent.

Figure 8

Ways Insurance Companies Should Deter Fraud



Personal Experience with Insurance Fraud

Less than a third of the study respondents (31%) say they know someone who has committed insurance fraud. Respondents in the East/South and West Regions, and those in younger age groups are more likely to know someone who committed fraud. However, only 17 percent say they have reported someone for committing fraud, and 83 percent say they didn’t report the fraud. When asked why, the most frequent response (40%) is that it was none of their business and they don’t want to get involved. Other reasons include: the incident involved a trusted friend or relative and they don’t want to see them in trouble (14%); they suspected but couldn’t prove fraud (12%); they don’t think fraud is serious or wrong (7%); and four percent say everyone does it and consider fraud to be acceptable behavior. Sixteen percent responded they don’t know why they don’t report the fraud.

Attitudes Toward Curtailing and Punishing Fraud

Consumers overwhelmingly believe insurance companies should

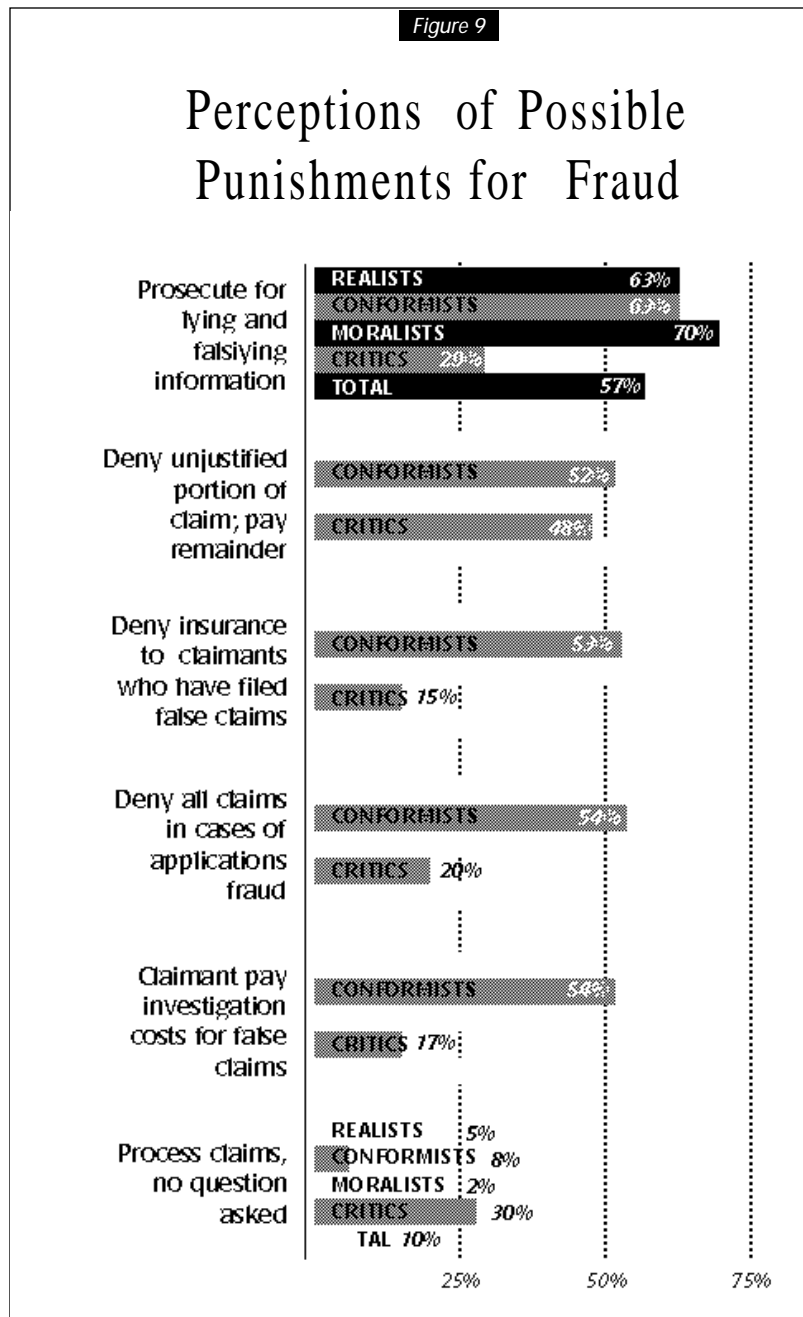
take a number of actions to curtail fraud. Figure 8 shows that about nine in 10 respondents believe the industry should do the following: verify applications more carefully; inform people how fraud increases costs; lower premiums for people with few or no claims; investigate claims more thoroughly; and prosecute suspected fraud more often.

