

Fraud Focus



CHIRO LANDS CRASH VICTIMS WITH FULL-THROTTLE PHONING?

Cold-calling of victims may reach new levels of efficiency

Texas chiropractor **Michael Kent Plambeck** may have virtually mechanized the illegal recruiting of crash victims for bogus injury claims against auto insurers with a corporate efficiency rarely seen for this kind of insurance scheme.

His suspected gang allegedly used aggressive telemarketing phone banks that convinced victims to obtain bogus treatments from dozens of clinics he operated in four states. Cold-calling victims for schemes isn't new, nor is contacting victims necessarily crooked. But Plambeck may have done for sleazy recruiting of victims what Henry Ford did for assembly-line car manufacturing.

"To the best of my knowledge it's unusual, and actually it's the first time I've heard of someone that would go to this extreme," says Frank Orlando, director of New York State's fraud unit.

"We've always seen that stuff (phone recruiting of crash victims) but nothing that sophisticated," agrees Anthony DiPaolo, chief of investigations for the Massachusetts fraud bureau. "We've seen occasional mailings that go out, but nothing like this."

But more, Plambeck allegedly combined a sprawling clinic network and sophisticated telemarketing machine into a coordinated, MBA-style marriage of crooked medicine and full-throttle phone marketing that's unusual for suspected insurance schemes such as these, seasoned investigators say.



Churned out calls

Plambeck allegedly cost Allstate so much money that the insurer is trying to gut his operation with a \$10-million federal lawsuit recently filed in Dallas. His headquarters, Chiropractic Strategies Group, is based in nearby Arlington.

Plambeck runs about 39 chiropractic clinics sprinkled throughout Texas, Louisiana, Ohio and Alabama. He also set up a Louisiana marketing operation called Media Placement that churned out most of his phone pitches.

Callers were carefully trained. Using official accident reports, they dialed up crash victims in several states. Callers urged them to visit one of Plambeck's clinics for a free exam — even when victims felt no pain or other injury symptoms, Allstate says.

Callers funneled hot prospects to the nearest clinic and even arranged the appointments, Allstate says. Worthless and phantom treatment and tests allegedly followed, and Plambeck's clinics then bombarded Allstate with dirty claims.

continued on next page

Florida and Maryland close off crash reports

Police accident reports provide often-easy targets for swindlers who exploit crash victims to bilk insurers with bogus injury claims.

Recruiters comb for names, addresses and phone numbers, then phone or knock on victims' doors to seek treatment at crooked clinics.

But Florida and Maryland, for example, limit outsider access to police reports, says Howard Goldblatt, the coalition's head of government affairs. Only the victims, their representatives and journalists can see reports for the first 60 days after an accident. Some swindlers pretend they're journalists, even creating official-looking publications to show police.

And Texas just deleted victim phone numbers from the reports.

"(Recruiters) are today's lazy ambulance chasers, doing it all by phone. We are trying to put a stop to these calls, or at least slow them down," says Mark Hanna, with the Texas Committee on Insurance Fraud, which helped spearhead the change.

INSIDE

3 Fraud News

States squelch fake insurance

4 Profile

Secret economy fuels comp schemes

6 Crime Watch

Alleged crash ring a family affair

7 Legislative Monitor

Budget crises could stifle fraud bills

8 Perspective

Attitudes about insurers declining

Board of Directors

DENNIS SCHULKINS, CO-CHAIR

State Farm Insurance Companies

JAMES BROWN, CO-CHAIR

**Center for Consumer Affairs
University of Wisconsin-Milwaukee**

DOUG ASHBRIDGE, TREASURER

Farmers Insurance Group

STEPHEN PERRY, SECRETARY

National Association of Insurance Commissioners**Allstate Insurance** EDWARD J. MORAN**American Council on Consumer Interests**

JOHN BURTON

American Family Insurance SCOTT STRAIN**American Insurance Association** PETER FOLEY**CNA** TIM WOLFE**Consumer Action** KEN McELDOWNEY**Consumer Alliance** DON ROUNDS**Consumer Federation of America**

