

Fraud Focus



Coalition Against
Insurance Fraud

WINTER 2008

FRAUD EASIER TO STOMACH, COALITION STUDY REVEALS

More people tolerate fraud and are softer about punishment

The needle on America's moral compass is wobbling. As a nation, we're backsliding toward higher tolerance of insurance fraud, reveals a national consumer-attitude study by the Coalition Against Insurance Fraud.

Four Faces of Insurance Fraud is the newest national study of consumer attitudes about this persistent crime. Conducted last fall, *Four Faces* provides a 10-year update of a landmark study the coalition first conducted in 1997.

The slippage in consumer attitudes raises questions about whether fraud fighters are succeeding in influencing public opinion against the \$80-billion annual crime. The coalition has repeatedly warned that fraud fighters must plough more resources into public-outreach efforts that today are fragmented, ill-researched and under-funded.

"We need the active support of American consumers if we expect to turn the corner on combating fraud," warns Dennis Jay, the coalition's Executive Director. "This study is a wake-up call for the entire fraud-fighting community."

Maybe the best news is that more than four of five adult Americans think a variety of insurance crimes are unethical. That's a potentially large anti-crime army, if fraud fighters can mobilize them into action.

But the flip side is that about one of five adults—about 45 million people—might well bilk insurance companies under the right conditions, or at least have few qualms when others do it.

Equally important is that more Americans tolerate a variety of specific insurance schemes than 10 years ago. Note the declines in people who think it's unethical to:

- Misrepresent facts on an insurance application to lower their premiums (82 percent today, down from 91 percent in 1997);
- File a claim for damage that occurred before the damage was covered (85 percent, down from 91 percent);
- Inflate a claim to cover the deductible (84 percent, down from 91 percent); and
- Misrepresent an incident in order to be paid for an uncovered loss (84 percent, down from 92 percent).

Similarly, more Americans tolerate insurance fraud in general. People generally hold one of four broad attitudes toward insurance schemes (hence the title, *Four Faces*). The group of adults who tolerate insurance fraud the most—the so-called "Critics"—grew significantly in the last 10 years. More than one of four people are Critics, up from one of five people a decade ago.

continued on next page



Can reducing premiums help discourage fraud?

Consumers want insurance companies to combat fraud, and a tasty slice of self-interest factors into their call to arms, the coalition's attitude study shows.

More than nine of 10 adults think lowering premiums for consumers with few or no claims will help discourage fraud. About the same number felt this way in the 1997 study.

Fewer people want insurers to investigate claims more rigorously. Slightly more than seven of 10 feel that way, down from nearly nine of 10 a decade ago.

Fewer consumers also want insurers to prosecute cases. A bit more than seven of 10 favor insurer-driven prosecutions, compared to nearly nine of 10 in 1997.

More than four of five consumers want insurers to teach the public how fraud increases everyone's premiums. Still, that's down from more than nine of 10 a decade ago.

INSIDE

3 Fraud News

Extreme schemers dishonored

4 Profile

Consumers more tolerant of fraud

6 Crime Watch

Arson gang torches homes

7 Legislative Monitor

Pace to pick up in 2008

8 Perspective

Drug diversion fleeces insurers

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Tolerant Attitudes

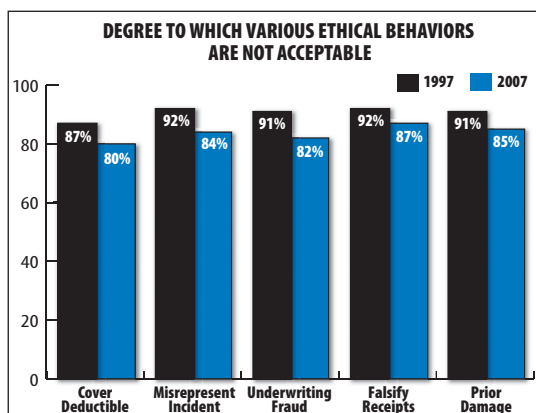
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The only group that shrunk? People who tolerate insurance fraud the least. The “Moralists” plummeted from nearly a third of adults 10 years ago to a quarter today.

