

COVID-19 Insurance Fraud Impact Study:

Evolving Perspectives

2020-2021

**State Insurance Fraud &
Fire Reporting Trend Study**

www.insurancefraud.org



**Coalition Against
Insurance Fraud**

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About this report

The onset of the COVID-19 pandemic changed the world in new and unexpected ways. Humanity was forced to instantly pivot to remote work, social distancing and heightened health and safety protocols to avoid further spread of the coronavirus. Inevitably, the disease forced international lockdowns, shuttered economies and sent businesses and consumers into a tailspin.

The Coalition Against Insurance Fraud was curious to know how these sudden new economic, health, and business challenges could potentially impact the prevalence of insurance fraud. Thus we reached out to our partners at state departments of insurance; law enforcement agencies; and state fire marshal offices in an attempt to capture real-time observations of insurance fraud across America. This report summarizes our insights and analysis of what government fraud fighters experienced during the height of the 2020 pandemic and a first attempt at analyzing COVID-19's impact on insurance fraud.

We hope you will be able to use these findings to identify emerging trends in insurance and the changing ways fraud must be investigated. The pandemic leaves behind some probable permanent change. These include a much quicker adaptation to the utilization of telehealth; more expansive use of video platforms for taking both statements and Examinations Under Oath; adapting to doing more investigations remotely; and redefining what is considered a "workplace" -- and what is now considered a "workplace injury." All of this comes as state regulators were already identifying concerns about both the quality and quantity of referrals being made to state fraud bureaus. The pandemic is hopefully drawing to an end, but these issues and challenges will remain for the foreseeable years to come.

We also wanted to assess where to expect an increase in fraudulent claims in the coming months as previously hampered business operations and courts gradually return to a "new normal"? Did the decrease in economic activity, fewer cars on roadways and restricted societal movement lead to a corresponding decrease in claims? Has increased economic stress led to a correlated increase in arsons, auto-give ups, inflated claims or similar property-casualty insurance abuses? While we may not be able to identify for certain what is driving the current state of insurance fraud in America, we undertook this study to gain a greater understanding of the insurance fraud landscape during a once-in-a-generation pandemic. We wish to thank those who contributed by responding to this survey, and offer this analysis to assist them and the many others who work to protect American consumers and insurers from the cost and damage insurance fraud inflicts.

Methodology & Key Findings

Methodology

This report is based on a two-part survey titled *The Impact of COVID-19: State Insurance Fraud Bureau Survey*, which was designed and administered by the Coalition Against Insurance Fraud. Part one of the survey was conducted between October 1- 29, 2020, approximately six months after local, state, and federal governments began imposing lockdowns due to COVID-19. The purpose of the first survey was to set a baseline to be later compared against the follow-up survey. Part two of the survey was conducted between March 15 -April 12, 2021. Following reports of increased arson fires during the pandemic time period,¹ State Fire Marshals were also queried separately for their input on the frequency of arson fires that occurred in 2020 and 2021.

Questionnaires were distributed via email to 68 state fraud department directors or state anti-fraud representatives across the U.S. It is important to note not all states have a state fraud bureau, and different agencies within each state are designated

or empowered to fight the various types of insurance fraud. There were 37 completed surveys in the baseline survey in 2020 and 37 respondents in the follow up survey in 2021. With help from the National Association of State Fire Marshals, we had 17 State Fire Marshals complete the survey. Responses equate to approximately 74% of the states and an equal, if not slightly higher, percentage of the U.S. population based on the state responses and corresponding percentage of the national population residing in responding states.

The data provided is anonymous. It was compiled and is reported in the combined aggregate. The purpose of this study was not to assess the COVID-19 on insurance fraud in any given state nor even regionally. The goal remains to provide an initial “snapshot” of the pandemic impact on insurance fraud referrals overall and to identify any emerging trends in the type or quantity of referrals made during this unprecedented historical period.