STEPHEN BROBECK

Consumer Federation of the Southeast

WALTER DARTLAND

Erie Insurance DAVID RIOUX**Farmers Insurance Group** DOUG ASHBRIDGE**Fireman's Fund Insurance** PAUL STACHURA**Florida Consumer Action Network** BILL NEWTON**Hanover Insurance Group** FRANK SZTUK**Hartford Insurance Group** JOHN MCGOLDRICK**International Association of Insurance Fraud
Agencies** MAXI MOODY**Liberty Mutual Group** GLENN D. WOLF**Louisiana State Police** LT. ALLEN CARPENTER**Main Street America Group** CHRISTOPHER MACDONALD**MassMutual** BARBARA CARRA**MetLife, Auto & Home** JOHN SARGENT**National Association of Consumer Agency
Administrators** ELIZABETH OWEN**National Association of Insurance Commissioners**

HON. SANDY PRAEGER

National Conference of Insurance Legislators

HON. BRIAN KENNEDY

National Criminal Justice Association

CABELL C. CROPPER

National District Attorneys Association

MARY GALVIN

National Insurance Crime Bureau ROBERT BRYANT**National Urban League** ROBERT McALPINE**Nationwide Insurance** DAVID BANO**Office of Attorney General, Pennsylvania**

HON. TOM CORBETT

OneBeacon Insurance DAVE NICHOLSON**Pennsylvania Insurance Fraud Prevention Authority**

RALPH BURNHAM

Progressive Insurance JEFF MOORE**Prudential Insurance** HELENE GURIAN**SAFECO** STEVEN FRIEDMAN**Sentry Insurance** JOHN D. KLOC**Travelers Insurance** KEN JONES**Unum Group** ROBERT DEAN**Zurich North America** BRIAN WILSON**Coalition Against
Insurance Fraud****Staff**DENNIS JAY **Executive Director**HOWARD GOLDBLATT **Director of Government Affairs**JAMES QUIGGLE **Director of Communications**KENDRA SMITH **Executive Assistant**

The Coalition Against Insurance Fraud is an independent, nonprofit alliance of consumers, government agencies and insurers dedicated to combatting all forms of insurance fraud through public information and advocacy. Fraud Focus is published four times a year. Material may be reproduced with proper attribution to the Coalition Against Insurance Fraud. Contact Information: 1012 14th Street, NW, Suite 200, Washington DC 20005; phone 202-393-7330; fax 202-318-9189; email info@insurancefraud.org.

Full-Throttle Phoning*continued from page 1*

One of Allstate's strongest charges is that Plambeck's telemarketers sometimes said they were Allstate or "insurance company" reps who wanted victims to visit a nearby Plambeck outfit. If true, that's an unusual bit of strong-arming that also sets Plambeck apart, fraud fighters say.

"Recruiters don't usually say they're working for an insurance company. Usually they say they're working for the clinic," says Steve Smith, a captain from the fraud unit of Florida's Department of Financial Services.

"At this point it's the exception to what we normally see. It may be something new," adds Dana Levitt, who oversees investigation of suspicious injury claims for Hanover Insurance Group.

But Hanover is probing a chiro outfit that also may use pretext: Someone phoned a crash victim, claiming he was a doctor employed by Hanover, and urged her to get treatment at a specific chiro clinic in Tennessee, says Levitt.

The clinic receptionist told the victim not to contact Hanover, assuring her the clinic would handle all insurance details, Leavitt says. But the woman grew suspicious and contacted Hanover's fraud hotline. Hanover still is investigating the chiro's operations, including victim-marketing efforts.

Many accident gangs avoid recruiting tactics such as high-gear telemarketing that might attract nose fraud investigators.

Most recruiting of crash victims is more loosely organized and smaller-scale than Plambeck's alleged multi-state telemarketing, says Orlando.

Recruiters show up at crash scenes, wait until the police leave, then badger victims to get treatment at a ring-affiliated clinic, Orlando says. They also phone crash victims at home: Pretending to be hospital employees, recruiters urge victims to get treatment at a clinic that's part of the scheme. Some miscreants hang flyers on lampposts or monitor police radio dispatches.

In a newer tactic, hospital employees text-message recruiters when accident victims come to emergency rooms, Orlando says.


In fact, many accident gangs avoid elaborate recruiting tactics such as high-gear telemarketing that might attract nose fraud investigators, Orlando says.

"I think they're trying to keep these things lowkey," he notes.

Staged-accident rings, with schemers maneuvering their own cars into crashes, are more prevalent than gangs trying to recruit real accident victims. Still, Allstate's \$10-million suit underscores that alleged fraud losses still can be sizable. Fraud fighters thus deploy a variety of counter-measures in addition to criminal prosecutions.