Several forces may help explain America’s ethical uncertainty.

For one, more people have negative attitudes toward insurance providers. Fraud-prone attitudes may reflect a backlash.

- Some 72 percent of people had a positive attitude toward insurance companies a decade ago, a figure that has dropped to 62 percent today.
- Slightly more than half of adults felt positively about the insurance industry as a whole back then, but fewer than two of five are in a good mood today. That’s 90 million adults with a negative attitude—a



potentially combustible mixture.

By the same token, wrong simply isn’t wrong anymore. We may be living in an age of moral relativism where many unethical behaviors that once were seen as black and white now have several shades of grey. The warning signs are everywhere.

More Americans tolerate tax fraud and credit card fraud than a decade ago, the coalition’s study shows. This raises the question of whether too many Americans have become moral couch potatoes who increasingly tolerate any kind of fraud, including insurance schemes.

People also increasingly see insurance fraud as a swirling moral gray area. More Americans today think it’s all right to consider the surrounding circumstances when deciding if a given insurance scheme is unethical, the coalition’s study says. Many people ask themselves: Did the scheme damage anyone? How much money was stolen? Is the scheme commonly done by others?

Most Americans also believe insurance fraud is prevalent in America. The implications are potentially important. Wild bears grow bolder and more brazen if they become too-used to humans. By the same token, people may become bolder about fleecing insurers if they believe insurance fraud is a normal part of American life. Everyone does it, so what’s the problem? Why not me?

In fact, four of five adults say inflating claims to cover deductibles is prevalent. Nearly four of five think lying both to be paid for an uncovered claim and to lower their premium are commonplace. Seven of 10 think both falsifying receipts or estimates and submitting a claim for damage that happened before buying coverage are prevalent.

But more than four of five consumers do agree insurers should educate the public about how fraud raises premiums (*see sidebar, page 1*). Americans may not be as keen as they once were on jail cells or criminal raps for combating insurance fraud, but most seem to think the power of persuasion can go a long way toward regaining control of the streets.

Download a study summary at www.insurancefraud.org/downloads/FourFaces07.htm



Extreme schemers dishonored by Shame vote

The plot sickens: A larcenous gypsy shakes down insurers by chomping on broken glass. A meth addict kills his children while torching his home for insurance money. A teacher fakes terminal cancer to steal disability money. They're among the extreme schemers demoted into the coalition's annual Insurance Fraud Hall of Shame. The coalition dishonors the most brazen convicted swindlers of the year—the fraud world's rank and vile. Like the gay man who burned down his trailer and made the fire look like a horrific hate crime. Or the nursing-home operator whose residents lived in filth while he soaked Medicare for services the suffering seniors were denied. Visit the No-Class of 2007 at the coalition's online cellblock (www.InsuranceFraud.org). The Hall of Shame pulls back the curtain on a crime that many people think is merely a victimless prank. People suffer and sometimes die. Lives are wrecked, and honest Americans pay higher premiums. So break out the deodorant and learn about con artists who became convicted cons.


Toyota ads teach owners how to bilk auto insurers

Toyota has launched an ill-advised TV ad campaign that encourages insurance fraud, and the coalition has rallied the fraud-fighting community and the nation. Pressure from fraud fighters has grown rapidly since Toyota began airing amusing national ads that encourage vehicle owners to destroy their cars so bogus insurance claims can finance the purchase of a new Toyota. In one scene, a family pushes a boulder off a cliff onto their vehicle. A man shoves his car off a parking deck in another. At least five different ads aired in December and early January in high-profile timeslots such as NFL games. "...these commercials add to a negative environment" that encourages insurance fraud, the coalition's Dennis Jay says in Insurance FraudBlog, which was published in the *Boston Globe*. "Every scene that's described in the ads is a crime," adds Dan Johnston, head of the Massachusetts fraud bureau, in the *Globe* article. The coalition and several member organizations have complained to Toyota. Same with Johnston, several other fraud-bureau chiefs and the Insurance Information Institute. One consumer wrote the coalition: "We consider any company that promotes criminal behavior to be amoral. Now, we'll never again consider buying a Toyota." The carmaker's reply reads, in part: "...we didn't intend to create an upsetting experience." The ad campaign ended in early January.



