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Walking a fine line with soft fraud detection

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Staged auto accidents and "crash for cash" schemes cost the insurance industry about $20 billion a year and result in higher auto insurance rates – an average of $100 to $300 a year, according to the FBI.

As a result, members of the law enforcement and insurance industries have devoted more resources to this kind of fraud in the past decade.

"Staged crashes are very common, very costly and very persistent in many urban areas of the country," says James Quiggle, spokesman for the Coalition Against Insurance Fraud. "As a result, they're driving up auto premiums for drivers everywhere, because fraud is a past-along cost that honest policyholders regrettably pay for."

Fraudulent crash rings bilk auto insurers out of billions of dollars a year by billing for injuries that can be difficult to diagnose and dispute. "It's very common for staged crashes to be organized by rings that create what amount to fraud factories," Quiggle says. "Their goal is to manufacture, in assembly-line fashion, large volumes of false claims for bogus treatments involving phantom injuries by passengers who are coached how to act injured."

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Coalition Against Insurance Fraud

According to a 2015 study by the Insurance Research Council, automobile claim fraud and "buildup" — which the Insurance Journal defines as the "the inflation of otherwise legitimate claims" — added between $5.6 billion and $7.7 billion in excess payments to auto-injury claims paid in 2012. Claims appearing to have fraud and/or buildup were more likely than other claims to involve chiropractic treatment, physical therapy, alternative medicine and pain clinics.

Tom Mulvey, assistant vice president for special investigations unit and claim services for ISO/Verisk Insurance Solutions, says it's important to make the distinction between a "staged" accident and a "caused" accident. A "staged" accident refers to an accident in which all of the vehicles involved took part in planning the crash. In a "caused" accident, only one party knew the accident was going to happen.

Recent statistics on national trends are limited, although fraudulent accidents overall appear to be on the rise in some states. In Florida, for example, personal injury protection fraud arrests, which include fraudulent accidents, rose from 318 in fiscal year 2006/2007 to 402 in 2014-15, peaking in 2012-13 at 651 arrests, according to the Florida Department of Financial Services' Division of Insurance Fraud.

Mulvey says that in places where fraudulent accidents appear to be on the rise, it's important to keep things in context.

"One thing to keep in mind: Are the accidents becoming more common, or is law enforcement and the insurance industry just getting better at detecting them?" he asks.

Mulvey cites significant development in the area of insurance fraud detection just in the past five to 10 years. "I think the insurance industry has gotten a lot better at detecting these issues. Almost every state has become active with an insurance fraud bureau, and those types of organizations have come a long way in working on those cases," he says.

According to Florida's fraud division, staged accidents used to be a major component of PIP fraud in Florida, but they have dropped dramatically in the past few years because of enforcement efforts and legislative changes. For the current fiscal year, these accidents account for 7 percent of the total PIP referrals the state has received.

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