Florida limits access to police accident reports that rings often use to find crash victims (see sidebar). "We do believe the law has been having an effect. It's made it much tougher for them to recruit," says investigator Steve Smith.

Civil suits by insurers also can deliver serious financial body blows. Huge fines can bankrupt ring members, and the burden of proof in civil cases also is lower than criminal cases. Insurers also can move fast, without waiting for lengthy criminal prosecutions.

If Allstate takes down Plambeck, the insurer will shore up Smith's belief that even the most-elaborate auto-fraud rings can take a long, hard fall. "They're not as sophisticated as they think they are," Smith says. 

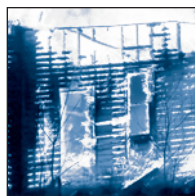


States put kibosh on sale of worthless coverage

Several state have shut down a bogus insurer peddling fake discounted health coverage to small businesses and consumers. Florida slapped the National Trade Business Alliance of America with a cease-and-desist order after nearly 800 residents had lost at least \$100,000 in unpaid claims since 2006, the department of financial services says. The coverage was marketed via blast faxes promising health coverage well below market rates. Consumers called a tollfree number to make the purchase. Callers provided their credit-card info or faxed a copy of a check to cover their premiums. At least 123 people in North Carolina also lost \$20,000 to the New Jersey-based outfit, North Carolina's insurance department says. The company was unlicensed and left many policyholders with unpaid claims. The Arizona and Massachusetts insurance departments are among others to crack down. A large wave of bogus health insurers bilked thousands of small businesses around the U.S. from about 2000 to about 2004 before regulators shut down the swindlers. Insurance departments today are urging consumers to contact the regulators to verify insurers before buying coverage.


Coalition working to foreclose looming foreclosure arsons

Arsons by desperate homeowners facing foreclosure, airbag scams and crooked dentists are among the fraud trends the coalition brought to the nation's attention recently. "Untold thousands of homeowners are struggling with ballooning subprime mortgage payments, and fraud fighters are watching closely for a spike in arsons by desperate homeowners who can no longer afford their home payments," the coalition said in a recent issue of *Fortune Magazine*. . . Airbag scams are a life-threatening danger, the coalition also warned the public: "Many cars now on the road could have no airbags or nonworking ones," the coalition says in a consumer column sent to newspapers around the U.S. "Crooked body shops illegally removed or replaced them to steal insurance money. But drivers and passengers won't know until they're in a crash and their airbag fails to open." . . . Dental patients also should watch out: "We're seeing a disturbing spike in the warning signals that there may be an increase in fraud by crooked dentists," the coalition said on *Good Morning America*. A Pennsylvania dentist did jawbone grafts, tooth extractions and root canals on perfectly healthy patients, the show noted.



Tampa a center of fraud-fueled abuse of prescription drugs



Overdoses of prescription drugs, often obtained by insurance fraud, soon will overtake car crashes as the Tampa Bay area's leading cause of accidental deaths, local officials say. The region is fast becoming one of Florida's leading problem areas for the abuse of addictive painkillers and other prescription drugs. Overdoses of painkillers such as OxyContin and anti-anxiety drugs are on a pace to kill 550 local residents. The death rate is 70 percent higher than the state as a whole, officials say. Deaths statewide have risen 40 percent in three years, news reports say. Many areas around the U.S. are wrestling with a prescription epidemic, and insurance fraud fuels this fast-growing trend, the coalition warns in a new report, *Prescription for Peril*. Bogus prescription drug claims by doctor-shopping addicts, pharmacies and doctors have made insurance fraud perhaps the trend's leading financier and enabler, the report says. More states must install databases to track prescriptions, the report urges. Florida has weak tracking systems, making it easy for addicts and dealers to illegally obtain multiple prescriptions, says Dr. Rafael Miguel, a professor at the University of South Florida. 

Send Us Your News

Let us know how your organization is combating insurance fraud. Send your news to: Fraud Focus, 1012 14th St. NW, Suite 200, Washington DC 20005 or fax to 202-318-9189 or email to news@InsuranceFraud.org.