Respondents were less accepting of requiring more documentation to make falsifying records more difficult (72%) or offering rewards to people who provide information about fraud (66%). The Critics are the least likely cluster segment to believe any methods should be used to deter fraud, particularly when asked about providing more documentation. The Moralists are most likely to believe companies should verify applications more carefully and do more to inform the public about the costs of fraud.

Respondents also were asked to rate a series of possible consequences/punishments on a scale of 1 (not at all suitable) to 10 (extremely suitable). More than half (57%) believe people should be prosecuted for lying and falsifying information, considering this to rate an 8, 9 or 10 (highly suitable) on the ten-point scale (see Figure 9).

Nearly the same number (53%) say that denying the unjustified portion of the claim also is highly suitable. Less than half of the respondents agree that all the other suggested consequences are suitable.

The Critics differed significantly from the other cluster segments. This subgroup is far less likely to believe the suggested consequences were appropriate, and more likely to believe all claims should be processed with no questions asked, essentially giving fraud perpetrators a free ride. The Realists, too, tend to be more lenient than the other subgroups.



DISCUSSION AND RECOMMENDATIONS

As noted in the discussion of respondents' profiles, there are few meaningful demographic differences among the four subgroups identified in the quantitative phase of this research (with a possible exception noted below). Since the four groups have different perceptions of insurance fraud, they will need to hear different, possibly conflicting, messages in any attempt to convince the groups of the nature of the problem and its solutions. Coupled with the lack of demographic differences, it will be a challenge to target these overlapping messages in an efficient way.

However, the Moralists differ from the other segments in gender makeup of the subgroup. This difference may have implications for the means of targeting anti-fraud messages. The coalition will continue to analyze its survey data in an attempt to uncover differences that will make it easier to identify and target the subgroups; however, additional research may be needed.

We should note that the sample population of this study was overwhelmingly white. Therefore, the coalition believes additional research into the attitudes of ethnic populations is needed, especially in urban or other heavily ethnic areas. In addition, any public outreach programs should be directed to non-English speaking populations as well as English speakers.

The research did reveal several significant differences between those who are more or less likely to file a claim. Since individuals more likely to file a claim are the ones most likely to have the opportunity to commit claims fraud (wittingly or unwittingly), communications about fraud targeted to these people should be a priority; they tend to be younger, have children, are better educated and more affluent.

Despite these difficulties, the coalition recommends that the insurance industry develop and fund an intensive, ongoing public information campaign to educate the public about insurance fraud. This campaign should include messages addressing consumers' concerns about who pays the ultimate costs of insurance fraud.

The attitudes of the Realists and the Conformists appear to be less strident and to represent a middle ground. For those reasons, these two groups may be the most amenable to messages designed to change their opinions about insurance fraud. The coalition believes these groups should be targeted in this campaign with the following messages:

- The Realists should be informed that insurance fraud is not a victimless crime; they are in fact the victims on a very personal level. Their pockets are being picked by perpetrators of fraud.
- The Conformists should be told that fraud is not as widespread as they believe it to be. They also should be informed that the acceptability of fraud is lower

among their peers than they believe.

The public information campaign also should include messages targeting the Moralists, reinforcing their low level of tolerance for this crime. The Critics represent a greater challenge; they must be convinced that fraud is a major contributor to the rise in insurance premiums and that insurers are working hard to detect and deter fraud. Messages highlighting the prosecution of fraud cases offer the best chance to reach the Critics. This group shows little sympathy toward other methods of deterring fraud. Moreover, the group is more likely to believe people don't commit fraud from fear of being caught and punished; that belief should be reinforced.

Consumers believe that a strong sense of right and wrong, more than any other single factor, deters people from committing insurance fraud. Therefore, the public information campaign should include messages that appeal to individuals' sense of right and wrong, demonstrating that committing insurance fraud is tantamount to stealing from others.

The perceived source of these messages will be a critical component to the success of the campaign. Since respondents tended to have the least favorable opinion toward the insurance industry, the coalition does not recommend a campaign from industry groups. Campaigns by individual companies, coordinated by a central organization so the messages are consistent, will be more likely to receive a favorable reaction from the public.