Wildfire insurance scams on slow burn—for now



Aggressive action by fraud fighters may have deterred homeowners and businesses trying to exploit October's wildfires with bogus claims. Officials expect at least \$1 billion in claims. But there have been only a handful of arrests for insurance fraud and those occurred at least a week before the last fire was contained in early November. The apparent low level of scams may be due to a task force assembled by the insurance department, and to the presence of fraud investigators at assistance centers, the insurance department tells the coalition. Fraud cases also take time to develop, so more arrests may happen in late winter or spring, the insurance department says. Up to a quarter of the burned homes are under-insured, insurance commissioner Steve Poizner says. Some homeowners thus may try to make up for lack of coverage by making padded claims, the coalition's Executive Director Dennis Jay warns. Investigators also are posing as homeowners to catch crooked claims adjusters and contractors. 

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

The coalition has finalized its 2008 officers: Co-chairs are **Dennis Schulkins** of State Farm and consumer advocate Dr. Jim Brown of the University of Wisconsin-Milwaukee. **Doug Ashbridge** of Farmers Insurance is treasurer and **Steve Perry**, representing the National Association of Insurance Commissioners is secretary. The board also appointed **Lt. Allen Carpenter** of the Louisiana State Police to the organization's executive committee... **State Farm is suing** suspected PIP schemers throughout Florida, alleging they're inflating or inventing claims for so-called crash injuries. The insurer is going after 37 doctors, chiro, clinics and hospitals... **Allstate is innocent** of charges that it stonewalled a Kentucky woman's pain-and-suffering claim in a vehicle accident, a jury found... **Coalition Executive Director Dennis Jay** was named one of the 100 most influential people in North America's insurance industry. The coalition is the only anti-fraud group named by InsuranceBroadcasting.com and the Insurance Media Association... New Jersey's **fraud fighters awarded a woman \$3,750** for a hotline tip that helped convict a crooked dentist. Some patients didn't even have dental coverage on the dates Dr. Gary Reba said he treated them. The award was part of Insurance Fraud Awareness Month by the state AG's office... **One of seven U.S. adults** has been scammed, says a study by the Federal Trade Commission. That means 30.2 million fraud victims.

More Fraud News
at news@InsuranceFraud.org

Fraud units have force of convictions

State agencies succeeding despite tight budgets, but can they continue hot pace?

BY DENNIS JAY

Collectively, insurance fraud bureaus across the nation logged a double-digit spike in convictions in 2006 despite generally stagnant budgets and staff sizes, says the coalition's latest study of 45 state fraud bureaus.

For now, these anti-fraud agencies are more than holding their own despite entering the same "do-more-with-less" environment in which insurer fraud fighters have operated for much of the new millennium.

But it's premature to pop the champagne corks, nor are panicky insurance schemers racing for cover in mountain caves. Hidden behind the encouraging gains are grinch-like warnings that today's successes might be short-lived. It's unclear if fraud bureaus can maintain their brisk conviction pace.

Convictions rising

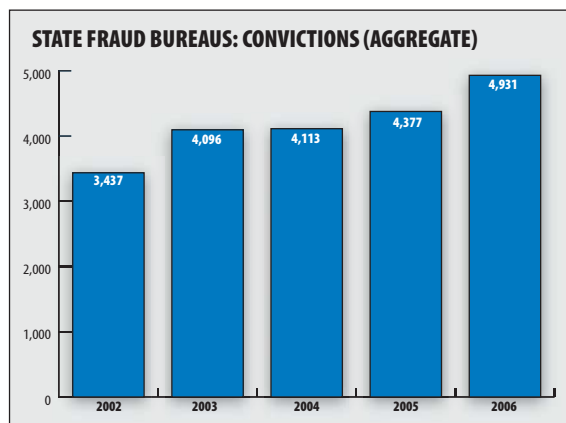
First the well-deserved good news: Fraud bureaus stuck insurance crooks with a record 4,931 criminal convictions in 2006—nearly a 13-percent boost over the previous year.