In Brief

New York state's fraud fighters recently made their 1,000th workers comp fraud arrest since 1996. The anti-fraud effort has saved more than \$312 million. . . **An agent forged competing quotes** to dupe the Mescalero Apache tribe into overpaying millions in premiums, the tribe says in a lawsuit in New Mexico. . . **The vast deserts around Barstow, Calif.** are graveyards for vehicles the owners have dumped for insurance money, officials say. Helicopters scan for vehicles in especially remote spots. . . Two men **posed as insurance adjusters** who ripped off victims of the wildfires in South Lake Tahoe, Calif. last summer. The insurance department fined Steve Lepcevic and Matthew Todd \$200,000. . . Plans are afoot to launch an **international database** to target insurance fraud globally. About 140 nations are expected to take part, allowing insurers to share fraud data internationally. . . **Corruption is so wide-spread** among Los Angeles-area medical-equipment firms that nearly 1,000 firms bilked Medicare out of \$21 million in just one year, says a federal report. One bogus firm even listed an art gallery as its address. Investigators have uncovered \$300 million in potentially bogus claims over two years. . . Former insurer exec Joe Wehrle has been appointed the chief operating officer of the **National Insurance Crime Bureau**. Wehrle was president of USAA Property and Casualty, and deputy chief of staff in the Air Force.

More Fraud News
at news@InsuranceFraud.org

Digging up the underground economy

Corrupt builders cheat workers comp insurers out of premiums and exploit workers

BY DAVE THOMAS & JAMES QUIGGLE

Driven to dodge expensive workers compensation premiums, companies in high-risk and low-wage industries such as construction fleece insurers out of billions a year by hiding employees in the shadowy netherworld of America's underground economy.

Corrupt garment makers, restaurants and businesses in many other industries also milk comp insurers. But construction firms are especially large players in a vast, subterranean job world that both exploits vulnerable workers by paying substandard wages, and bilks governments by avoiding many taxes.

In this parallel financial universe, millions of workers — often illegal immigrants toiling long hours in dangerous conditions — pound nails high on roofs of housing sites, pour concrete in rising office buildings, or erect drywall in condo complexes.

High-risk work

Nearly every state requires employers to carry workers comp coverage, but the urge to cheat is strong. Construction is high-risk; employees often are injured and sometimes even killed. Workers comp premiums thus can be high, and bite into a builder's profits. Premium schemes can save a dishonest builder up to hundreds of thousands of dollars in comp premiums a year.

But the ruses also leave injured workers without coverage, bilk insurers of premium income, and leach taxes. The sizable premium savings also give dishonest contractors an unfair edge over honest

competitors, thus costing jobs and raising prices.

Corrupt builders deploy a large variety of ruses, often camouflaging workers



inside dizzyingly complex bookkeeping cons. Increasingly, for example, employees are stashed in shell firms, mislabeled as independent contractors, and paid in cash off the books (see sidebar). If employees don't exist — at least on paper — then workers comp insurers can't charge premiums for them.

Little data

Credible national data are in scarce supply. But states with large Hispanic populations and hot construction markets such as California, Florida and New York are cauldrons of workers comp premium schemes.

"Premium fraud and tax evasion within the underground economy is a serious, costly crime throughout California," says Dominic Dugo, head of fraud grants for the San Diego DA's office and a leading expert on comp premium fraud.

Employers in high-risk California industries may hide 75 percent of their payroll for those dangerous jobs. This costs insurers up to \$3.8 billion in lost comp premiums annually, says a 2007 study by University of California Berkeley researchers.

California's state-run workers comp insurer has 109 premium-fraud investigations and prosecutions underway. More than \$100 million in potential premium losses are on the line, and most cases involve construction firms, says Rick Plein, the insurer's bureau chief.

At least 50,000 construction workers in New York City alone — one of four — are employed off the books or misclassified as independent contractors, says the Fiscal Policy Institute. Those cons milked \$489 million in comp premiums, taxes and other expenses in 2005 and could reach \$557 million this year, the Institute estimates. More than 39,500 employers also misclassify workers throughout the state each year, a study by Cornell University researchers reveals.

Meanwhile down South, premium schemes are the "largest organized financial crime in the state of Florida," says Geoffrey Branch, investigator with the fraud unit of the state Department of Financial Services.

Premium cons are diverse. In California, Mayer Roofing lied that most of its 450 workers were managers or high-level employees instead of roofers. Mayer was ordered to repay the state workers comp insurer more than \$3 million.