Key Findings

Drivers stopped driving but claims kept coming. Americans' love of their cars hit the brakes beginning in March of 2020 as the pandemic closed in. From cancelled



Key Findings

Spring Break road trips to skipping shopping and dining out, cars remained parked or garaged. Driving dropped so dramatically insurers were called upon to refund premiums due to substantially decreased risk.² By April of 2020, Coalition founder, the Consumer Federation of America, estimated some \$6.5 billion of auto insurance premiums had been refunded.³ That same month, international consultancy, KPMG, released a [study](#) that measured a stunning 64% drop in vehicle miles traveled (VMT). This same study predicts that there will be a more permanent 9% to 10% drop in VMT as we enter post-pandemic life. That may be true as even in December of 2020, AAA reported an estimated drop of nearly one-third of highway travel over the holiday season⁴

Despite such never before seen drops in VMT, respondents indicated the number of fraud referrals related to auto-give ups, auto false claims, and staged auto accidents reports remained “about the same” throughout the pandemic. This result was confirmed by respondents in both 2020 and 2021. Logic would follow that a steep decline in miles driven should correlate with a steep, or at least some

measurable, decline in auto-fraud referrals. Yet more than half of respondents (50% - 69%) reported that case volume remained “about the same” across the three auto categories mentioned above in 2020, and in 2021 the trend continued by moving even higher with 60% - 65% of respondents claiming to have handled “about the same” claim referral volume.

There is a normal lag in the reporting of insurance fraud referrals of all types due to the time lapse between the event occurring, an investigation being conducted and the suspected fraud being reported to the appropriate state agency. Keeping in mind this report is merely a

Roughly one quarter of respondents said between January and August 2020 they had more arson fire investigations than in 2018 and 2019.

“snapshot,” no definitive corollary may be determined scientifically. However, the fact auto-fraud related referrals not only remained constant but appeared to be affirmed in part two of the study as being consistent even a year after the pandemic took hold, is a key indicator to be aware of and consider. Insurance fraud is always driven by monetary gain.

As early as March of 2020 the Coalition predicted a potential impact of the pandemic may be an increased incidence of automobile claims ranging from staged accidents to vehicle “jump-ins” caused by a lack of police responses to minor injuries and persons not exiting vehicles to exchange information. We also noted the possibility of increased vehicle arson or flooding claims as second or third vehicles could be viewed by struggling vehicle owners as an unnecessary liability in poor economic times. Whether those occurred remains an open question. However, the key “takeaway” for fraud fighters to note is the lack of any statistical correlation between a 64% decrease in driving and virtually no decrease in auto-related insurance fraud referrals.

Where there's smoke, there's fire. Major news outlets cited a sharp increase in arson fires reported by the FBI in the first six months of 2020, with a 19% jump nationally and a 50% increase in cities with

populations of over 1 million people. Similarly, State Fire Marshals responding to our phase two study reported increases in the volume of arson fire investigations they received during the period of the pandemic. At the outset it should be noted, the Coalition along with others, sought to identify as accurately as possible the dates of reported arson fires to make certain any trends noted were not incorrectly related to civil unrest during the summer of 2020.

Roughly one quarter of respondents (23.5%) said between January and August 2020 they had more arson fire investigations than in 2018 and 2019. Between September 2020 and April of 2021, 29% of the responding fire marshals reported an “above normal” amount of arson investigations. Arson investigations are some of the most personnel intensive investigations undertaken. They require on-site investigation, analysis and in-laboratory testing. Such investigations are made dramatically more challenging during periods of lock-downs and remote-only work environments.

Frontline investigators reported substantial increases in the number of arson fires, while at the same time, just over half of the state fraud bureaus (53%) reported home arson cases being “about the same.” The remaining 47% saw either higher or lower case referrals. Why this is occurring raises a

number of key issues for fraud-fighters to note. Often insurers are reluctant to refer first-party arson cases absent clear evidence of the policyholder being involved in the loss. Such investigations, as noted, take time and personnel resources. Those investigations potentially remain underway by insurers and will generate future state fraud referrals. While insurers-- with little notice-- moved their entire operations to remote claim investigations, it is possible the “learning curve” for conducting SIU investigations remotely led to less complex/traditional claims such as auto losses and theft claims being more adaptable to this new form of fraud investigation. More complicated investigations such as arsons may have taken more time for investigators to adapt their approach to the constraints posed by the pandemic. If so, the findings of the FBI and others of a dramatic rise in arson fires, should be noted by state regulators as they analyze the quantity, type and quality of arson-related referrals being submitted by those insurers licensed in their state who write fire policies. While those investigations are far more costly and complex for insurers to undertake, the crime of arson not only causes monetary harm but far too often also results in death or serious injury to innocent persons, especially first responders⁵

There’s something unusual about Workers Compensation (WC) claims. Much like the auto referral statistics, state fraud fighters first reported in September 2020 they had largely

seen “about the same” number of employment work related claims (58%) since April 2020 even though the economy was in the middle of a lockdown.



seen “about the same” number of employment work related claims (58%) since April 2020 even though the economy was in the middle of a lockdown. By the ensuing April, we found, however, just 43% of respondents said that WC employer claims remained about the same. Respondents were not united in their assessment as to whether the change from September of 2020 to the Spring of 2021 was a movement up or down in regard to workplace injuries. A surprising, even if inconsistent, study finding.