Fraud bureaus thus created enough convicts to fill Sing Sing prison nearly three times over, if they all went to jail. If fraud convicts were pro football players, they could suit up nearly 100 new NFL teams. California easily led the pack with 1,700 convictions—a 10-percent increase over 2005, and a record for any fraud bureau. Much of the Golden State's conviction spike comes from healthy resources channeled from a state fund created to pay for fraud prosecutions.

Several other states also swatted down crooks with force. Ohio more than

doubled its convictions from 31 to 68. Other solid gainers include Virginia, Pennsylvania, Maryland, Texas, Florida and Nevada's workers comp unit.

Even so, warning signals are pinging like a nuclear sub's radar. The conviction



pipeline shows signs of tapping out, and future years may be less rosy if current trends continue.

The first warning ping: Convictions declined or were stagnant for nearly half of the fraud bureaus in 2006. Arizona and North Carolina saw convictions plummet 70 percent and 51 percent respectively. California also totaled more than a third of America's fraud-bureau convictions that year. Strip out those criminal raps and the picture looks a bit cloudier.

The next warning

Many budgets have hit a wall for now. This could make it harder for fraud bureaus to investigate cases in future years.

The 2006 conviction spike likely was driven in part by steady growth in budgets and staff during the five or so previous years. Fraud bureau investigations prospered with more resources to throw into

cases. But with the money spigot tapering, many investigations could suffer in the next few years.

Fraud-bureau budgets barely kept pace with inflation in 2006. They grew just three percent overall, from \$134 million to \$138 million. California accounted for fully \$1 million of the overall \$4-million budget increase, and Ohio's 68-percent hike added \$810,000. Erase those two outsized budget increases and fraud bureaus actually lost ground to inflation in 2006.

Budgets shrinking

In fact, eight fraud bureaus saw budget declines, and 11 other units stayed unchanged. South Carolina, Nevada and Maryland plus Connecticut's workers comp unit lost the most budget funding.

"Our biggest challenge continues to be the investigation workload with current staffing," one fraud-bureau chief says in the coalition's study.

"Lack of funding. State budget shortfalls. Frozen positions. Judicial apathy toward white-collar crime," says another chief.

Next warning ping: Case leads dropped sharply in 2006. These so-called referrals fell 10 percent overall—from 126,000 to 113,000—after five years of steady gains nationally.

The total included significant declines by five states. California's referrals plunked by more than 4,000 after rising for four years. New York and Louisiana logged 3,000 fewer referrals each. Only Florida reported a major increase (22 percent) of 2,400 more referrals in 2006.

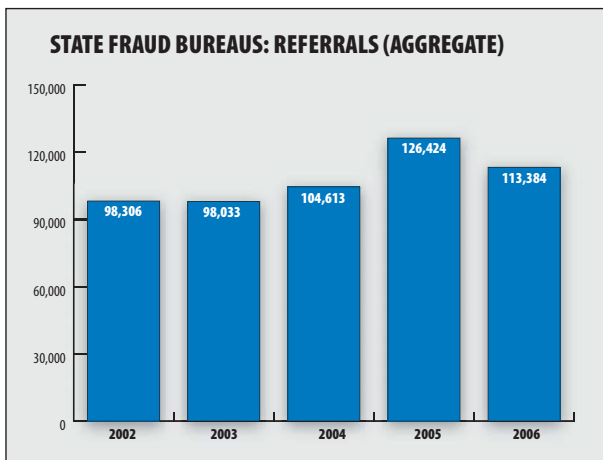
One fraud-bureau chief listed as a key challenge: “Improving the quality of referrals. We are seeing an alarming trend in the quality of referrals from (insurers).”

Similarly, arrests flattened overall in 2006. Virginia declined 35 percent and New York fell nearly 20 percent—604 in 2006, down nearly 149 from the previous year. California’s arrest count, however, rose 19 percent.