A Florida builder shaved more than \$4 million in premiums by providing more than 300 workers fake workers comp insurance certificates. The firm also created bogus payroll records, paychecks and IRS reporting documents.

In New York, a firm called Complete Construction Consortium avoided nearly \$800,000 in comp premiums by allegedly creating four shell companies for paying employees off the books. CCC wrote checks to the shells, then listed the checks as “materials” on its general ledger and tax returns, prosecutors say. Commercial check cashers also allegedly helped CCC pay some workers in cash under the table.

California roofer Michael Amzie Holley allegedly avoided more than \$700,000 in premiums by lying that he had no employees. He paid workers cash under the table, mislabeling them as subcontractors, and leasing some from other firms, prosecutors say.

Scams unopposed

State and federal agencies are striking back with growing force. Until recent years, many premium scams went unopposed because many officials were intimidated by their complexity, and didn't grasp premium fraud's financial and social costs.

“Crackdowns are gaining much-needed steam,” says Dennis Jay, executive director of the Coalition Against Insurance Fraud. “It's not enough to cherry pick bogus injury claims by employees. Premium fraud, abetted by the underground economy, also imposes intolerable costs on insurers, society and workers.”

States such as California, New York, Florida, Illinois, New Jersey and Texas have made workers comp premium fraud a specific felony.

County and regional task forces are springing up in California to investigate suspected schemes and develop broader clampdown strategies. San Diego County started the first task force in 1996, and others have sprung up more recently. Helicopters swoop down on worksites for site inspections in Riverside County, for instance, in a program called CON Air.

Premiums schemes fueled by illegal shell companies

A growing trend in workers comp premium-evasion schemes is to bury employees in shell firms set up solely for illegally laundering of hidden payroll into cash, usually to undocumented immigrant workers, says Geoffrey Branch, Florida state fraud investigator.

“A facilitator sets up a shell company, usually in a false name or name of someone who is or will be out of the country. The facilitator incorporates, obtains a general occupational license for the company, then obtains the smallest work comp policy they can,” he says.

The shell has a vanilla name such as “DM General Services.” The owner rents its name, occupational license and workers comp certificate to firms that want to hide payroll from comp insurers and tax agencies, Branch says.

When the building project is done, the general contractor cashes a check at a check-cashing store that's in cahoots with the con. The shell firm and store take their cut, and the rest goes to the firm and its workers.

At least three check outfits drove across Florida with vans, allegedly cashing checks for crooked builders, Branch says. Pronto Cash, La Bamba and Atlantic Check Cashing have been busted, Branch says.

California roofers also must carry comp coverage whether or not they have employees, according to a 2007 law. Insurers also must audit roofer clients' payrolls annually. There were 6,000 licensed roofers in California in 2006. That number had dropped by half in early 2007, according to news reports.

Unabated, illegal immigration could encourage the conditions that allow premium fraud to thrive.

A grand jury plus a task force of local, state and federal officials are focusing on premium schemes in Florida.

Frequent worksite sweeps catch wrongdoers. Florida issued more than 2,500 stop-work orders and imposed more than \$75 million in fines in fiscal year 2006-2007, says the state division of workers compensation.


A Florida law also makes it harder for firms to avoid comp premiums by lying that employees are sole proprietors or independent contractors. Crooked firms try

to exploit a rule exempting certain sole proprietors from comp premiums.

Premium schemes also will be influenced by how the next U.S. president deals with the flood of immigrants who fuel the underground economy, the coalition's Jay notes. Unabated, illegal immigration could encourage the conditions that allow premium fraud to thrive. So U.S. immigration policy thus must consider the impact on costly societal problems such as premium fraud.

That need grows even more urgent because fraud fighters often find it's nearly Mission Impossible to stay ahead of the large volume of dishonest builders plying America's underground economy.

As for having enough resources, “the short answer is no...” says Geoffrey Branch, Florida's fraud investigator. “A task force of local, state and federal law enforcement officers could work for years and not get to all the facilitators and construction companies involved.”

“Despite billions of dollars in workers compensation fraud in California, law enforcement is only provided \$49 million annually to investigate and prosecute these crimes,” adds Dugo. “To significantly reduce the level of workers compensation fraud in California, law enforcement needs additional resources.” 