By the Spring of 2021, 11% of state respondents said their WC employer claims volume had changed to either “high” or



very high.” In and of itself this would be unusual given fewer U.S. workers reporting to offices, factories or other business sites. On the other side of the equation, during this same period, 23% of state respondents reported WC referrals had moved from “about the same” to “low” or “very low”. Should this be construed as the “pandemic norm” and if so, how do we account for those states seeing a statistically significant rise in WC fraud referrals while others are seeing substantial decreases? The answers may not be easy to identify. On the surface one would think that as jobs dwindled with fewer Americans working and businesses shuttered the clear evidence should be a substantial decrease in employment related injury claims. While the Coalition only focuses on issues surrounding insurance fraud, we encourage others to assess what reasonably could have contributed to these findings.

For example, could the variations be attributed, in whole or in part, to the constantly fluctuating health and safety measures for essential businesses struggling to remain open during the highest peaks of the COVID-19 waves of infection? We did not study whether a higher percentage of overall WC claims may have occurred in proportion to those working on job sites versus remotely. However, it is plausible the pandemic, and potentially lax safety standards or trying to do more work with smaller staffing, led to increased injuries. It would derive as well that some percentage of those injuries may have been of a questionable nature or led to suspect treatment generating a fraud investigation and ensuing referral.

Another consideration: perhaps this WC finding could be attributed to which states remained “open” versus states under more restrictive lockdown orders. For example, California and New York had drastically different pandemic responses compared to Florida and Texas-- thus likely yielding different referral rates based on the demand for employees to show up while their place of work was allowed to operate at various stages of the pandemic. As noted, the Coalition in this study did not seek to identify state specific findings or data analysis trends but rather to focus on a national perspective.

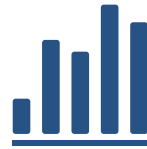
Early in the pandemic the Coalition spoke about the potential for COVID-19 to dramatically impact and even redefine the future of workers compensation claims. As traditional job sites shuttered and millions of employees pivoted to remote work, the American workplace changed over a literal period of weeks. Even today, many businesses have not returned to prior workplace environments and many are considering going to permanent or blended remote work site options for employees.

During the pandemic with worksites closed it would be easy to potentially expect to see a precipitous decline in WC referrals. Our study shows that may or may not be the case, but clearly it is not uniformly so across our nation. This is an area of research which does warrant further analysis as the longer term impacts of the

COVID-19 pandemic play out in potentially redefining what constitutes the new workplace. For example, if an employee is instructed by their employer to work from home, does an at-home injury qualify for a legitimate claim? If your employment affords you the right to a “break” and you slip and fall in your own home while getting coffee or using the bathroom during your work break is that a compensable injury? Or, if your home office desk chair malfunctions and it was supplied by or reimbursed by your employer is that a work-related injury? Insurers will face increased challenges investigating such claims where the injury scene is a private residence and likely there may be no, or only family, witnesses to verify the facts of the alleged injury claim.

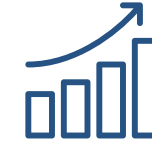
This is likely not the last pandemic to be faced. Whether through a subsequent COVID-19 resurgence, or in the future, if an employee is physically unable to engage in labor or deliver packages after an outbreak at a jobsite or sorting facility, may they file a WC claim? The past year and a half has already raised substantial questions about the ability to specifically identify when and where an actual disease-causing exposure occurred. It is clear America’s workplaces are still in a state of change. We may have just scratched the surface of a new era in workers compensation coverage and the ensuing fraud investigations.

The Stats



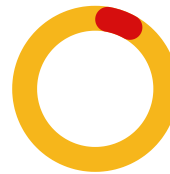
50% - 69%

reported that case volume remained “about the same” across the three auto categories in 2020.