Among the implications: Case referrals and busts are the canaries in the anti-fraud coal mine. They tell much about what’s coming. Quality cases pouring in today could mean more convictions tomorrow. Shriveling referrals today could mean fewer investigations and convictions over the next few years—leaving more schemers free to plunder.

Precise origins of declining 2006 referrals are hard to nail down, but several internecine issues may come into play.

Traditional tensions between fraud



bureaus and insurers may tell part of the story. Fraud bureaus investigate too few of the case leads insurers send them, insurers often complain. But some fraud bureaus simply may not have the staff or expertise to take on all leads.

Insurers are sending fewer and weaker referrals, many fraud-bureau chiefs counter. But frustrated at perceived fraud-bureau inaction, some insurers may not be sending fraud bureaus as many well-packaged or actionable cases even though nearly four of every five states require insurers to report suspected schemes. Several major insurers also have

Fla. and Calif. laws provide much-needed funding

Fraud bureaus in two states will receive funding boosts thanks to legislation that passed in 2007.

California has nearly quadrupled the annual fee that insurers pay to fund the state’s fraud unit. This is the first increase in 34 years. The infusion will help the insurance department staff up to its full complement of 325 fraud investigators. The fee will rise from \$1,300 to \$5,000.

And Florida lawmakers expanded the state’s overall budget at the 11th hour to fund 16 new fraud investigators. The measure was part of a bill extending the state’s no-fault auto insurance system, which expired and was re-authorized beginning January 1.

The new law also will expand the number of dedicated fraud prosecutors for the Miami-Dade, Orlando and Tampa areas. They’ll focus mainly on taking down staged-accident rings. Right now there are only two prosecutors, and they work south Florida.

Despite energetic anti-fraud efforts, the state has been ill-equipped to fully prosecute the large volume of PIP fraud cases that are spreading from Miami-Dade to other areas of the state.

pared down their investigative staffs, thus reducing the case leads they can generate.

The changing nature of insurance fraud also may be at work. Many schemes have grown larger and more complex in recent years. Staged-accident gangs, health-fraud rings and workers comp premium scams often are large, corporate-style enterprises. More fraud bureaus thus might be tackling fewer but tougher and larger cases. This actually could be an investigative plus.

Whatever the truth, the challenges for fraud bureaus go well beyond reversing the case-referral deficit.

Finding and keeping talented investigators were among the concerns that fraud-bureau directors cited prominently in the coalition’s study.

Several states face shortages of investigators in part because better-paying security and law-enforcement jobs have surfaced since 9/11. Some fraud-bureau staff also are deployed overseas in the National Guard in Iraq, Afghanistan and elsewhere. And as always, most fraud bureaus can’t compete with the higher

salaries offered by private insurers and others.

Spanish speakers needed

Hiring more Spanish-speaking investigators in response to the swelling local population of Hispanic immigrants was a telling concern another fraud bureau director expressed, and which is relevant to several states.

The subprime mortgage crisis also will divert attention from many traditional insurance schemes as fraud bureaus begin digging into rapidly spreading mortgage- and title-insurance scams.

As these issues play out, three Americas continue to exist in the world of fraud bureaus, the coalition’s study shows:

- A handful of fraud bureaus at the top are expanding and producing solid results year after year;
- Their poor cousins at the bottom are struggling for relevance; and
- The rest are doing OK, but not great.

One fraud-bureau chief listed a looming challenge that, in a more perfect world, every bureau should wish for: “To continue the progress we make after expanding our department.”

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

In Brief

Auto MapQuest directions led police to a Rochester, N.Y. man who received \$10,812 from his insurer after filing a false theft report on his 2002 Mercury Mountaineer. Police recovered Craig Wilson's SUV at a Jacksonville, Fla. apartment complex two months after he reported it stolen. Inside the vehicle were MapQuest directions from Wilson's home to the apartment complex...

Insurer The owners of Top Flight Insurance inflated their company's assets to keep it afloat, Oklahoma prosecutors charge. Jimmy Warren Wolff and Rodney Alfred Williams routinely transferred money from another insurer they owned called TriUnion, prosecutors say. Twice they transferred the funds the day before they filed financial reports required by the insurance department...

