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Who You Gonna Call?: Insurers Aim to Bust Ghost-Brokering Practice

Latest trend in underwriting fraud can rob insurance policyholders

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Everyone wants cheaper auto insurance policies. We have all seen the commercials from Progressive, Geico, State Farm, Allstate, and many others offering low-priced insurance. But the number of drivers desperately looking for a better deal has also led to an increase in underwriting fraud.

Recent studies have shown that insurers lose approximately 10 percent of their total revenue to premium leakage and underwriting fraud. In 2010, rating errors reduced private passenger auto insurance premium revenue by $15.4 billion in the United States.

According to Dennis Jay, Executive Director of the Coalition Against Insurance Fraud, "Application fraud traditionally has been the poor cousin of claims fraud, receiving little attention and not being fully understood. Forward-thinking insurers are developing new strategies and employing new tools to not only detect underwriting fraud, but to prevent it as well."

This was reflected in a survey by the Coalition Against Insurance Fraud in 2012, that found that 88 percent of insurers are employing anti-fraud technology such as business rules engines, predictive analytics and link analysis tools. However less than half are using technology for non-claims functions, such as underwriting fraud.

Premium or underwriting fraud occurs when someone intentionally conceals or misrepresents information when obtaining insurance coverage at any stage in the policy life cycle. For example: a consumer might underestimate the value of their property; a consumer might front other drivers on an auto policy; or a business owner might underreport payroll or misclassify the business in order to reduce workers' compensation premiums.

In addition, analysis has shown that a substantial proportion of claims fraud originates from fraudulent applications. Insurance companies that can reduce underwriting fraud can significantly decrease the exposure to certain types of claims fraud.

Buying from insurers directly online is increasing globally and in many countries is the predominant distribution channel for personal insurance. Unfortunately, this growth in online and direct insurance has created a lucrative market for an emerging trend known as "ghost brokering."

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Coalition Against Insurance Fraud

A recent exposé of this criminal activity revealed that many customers could be driving uninsured after having been tricked into paying for a faulty or bogus insurance policy. A ghost broker will offer significantly cheaper insurance than legitimate insurance agents by altering key quote details to get a lower premium for the insured. For instance, a ghost broker might transpose the applicant's year of birth, changing 1968 to 1986.

Ghost brokers operate through websites or small ads that target young motorists who face rocketing premiums or individuals who lack an understanding about the way the insurance industry works. These ghost brokers then charge the consumer a fee for their service. To justify why they can offer lower prices, many ghost brokers claim to be an insurance company staff member, explaining that the reduced rates are due to staff discounts. One red flag for customers to watch out for is that many ghost brokers will ask for an initial payment in cash.

View the entire article. View other articles quoting the Coalition Against Insurance Fraud.