60% - 65%

of respondents claimed to have handled “about the same” auto claim referral volume in 2021.



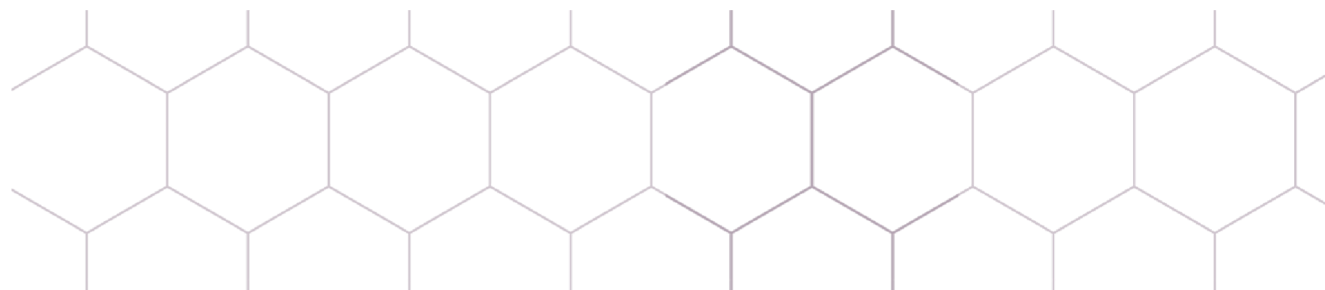
11%

of state respondents said their WC employer claims volume had changed to either “high” or “very high.”



29%

of responding fire marshals reported an “above normal” amount of arson investigations.



Additional Insights

We left an open comment space for respondents from both survey 1 and 2 to describe and share with us what they are seeing in regard to fraud and the COVID-19 pandemic. Their insights are valuable to assess where we have been during this unique period; the importance of this study in relation to where we stand today; and perhaps most importantly, where we may or should go in terms of future anti-fraud investigations. Here are some of the insights shared by state regulators, law enforcement officials and fraud investigators who described what they are seeing in their respective jurisdictions:

- *We have seen a substantial increase in "Insurance After the Fact" cases. Consumers buying auto coverage after the accident occurred and filing a claim.*
- *The increased number of claims in some way related to COVID has made it more difficult for insurance companies to detect fraud. Offenders are also careful to structure claims to remain under thresholds. We see individuals using insurance fraud as a way to ease the financial crisis caused by last year's impact on the economy. No doubt last year increased fraud but measuring the impact will be difficult.*
- *Until the carriers let their employees go back out into the field to do investigations, it will just continue to get worse. Desktop investigations don't work.*
- *We have seen a decrease in referrals and it has become more difficult to get in touch with members who are temporarily working outside the claims office. They either are slow to respond to emails and/or they do not have access to the claim files.*
- *Early in the pandemic there seemed to be an uptick in frauds, but midway, fraud activities seemed to level off. Most of our pandemic related fraud has been in the healthcare arena.*
- *We are seeing a very high level of "Crash & Buy" scenarios where individuals are involved in auto accidents without insurance, purchase insurance after the accident and then report the claim.*
- *The most notable charge since April is the false medical and WC claims related to COVID-19. We charged several rings with multiple defendants.*
- *It is possible that the cases are not reaching this office as many of the investigators are not allowed to contact witnesses personally and require telephonic inquiries [that] are less probative.*
- *Most of the covid cases involve home and auto cases in which the claimant will not allow an adjuster to inspect because "they have covid" or are afraid of getting it. Some of the WC attempts have been false covid reports.*



What Remains

This survey sought to measure the quantity and type of referrals being received by state regulators across the U.S. We subsequently addressed the issue of arson fires when it became an apparent concern. What this survey does not, and was not intended to address, regarding COVID-19 must also be noted.

The pandemic brought on new methods of committing insurance fraud and rapidly increased other known types of cons and scams. During the pandemic life insurance scams proliferated from scammers selling fake policies in total to alleging they were offering “riders” or “endorsements” to protect loved ones in the event of the need for respirators or hospitalization. Unscrupulous tow operators and body shops, with no hazmat certifications, added on thousands of dollars for disinfection fees and then added storage charges for weeks claiming the vehicle was unsafe to work on during that time period. Globally, cases of identity theft skyrocketed during the pandemic. The FTC reported the number of U.S. identity theft cases doubled in 2020. Such actions have led to an increase in the number of cases involving application fraud where stolen or “synthetically blended” identities are used to secure policies and then make quick claims.