Property Former police captain Jim Wooten threw away a 24-year career by lying that someone stole a golf bag and pistol from his Muscogee, Okla. home. He received one year, suspended... **Liability** More than 4,500 real estate agents and appraisers paid \$7 million for fake malpractice policies sold by a Toledo, Ohio man. Mark Haukedahl sold policies through fake real-estate trade associations, even using his teenaged son as the operation's straw owner... **Health** Brooklyn dentist Barry Cohan allegedly shined up the teeth of more than 40 New York Port Authority cops so he could use their names to make bogus claims. Cohan then billed MetLife for fake work such as expensive orthodontic braces, prosecutors charge.

CRIME NEWS
every business day at
www.InsuranceFraud.org


**Suspected arson gang torches dozens of homes**

An insurance adjuster, a city employee, and three convicted drug dealers led a gang that torched more than 50 Muncie-area houses to make millions in inflated insurance claims, Indiana prosecutors charge. Kenneth L. Allen and his cronies allegedly bought low-cost homes, loaded them with old furniture to inflate the claims, then set the buildings on fire. They allegedly collected up to \$160,000 on each home they'd bought for \$90,000 or less. Ohio adjuster Douglas Haynes helped Allen and as many as 20 other arsonists make inflated claims, officials allege. Muncie police kept responding to the blazes but thought they were accidents. The suspected schemers hid the arsons with ruses such as putting blankets on space heaters, using candles or overloading electrical circuits, prosecutors allege. Stanley Benford reportedly paid \$5,000 each to two fire-setters to burn his house. He received more than \$100,000 in insurance money, even though the house and land were valued at only \$32,500, prosecutors allege. Nationwide Insurance was instrumental in building the case. The insurer identified 26 fire claims against multiple insurance carriers, all tied to the same people. Nationwide also supplied informants to law enforcement. The insurer received seven claims ranging from \$15,000 to \$210,000, with a total exposure of \$600,000.

Escort owner escorted to prison for staging crashes

The owner of a Rochester, N.Y. escort service used his female employees to help stage 13 vehicle crashes. Thomas W. Boyde IV collected more than \$50,000 in insurance money by having his escorts crash U-Haul or Budget rental trucks into his vehicles. In other setup crashes, Boyde slammed on his brakes, causing innocent drivers to rear-end him. Boyde's downfall began when Western Insurance fielded a claim from Boyde, who said a U-Haul truck driven by Alexandra Rassis had rear-ended him. The pair told police they didn't know each other, but Western dug deeper and discovered that Rassis was his girlfriend. In another setup crash, Boyde said he was driving his 1985 Cadillac when a vehicle driven by one of his escorts hit it, just as he had instructed her. "She rear-ended me and drove me into a tree," he said. Boyde also recovered a \$5,300 settlement for another crash that damaged a car and a pickup truck, and \$7,000 for a crash that damaged a car. Boyde pled guilty in late October. Rental trucks sometimes are used in staged crashes because they tend to be well-insured, thus increasing the potential payouts. Boyde faces up to 10 years in prison when sentenced. No word on the fate of his cronies.

Body shops allegedly make bogus repair claims

Houston police busted a ring of four body shops that grossly inflated repair costs or charged for repairs they never made, prosecutors say. Owners Ibrahim Eter, Salah El-Eter, Sam Said, Ricardo Gonzalez and Gus Said were arrested. They were in cahoots, detectives say. In a sting that led to the raid, several insurers donated nearly 50 bait cars to catch the body shops in the act. John Fowler, head of American Insurance Services, banged up vehicles with dumbbells and cattle guards as part of the sting. He then documented the damage and estimated what it should cost to repair it—usually between \$1,000 and \$1,500, prosecutors say. The shops allegedly charged insurers \$150,000-\$200,000 in total inflated costs. One billed for eight hours of work on an SUV that wasn't even damaged, officials say. Sometimes the shops never even bothered to paint undamaged parts they said were fixed; they simply charged insurers without covering their tracks, officials allege. Police confiscated a Bentley, Lamborghini and Ferrari. A two-year investigation culminated in simultaneous raids on the four shops in October, when box after box of financial records and computer hard drives were hauled away. More busts are expected once officials sift through the voluminous evidence they've compiled, prosecutors say. 