In Brief

Arson Fed up with mold problems, Lorinda Sutton torched her home by stacking paper towels on a hot stove burner. The Hanover, Ohio woman received three years...**Insurer** An adjuster for Western Agricultural Farm inflated 120 injury crash claims to steal nearly \$587,000 from his employer. Joel John Jalovec intercepted checks at his office or had them sent to a mailbox. The Scottsdale, Ariz. man received six months...**Auto** Daniel Turocy claimed someone stole his 2005 Cadillac. But the Norwalk, Conn. man torched it for insurance money. How did police know? His crony left the gas can sitting on the ruined car's front seat...**Insider** Florida personal-injury lawyer Patrick Joseph Dooley allegedly stole \$254,166 in client insurance checks by forging their names to the checks and pocketing the money, or simply refusing to pay the clients...**Workers comp** Bryan Rose said he hurt his back working for UPS. But the Sacramento-area man was caught playing Wiffle ball, coaching football teams and lifting a heavy laundry basket. He must repay \$20,000...**Health** An Atlanta-area doc injected patients with commercial-grade weed killer then disguised the treatments to steal \$650,000 in insurance money. Totada Shanthaveerappa repaid the money...**Medicaid** Baltimore-area clinical social worker Tammy Smith billed Medicaid for patient therapy when she was hospitalized, for 42 hours of treatment on one day, and for nine months of treating someone she never saw.

CRIME NEWS
every business day at
www.InsuranceFraud.org



Suspected crash ring is family affair led by grand dad


A staged-accident ring's 20-year crime wave screeched to a halt when 40 people were rounded up around Los Angeles, police say. Three generations of one family allegedly were involved — including a grandfather, sons, daughters and grandchildren. The suspected gang raked in millions in bogus injury and collision-repair claims. It was one of California's largest and longest-running staged-accident operations, officials say. One claim alone fleeced State Farm for nearly \$137,000, officials say. Grandfather and suspected ringleader Curtis H. Connor picked up battered old cars at auctions, then bought coverage for each car from several insurers using aliases or stolen identities — including a homebound quadriplegic who couldn't even drive, prosecutors say. Connor family members and buddies posed as fake passengers who lied they were hurt in rear-end collisions that actually never happened, police say. Ring members gave insurers photos of cars that were damaged before Connor even had bought them. The "injured" victims went to his daughter — a chiro — for worthless treatment. Connor's lawyer cronies then allegedly submitted bogus medical claims. Inflated repair claims were funneled through his South Los Angeles body shop, police say.

Jobless agent allegedly steals identities to stay employed

Insurance agent Darrius Wright didn't know when — or how — to quit, Ohio prosecutors allege. The Cincinnati-area man sold too many policies that insurers refused to accept. Unable to repay his insurers their commissions, Wright's reputation soon fell into disrepair and he couldn't find agency work. So he simply stole another agent's identity and kept selling policies anyway, officials allege. The Ohio insurance department found out, and yanked Wright's license. Undeterred, he allegedly stole the identities of two other agents and landed work as a contractor with other unsuspecting agencies. Then to inflate his commissions, Wright then secretly bought more-expensive policies than he quoted to clients, prosecutors say. Insurers soon discovered the suspected scheme and asked the real agents to repay the extra commissions. What extra commissions, the surprised agents asked? Wright allegedly pocketed up to \$20,000 in commissions from 10 insurers. He faces up to 32 years in prison if convicted.



Huge comp scheme steals \$75 million, harms workers

Hundreds of thousands of employees had no workers comp protection when four men stole more than \$75 million in premiums by providing fake workers comp coverage to unsuspecting professional employer organizations (PEOs). The gang convinced PEOs to offer the coverage for small businesses that had hired the PEOs to provide workers comp coverage and other services. The gang used the names of purported insurers and offshore companies to create an air of legitimacy. They also hired insurance brokers to peddle the bogus coverage, further bolstering the scheme's seeming legitimacy. The human toll was severe: One uncovered worker lost both legs in a construction accident and couldn't even afford a second prosthetic leg so he could walk. Truck driver Mitchell Powell suffered brain damage from a work injury but received no salary or hospital benefits; he lost his home and wife. Another woman lost her home and lived in her car because of mounting medical bills. Five other families had no death benefits after fatal job accidents. Donald Touchet, Robert Jennings and Richard Standbridge face up to life in federal prison when sentenced in May, and could have to give up \$78 million in assets. They're also forfeiting luxury cars and at least one Picasso painting. Jerry Brewer, the suspected ringleader, is on the run. 



