

The Big Rip-Off: Top 5 Strategies of Insurance Fraudsters

By: Laura Mazzuca, PropertyCasualty360.com

Whether it's a deliberately misstated water-damage claim on a homeowners' policy or a sophisticated international crime ring for stolen autos, insurance fraud is driven by an amalgam of greed, stealth and exploitation.

The U.S. economy may have stabilized enough so that the blatant vehicle torchings and business arsons of the financial meltdown era have slowed, but insurance fraud, in all its myriad forms, marches on—and shows no signs of stopping.

Insurance fraud is inevitable, if often difficult to quantify. While organizations like the Coalition Against Insurance Fraud (CAIF) and the National Insurance Crime Bureau (NICB) keep a close eye on trends, insurance company special investigative units (SIUs) each have different ways of tracking claims data—making it difficult to get a hard-and-fast number for specific types of fraud, says Roger Morris, the NICB's vice president of communications.

Nailing down insurance fraud is like playing a game of Whack-A-Mole: As states like Florida start cracking down on staged auto-crash rings, crooks flee to Minnesota or follow the trail of devastation left by natural disasters to ply scams like bid-rigging and contractor fraud.

However you slice it, insurance fraud hurts both the industry and the consumer. The FBI estimates the total cost of non-health insurance fraud at more than \$40 billion per year, hitting the average U.S. family to the tune of \$400 to \$700 a year.

Common “white collar” fraud schemes include premium diversion (the most common type of fraud, perpetrated by insurance agents); fee churning (when intermediaries take commissions through reinsurance agreements); asset diversion (which primarily happens in acquisitions); and workers' comp fraud (when fraudulent companies sell coverage at a reduced cost without actually providing coverage).

Then there are the organized crime rings that are more Mafia than Madoff: Eastern European staged-accident scams or cargo container hijackings involving sophisticated processes and lots of players.

And as always, policyholders are far from innocent. The FBI notes the prevalence of false or exaggerated policyholder claims and misclassifications, especially in the wake of a natural disaster. Morris reports an uptick in water-damage claims in the aftermath of Superstorm

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Sandy, calling it “the new kitchen fire.” Premium cheating is always popular, especially in high-auto-premium states like New York, where more drivers are registering their vehicles in states with lower premiums, says Jim Quiggle, the CAIF's director of communications: “You'll see Pennsylvania license plates in some New York neighborhoods.”

And the NICB finds the perennial biggies to be the same as always: vehicle theft and medical fraud related to auto and workers' comp policies.

But whatever the scam, most perpetrators of insurance fraud fall back on a basic toolkit of sneaky tricks to ply their trade. Read on for a look at some of the most popular strategies.

Like any smart businessmen, insurance fraudsters are always alert to trends. Are the nouveau riche in China thirsting for American luxury cars? No problem. Organized fraud rings have built a veritable pipeline from spurious U.S. dealerships to the Asian black market.

Although the NICB marked a slight increase in 2012 vehicle thefts, this is not a good indication of how many vehicles are actually stolen, because the estimated 730,000 vehicles pilfered per year only reflect those that are actually reported.