State monitoring can help combat drug diversion

States need more monitoring programs to root out addicts, crooked doctors and other schemers who bilk health insurers to pay for narcotic prescription drugs such as the painkiller OxyContin, says *Prescription for Peril*, a landmark report released by the coalition.

Insurance fraud is a major financier of a multi-billion-dollar national crime wave aimed at obtaining and distributing prescription narcotics. But only about half of states have prescription monitoring programs (PMPs). These are databases of prescriptions purchased in a given state and are major tools that help pharmacists, law enforcement and others spot drug-diversion schemes.

Insurers and others should urge adoption of PMPs in more states, and push to beef up PMPs that are underfunded or weak, the coalition's paper says (see *Perspective*, pg. 8). Download the full report at www.InsuranceFraud.org/downloads/drugDiversion.pdf.

New fraud bills loom

After a relatively uneventful 2007, several state legislatures may pick up the pace this year. Anti-fraud bills already are lining up, even though most legislatures have yet to open for the year.

In **California**, a state task force appointed by the insurance commissioner is expected to push several anti-fraud proposals. The coalition served on the task force. Expanding insurer immunity from lawsuits for sharing information about fraud cases is one proposal the task force likely will push.

Effective January 1, the annual assessment insurers pay to fund California's fraud bureau nearly quadrupled, allowing the bureau to beef up staff, including adding fraud prosecutors.

The controversial no-fault auto insurance law in **Florida** expired last October 1 but was revived as of January 1. The law tries to reduce PIP fraud by limiting fees for many medical procedures. But more-direct assaults on fraud are needed, and

are expected to be pursued during the 2008 legislative session.

Imposing mandatory minimum prison time for PIP fraud convictions is one option the legislature may consider.

Auto schemes of many stripes are widespread in **Michigan**. Creating an automobile fraud prevention authority is one idea that's gaining traction. The agency would help fund investigate and prosecution of auto schemes, and possibly launch statewide public-outreach campaigns. A bill making it a crime to recruit for staged-accident rings, and to hire recruiters, also could pick up speed this year.


NJ tackling auto schemes

Staged-accident rings are coming into the **New Jersey** legislature's crosshairs this year. A bill making it a crime to recruit for rings, and hire recruiters, likely will be introduced this year. Expanding a law granting insurers immunity from lawsuits for sharing case information is another, more-general anti-fraud measure on tap.

The **Oklahoma** insurance department wants to pass a state version of the federal "1033" law that makes it a crime to loot an insurance company from the inside. Anyone convicted of a serious crime also couldn't work in insurance, including being hired by an insurer.

The feds have proven reluctant to prosecute insider cases in Oklahoma. A state 1033 law will give the insurance department more elbow room to pursue insider schemes on its own terms.

Utah's fraud bureau became a permanent fixture after being scheduled to sunset late last year. Now the unit has set its sights on passing a bill requiring insurers to report suspected frauds to the department. That measure failed last year, but a renewed push is expected in 2008.

A **Wyoming** legislator plans to introduce a bill to strengthen the state's prescription monitoring program, which relies on a database that tracks prescriptions filled in pharmacies around the state. Such state programs are valuable in helping uncover suspicious prescription patterns that could involve illegal diversion of addictive narcotics. 