Budget crises may slow down fraud measures

More states than normal are facing potentially serious budget shortfalls, with no help from the shaky economy.

Many fraud bills thus may be delayed or totally shelved while harried legislators focus on balancing tight budgets this year. This is especially true of larger fraud bills that would take serious effort to pass. Many legislators won't have the time, attention span, patience or political will unless a fraud bill speaks to an urgent crime problem that can't wait.

The legislative year still is getting underway in most states, and it's too early to say if 2008 will be largely a wash. But so far, fewer major fraud bills are heading toward the pipeline than normal. Some states may pass only smaller procedural reforms if budget crises keep occupying so much time. Call it anti-fraud lite.

Some fraud bureaus also may take budget hits. **Arizona's** legislature, for instance, is considering reducing the fraud bureau's budget. The unit likely would lay off investigators if money is taken away, coalition sources say.

Protect crash victims

Here are the more-substantive reforms on tap, though the future of many is unclear.

Minnesota is considering protecting victims of vehicle accidents from predatory medical providers who solicit them for bogus treatment at insurer expense. A bill would prohibit chiro and other providers from contacting crash victims directly without the victim's permission.

Dishonest body shops may take a hit in **Rhode Island**, where lawmakers are considering a measure yanking the licenses of shops that pay customers illegal rebates or discounts to offset their auto-policy deductibles. But the body shop lobby is formidable, so the outcome is anything but certain.

Vermont is taking on substantive workers comp reforms. Lawmakers are debating opening up a workers comp fraud

bureau, and raising current penalties for comp-fraud convictions.

Kansas and **Mississippi** are tackling diversion of addictive prescription drugs such as the painkiller OxyContin. Both states are on the verge of creating prescription-monitoring programs. These central databases let pharmacies and others track people's prescription histories and spot patterns of drug fraud and abuse. Such programs have proven effective in other states against a drug trend that is heavily financed by insurance schemes.

Florida is debating imposing stiffer penalties against agents who bilk seniors by conning them into needlessly selling life policies that have built-up cash value.

Smaller reforms on tap

Many other fraud bills, however, are fairly low-impact procedural measures. But at least upgrading America's anti-fraud machinery can be helpful, even if meatier reforms are off the table for now.


Utah passed a bill making it easier for insurers to share case information without being sued. **Tennessee** and **New Jersey** are considering similar measures.

Iowa and **New Hampshire** are discussing expanding the suspected frauds that insurers must report to the insurance department.

Maryland appears on the verge of requiring insurers to print fraud warnings on claim checks, policies and other documents that that up in the hands of consumers.

Exhaustion will slow reforms in **Florida**, which needs more laws to clamp down on rampant staged-accident rings.

Florida went through a bruising battle to reinstate its lapsed no-fault auto insurance system last fall. So for now, few legislators have the stomach for more high-stakes insurance drama. Much-needed bills clamping down on rampant staged accident rings thus likely won't happen this year.

Illinois is debating setting strict licensing rules for public insurance adjusters, and allowing the insurance department to yank the licenses of adjusters who violate the license requirements or are convicted of a crime. 

In Brief

Louisiana is debating a bill making it a specific crime to forge insurance documents such as auto-insurance cards... **New Hampshire** is expected to increase the fine imposed on insurers that fail to report suspected frauds to the insurance department, as now required... "Why can private citizens simply walk into a police department and purchase information that describes an accident and may include personal private information of the victims?" the coalition's **Howard Goldblatt** asked in a recent *National Underwriter* story about swindlers buying accident reports to recruit patients for phony injury claims... **New Mexico's** legislative session already has shut down. A bill would've let courts impose stricter fraud penalties by lumping together several smaller bogus claims into one larger sum — a bigger theft would've meant a bigger sentence... **Hawaii** once again is considering expanding the fraud bureau's jurisdiction beyond its sole focus on auto fraud... **Kentucky** and **West Virginia's** legislatures closed for 2008 without passing bills limiting outsider access to the data in vehicle event data recorders (so-called black boxes)... **West Virginia** effectively banned controversial stranger-owned life settlements (called STOLIS), in which people invest in life policies of people they've never met... A nationally known fraud expert now heads up **Maine's** insurance department. Former assistant university professor Mila Kofman worked closely with the coalition to expose fake health plans several years ago... **The National Association of Insurance Commissioners** will hold its summer meeting May 31-June 3 in San Francisco. Visit www.naic.org... **The National Conference of Insurance Legislators** will hold its summer meeting July 10-13 in New York. Visit www.ncoil.org... **The National Insurance Crime Bureau** will host an Illinois fraud summit May 21. Visit www.nicb.org.