The most admired segment of the industry is the insurance agents themselves. Therefore, the coalition recommends enlisting the major agent groups to assist in this campaign. The agent groups could be a source of mass media messages and also provide a grassroots level of credible anti-fraud education from the individual agent directly to the consumer. In addition, insurers should enlist their own agents to assist in this campaign through fraud awareness training and by providing them the materials they will need to educate consumers.

Consumers also demonstrated a high level of belief that others tolerate and commit insurance fraud. To combat these impressions, the coalition recommends enlisting additional major consumer groups to participate in the public information campaign to speak as peers to individual consumers. This approach would be an especially effective way to reach the Conformists.

Part of a public outreach campaign must seek to convince consumers that they will benefit economically from fraud fighting efforts. Insurers and others should publicize any evidence that anti-fraud efforts are affecting rates, whether such efforts are reducing rates, helping to maintain existing levels or helping to slow the rise of rates.

In addition, consumers clearly stated they wished to see stronger measures taken to deter and detect fraud. Therefore, the coalition recommends the following:

-
- Careful and cost-effective verification of applications targeting material misrepresentations should be a standard practice by all insurance companies, especially with the advent of new databases and computer technology. This practice also should be communicated to applicants to dispel any possible notion that insurers do not check applications thoroughly.
 - Claim submissions should be scrutinized for evidence of potential fraud and investigated accordingly.
 - Company anti-fraud activities should be widely publicized so consumers know the risk of committing fraud and are aware of what insurers are doing to protect their customers from the cost of this crime. Diligent efforts need to be undertaken to uncover situations where anti-fraud efforts have led to reduced rates for consumers. Such cause-and-effect relationships need to be publicized as broadly as possible to convince consumers that they will benefit from anti-fraud efforts.
 - In assessing which claims practices engender the most customer satisfaction, companies should consider the potential positive implications for attitudes about insurance fraud. The claims process should be viewed as an opportunity to build credibility with insureds, which may help to lower their tolerance for fraud.
 - The insurance industry should explore the feasibility of a reward system to encourage the reporting of fraud, such as funding a program like Crime Stoppers, or expanding the awareness and usage of the National Insurance Crime Bureau's Hotline reward program.
 - Prosecutors, especially elected officials, should recognize that consumers—their constituents—overwhelmingly support prosecution of insurance fraud. They should educate themselves about this crime, manage their resources in a way that allows more attention to be given to insurance fraud, and take an active and aggressive role in publicizing fraud cases.
 - Fraud bureaus, which are most familiar with fraud's warning signs, should play the lead role in consumer outreach and education about the nature and extent of insurance fraud. For example, states such as Texas have adopted approaches that include producing and distributing informative consumer materials. Others like New Jersey are making fraud prevention a part of the driver's education curriculum. States lacking fraud bureaus should direct the insurance department to undertake the outreach efforts while evaluating the need to establish a bureau.
 - The coalition and/or other organizations should monitor the anti-fraud outreach programs, such as the extensive billboard program in Pennsylvania, to gauge

whether such efforts are having the intended impact.

- Additional research should be done to obtain a clearer understanding of the effect that claims experience can have on consumers' attitudes toward the insurance industry, insurance companies and insurance agents. This study should incorporate additional research into possible links between consumers' attitudes toward the insurance industry and their attitudes toward insurance fraud. This research should include an effort to uncover ways in which positive attitudes can be generated in support of the goal of reducing fraud.

Finally, the coalition recommends a study of the feasibility of certain punishments favored by consumers, especially holding perpetrators responsible for paying the cost of investigation of a claim that's determined to be fraudulent, and, if appropriate, denying the fraudulent portion of the claim but paying the rest. If additional legislation is needed, the coalition recommends extensive efforts to pass such legislation in all states.

In the coming year, the coalition's board of directors will determine priorities for these recommendations and the appropriate means of fulfilling them, whether through coalition-sponsored activities or with partners interested and able to work with the coalition.

The coalition's study failed to reveal any single answer to the problem of insurance fraud. However, we believe the recommendations in this report, coupled with efforts that already are underway, will help to reduce insurance fraud. The problem belongs to all of us involved in the insurance system in the United States; the responsibility for the solutions also lies with us.

Appendix A

Coalition Against Insurance Fraud Public Attitudes Task Force

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