The study of those events and their impact on the future of insurance fraud remains to be examined another day. However, their impact is already very real and will increase. Fraud fighters must act quickly and with adequate resources, including human staffing, the appropriate use of technology and the financial commitment required for both to address these issues.

The Coalition exists as a public, industry and governmental resource to aid in the fight against insurance fraud. Some of our studies are highly scientific and provide in-depth analysis. In the future one of those may address COVID-19, time will tell. But for now, this timely report is intended to fulfill our mission of providing information and resources to help those on the front-line of fighting insurance fraud and to protect American citizens and insurers from the cost and damage fraud inflicts. COVID-19 changed our world. We invite our members and partners to utilize this survey for its real-time insights, and use it as an opportunity to discuss the impact of COVID-19 on your organization’s fraud fighting efforts. We urge you to identify how to better protect consumers and improve your own efforts in the battle against COVID-19 fraud. Many of the lessons we can learn from COVID-19 fraud can equally improve the fight against other forms of insurance fraud as well.

There is no “smoking-gun” to be derived from this survey, nor did we necessarily expect there to be. The process of learning, and sharing



information, is the key. In that vein, it is important to acknowledge there are definitely “irregularities” in the nature and volume of the claim referrals across categories during the pandemic period. It is difficult, and perhaps even impossible at this phase, to “nail down” what is causing the irregularities as investigators are figuring out new ways to get the answers they seek in the age of COVID-19 and whatever the resulting new “normal” may be. Furthermore, it is plausible case volumes dropped in some states because of more restrictive state actions, or because the abrupt pivot to remote claims adjusting and fraud reporting has slowed the entire process significantly. If so, will that “backlog” result in future increased referrals or perhaps an unfortunate period in which fraudulent claims are simply paid without proper investigations being undertaken? Answers to those questions we do not know.

What we do know is that there were fewer drivers on the road but fraudulent automobile claim referrals remained steady. We know that fewer people were working and more still were working from home, yet fraud fighters still saw a somewhat consistent volume of WC claims. And we learned a still largely unexpected and unexplained rise in arson fires occurred as the pandemic raged. COVID-19 taught us the world is now a very-connected place and the world of insurance fraud itself is also becoming more global, but we will leave that to another day and another far more in-depth research study coming later in 2021.

The pandemic and its repercussions on the world of insurance fraud will likely play out over a number of years as courts open up; vaccines roll out; and new-norms, protocols, and techniques are developed by SIU investigators. Time will certainly tell, and the Coalition will be here to help identify, report, analyze and work with leaders to always improve the fight against insurance fraud.

Endnotes

1. <https://chicago.suntimes.com/2021/2/26/22300843/chicago-burned-arson-fires-insurance-fraud>
<https://abc7.com/arson-fires-la-covid-crime-los-angeles-fire/6422715/>
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2. <https://www.propertycasualty360.com/2020/10/06/a-look-at-auto-insurers-responses-to-the-first-covid-19-wave/>
3. https://consumerfed.org/press_release/report-card-to-date-on-the-6-5-billion-promised-to-auto-insurance-customers-as-people-drive-less-due-to-covid-19/
4. <https://www.usatoday.com/story/travel/news/2020/12/15/holiday-travel-expected-drop-30-2020-heres-when-not-to-drive/3901668001/>
5. <https://www.nfpa.org/News-and-Research/Data-research-and-tools/US-Fire-Problem/Intentional-fires>
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<https://www.firerescue1.com/arson-investigation/articles/owner-charged-with-murder-arson-in-ohio-firefighter-deaths-WMGJhAXKqH6NrEye/>
6. <https://threatpost.com/identity-theft-spikes-covid-19-relief/163577/>

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About The Coalition

The Coalition Against Insurance Fraud is America's only anti-fraud alliance speaking for consumers, insurance companies, government agencies and others. Through its unique work, the Coalition empowers consumers to fight back, helps fraud fighters better detect this crime and deters more people from committing fraud. The Coalition supports this mission with a large and continually expanding armory of practical tools: Information, research & data, services and insight as a leading voice of the anti-fraud community.

For additional information on the Coalition Against Insurance Fraud contact us at 202- 393-7330 or info@insurancefraud.org



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