

How Can Insurance Fraud Be Prevented?

By: Alice Holbrook

Insurance fraud is a serious problem that's gained increasing attention in recent years. But even consumers who are aware of fraud may be shocked by its extent — and how much it costs.

"The property and casualty industry has long believed that there is roughly \$30 billion lost annually to insurance fraud," says Frank Scafdi, director of public affairs for the National Insurance Crime Bureau (NICB).

At least 10% of property and casualty losses are fraudulent. Health insurance fraud costs are much higher.

Insurance companies are well-versed in detecting and investigating fraud, often in partnership with law enforcement. Dealing with fraud once it occurs is expensive and time-consuming, so many state and local governments are stepping up efforts to stop fraud before it starts.

What are the most common kinds of insurance fraud?

While many associate insurance fraud with elaborate plots and crime rings, industry experts find that's not always the case.

"Normally honest people commit a large volume of fraud, typically smaller claims that can fly under the radar," says James Quiggle, director of communications for the Coalition Against Insurance Fraud. "They see an opportunity and jump on it."

Thomas Donahue, executive director of the Pennsylvania Insurance Fraud Prevention Authority, agrees: "While crime rings cause the greatest financial harm, we see larger numbers of 'opportunistic' acts of fraud done by individuals. Opportunistic fraud offenders in Pennsylvania historically have been younger insurance consumers, in the 18 to 34 age range."

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In Donahue's experience, most fraud shows up as application fraud or claims fraud. For example, "residents of New York and New Jersey might register and insure their vehicles in Pennsylvania to fraudulently avoid paying the higher costs of auto insurance in their home states," he says. "Claims reported from accidents in other states typically lead to the discovery of these types of fraud."

Some policyholders also choose not to disclose some household drivers in their application for auto insurance — usually younger family members or those with revoked or suspended licenses. Others will conceal the commercial use of their vehicle to obtain cheaper, personal premiums.

Donahue says policyholders may commit claims fraud when they lie about their insurance status at the time of an accident or about the cause of an accident.