In Brief

The **coalition's board** includes the elected presidents of national associations of insurance regulators and legislators. That's a first. Rhode Island state Rep. **Brian Kennedy** heads up the National Conference of Insurance Legislators (NCOIL) for 2008. Kansas insurance commissioner **Sandy Praeger** is 2008 president of the National Association of Insurance Commissioners (NAIC)... The coalition is a member of the **Connecticut** insurance department's consumer advisory board, which counsels the department on fraud issues... **New Hampshire** will debate a bill setting stiff penalties for insurers that fail to report suspected frauds to the insurance department... **Hawaii** legislators are expected to look at expanding the jurisdiction of the state's insurance fraud unit again. Previous attempts failed over whether workers comp fraud should be included... A bill allowing investigators access to digital driver licenses in **Massachusetts** has died due to lack of a funding source... Access to the info in a vehicle's event data recorder would be limited under a **Kentucky** bill. Fraud fighters would need a court order, and insurers couldn't require access as part of a claim settlement... The **Texas** Committee on Insurance Fraud plans to firm up fraud bills in 2008 to introduce in 2009. The legislature doesn't meet this year... The **NAIC's** anti-fraud task force is updating its manual on unauthorized entities such as bogus insurers to keep up with evolving swindles. The manual was written back in the 1990s... The **NAIC** will hold its spring meeting March 28-April 1 in Orlando. The NAIC's annual fraud training seminar will be held April 1-2, also in Washington. Visit www.naic.org... **NCOIL** will hold its spring meeting February 28-March 2 in Washington, D.C. Visit www.ncoil.org.



Diverting diversion: Insurers must strike back

By JAMES QUIGGLE

Jack Lancaster was just another profit center for Dr. Jorge Martinez. A drug addict, Lancaster died in a hospital after overdosing on narcotic painkillers Martinez liberally spooned out. The Ohio physician fraudulently billed health insurers more than \$60 million, in part by prescribing painkillers to desperate addicts like Lancaster.

Martinez received life in prison, but he's just one player in an expensive national drug problem that costs insurers up to nearly \$30 billion dollars a year in bogus prescription claims and add-on costs of treating addicts.

And insurance fraud is the financing mechanism for much of this crime wave called drug diversion, warns the coalition's new report *Prescription for Peril* (download at www.InsuranceFraud.org/downloads/drugdiversion.pdf).

Drug diversion is a well-chronicled crime. But few people understand how much insurance fraud fuels diversion by making prescription narcotics such as OxyContin so easily available, the coalition's report says.

Sleazy doctors bill insurers for bogus prescriptions, often charging the insurance

policies of unknowing patients. Addicts pile up pills by doctor shopping, sometimes using multiple IDs or slipping claims in their own names through unsuspecting insurers. Larcenous pharmacists use patient IDs to buy and then sell large volumes of prescription narcotics on the black market.

The problem is acute for health insurers. But workers compensation insurers also face extensive diversion losses, thus magnifying that coverage line's already serious cost-containment problems.

Drug diversion strikes Americans of all incomes, education levels and walks of life.

Some health insurers aggressively fight diversion schemes. But far too many insurers take a relatively hands-off approach. Thus they have little idea how much money they could be losing, perhaps upwards of hundreds of million a year. This is a serious drain at a time when health

plans are urgently trying to squeeze excess costs from America's struggling healthcare system.

Diversion-related deaths and injuries also could expose insurers to liability claims by people hurt by drug diversion. A fantasy scenario? Several pharmacies already are being sued.


But drug diversion is more than a financial millstone for insurers. Victims struggle with addiction and despair. Some die painful deaths from overdoses. Drug diversion strikes Americans of all incomes, education levels and walks of life.

But insurers can strike back. This can involve basics, such as better grasping their losses, and deeper datamining to uncover doctor shoppers. Insurers also can restrict the pharmacies that patients who use certain narcotics can deal with. Tighter reimbursement for certain drugs also can help stem trafficking.

More monitoring needed

Nor is drug diversion solely an insurer problem. Insurers, drug firms, pharmacists and others should unite to push for wider adoption of state prescription monitoring programs (PMPs) wherever needed. These databases of prescription-drug activity can be valuable in helping identify diversion schemes. But only about half of states have PMPs, and PMPs also vary widely in effectiveness.

Combating fraud-fueled drug diversion is a sound business decision for insurers. But it's also a corporate responsibility to the public. Insurers hold an extraordinary position of influence in America. Their actions—and inactions—ripple relentlessly through the lives of millions of people.

With insurance fraud the gateway for much of drug diversion, insurers must ask themselves a pointed question: Will they leave the gate open, or help slam it shut? 



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