Insurers must show how costly schemes are

By DENNIS JAY

I've never subscribed to the simplistic idea that people commit insurance fraud just to "get back" at their insurer for charging high premiums, denying an earlier claim, or some other unpopular decision.

People make moral choices for many reasons. Peer pressure, economic downturns, ease of committing the scam, and low chances of getting caught are some of the many reasons people bilk insurers.

Often we make an unethical choice and then find an intellectual reason to justify it, psychologists say. Our inner voice might say, "Well, I'm a good person but I inflated that burglary claim because my premiums are too high." Or, "Everybody does it, so why not me?"

Whatever people's motives, their attitudes toward insurance fraud and insurers are growing worse. Each problem feeds the other, so both must be addressed forcefully. Left to fester, they could snowball and seriously cost insurers and society.

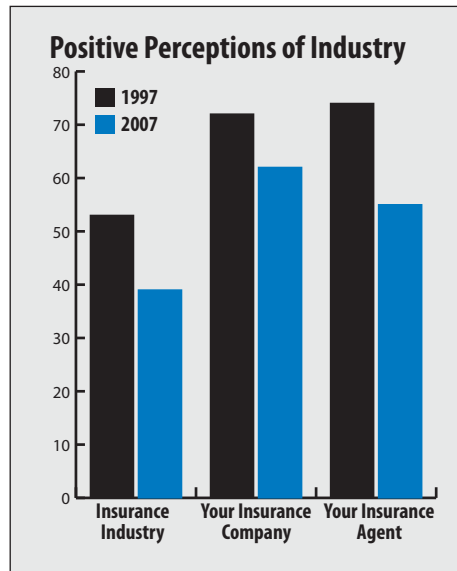
More people tolerate insurance fraud today than 10 years ago, reveals the coalition's recent national study of consumer attitudes.

Insurance fraud also can be acceptable if the dollar amount isn't too high, nobody

is hurt or the scheme is widespread, the study also shows.

And fewer than one of four adults think highly of insurers. Positive attitudes toward the insurance industry overall have dropped from 53 percent a decade ago to 37 percent today.

Toyota's ill-advised TV commercials during the last holiday season reflected — and reinforced — those backsliding public attitudes. The widely viewed spots showed



average Americans wrecking their cars so they could illegally collect insurance

money to buy new Toyotas. The ads treated fraud as a parlor game that's fun for the whole family.

With fraud being normalized in America's popular culture, small wonder people can so easily dredge up rationales for bilking insurers.

Further fueling America's edgy moral climate, insurers are targets of public ire simply because they wield so much power over people's lives. The Toyota ads were popular, in part, because insurance is a business Americans love to trash.

Deservedly or not, insurer credibility also took a hit over controversies about the handling of Katrina claims. And withdrawals from territories, unreasonably high premiums, unfair claim denials and other actions have inflamed consumers for years. The bid-rigging scandals may have tarnished all insurers as well, even though only a few were involved.

Larger moral fissures also continue opening in society at large. Enron-style scandals, for example, may have eroded people's trust in all corporations.

Insurers thus have little margin of error in this incendiary environment. But who says life is fair? The question is, what are insurers doing about it? Not nearly enough.

At one time, property-casualty insurers worked harder to teach Americans about the value insurance brings to society. Insurers showed consumers how the industry made America safer by creating Underwriters Laboratories, promoting airbags and seatbelts, and funding training for firefighters.

Insurers of all lines have a credible story to tell. Life in America would be harder for nearly everyone without insurance protection.

Why aren't insurers more aggressively telling this story? Why aren't insurers trying harder to convince Americans that fraud is a costly and corrosive crime?

Taking action will be expensive. But the cost of inaction is unthinkable.

Dennis Jay is executive director of the Coalition Against Insurance Fraud.



**Coalition Against
Insurance Fraud**

1012 14th Street, NW • Suite 200
Washington, DC 20005

Please fax label
corrections to
202-318-9189

FIRST CLASS
U.S. POSTAGE
PAID
PERMIT NO. 5659
ALEXANDRIA, VA