
The Economy and Fraud Fighting on the State Level

An interim survey conducted of state insurance fraud bureaus



Introduction

The Coalition Against Insurance Fraud conducts a statistical study of state insurance fraud bureaus annually to gauge the overall level of efforts to combat fraud and review year-to-year trends.

However, in mid-2009 with a lingering bad economy and growing pressures on state budgets, the Coalition conducted an interim survey of fraud bureaus to learn trends in the frequency and severity of insurance fraud, and how economic conditions were affecting the bureaus themselves.

A brief questionnaire was developed (see page 8) and sent to all fraud bureau directors who had the option of completing the survey form or entering answers on an Internet webpage. Due to the sensitive nature of some of the questions, fraud bureau directors were assured that individual responses would not be

published. A total of 37 bureaus participated in the survey, which was conducted during the first three weeks of October 2009. The survey contained two parts: One part explored changes in fraud referrals and cases so far in 2009, and the second part probed staff and other resource changes.

Summary

Overall, the economy in 2009 appears to have had a significant impact on the incidence of fraud. On average, fraud bureaus reported the number of referrals received and cases opened increased in all 15 categories of fraud included in the survey.

The largest average increases were found in bogus health plans, drug diversion and fraud by insurance agents. The smallest increases involved staged automobile accidents, life insurance fraud and workers compensation

fraud by employers.

More than a third of fraud bureaus reported reductions in their budgets in 2009. About one of four said staff positions also were eliminated in 2009 and 35 percent reported they were not allowed to fill empty positions. Only 12 percent of fraud bureaus reported that funds for their agencies had been diverted to other agencies or the general fund.

Referrals and caseload

Fraud bureau directors were asked: So far in 2009, how would you describe the volume of cases and referrals you have received in the following areas:

- Agent fraud
- Auto - staged
- Auto - padding/false claim
- Auto - give up
- Commercial - arson
- Disability
- Drug diversion
- Homeowners - arson
- Homeowners - padding/fake
- Liability - false claim
- Life insurance
- Medical - false claims
- Work comp - worker
- Work comp - employer
- Bogus health insurance/discount health plans

Survey participants were asked to describe the volume of activity as:

- Lower
- About the same
- Slightly higher
- Much higher

The results of the findings are as follows:



Agent fraud

Suspect cases involving insurance agents increased substantially year-to-date in 2009. A total of 69% of respondents said agent cases were up slightly higher or much higher so far in 2009, while a quarter reported no change. Only one bureau said the number of cases involving agents had fallen in 2009.



Auto insurance — staged crashes

More fraud bureaus reported no change in the number of staged auto accidents than any other category of fraud. Yet, only one bureau reported a lower incidence of staged crashes and there were no reports of substantially higher incidence of cases and referrals



Auto insurance — padding/false claim

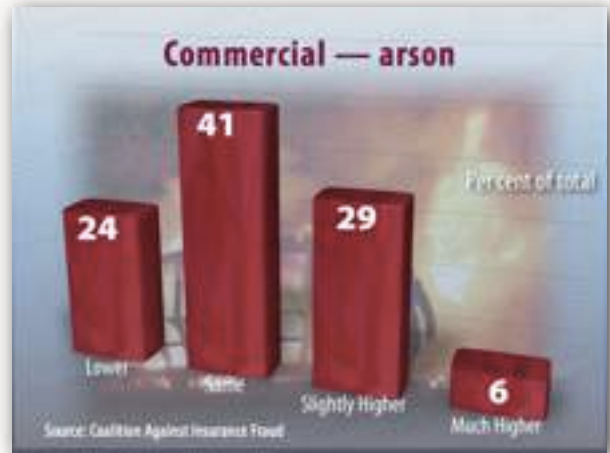
In line with other recent reports of increases in soft or “opportunist” fraud, the number of padded auto insurance claims reported to fraud bureaus have climbed as well. More than half reported increases. A total of 37 percent report no change and none saw fewer cases of this type of fraud.



Auto insurance — owner giveup

No fraud category has received more media attention in 2009 than auto giveups. Cases in many parts of the country involving desperate car owners setting their vehicles on fire have increased substantially. Auto giveups ranked fourth overall in the greatest average increase cited by fraud bureaus. More than a quarter said cases and referrals had increased much

higher in 2009, while 42 reported slightly higher number of cases.



Commercial — arson

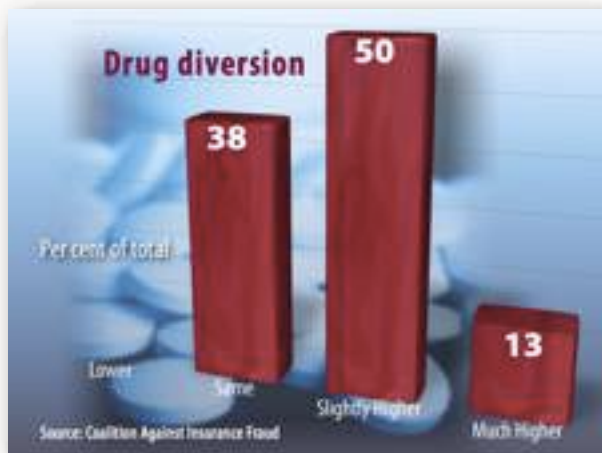
There is no clear trend here as the distribution is nearly evenly divided between a lower number of cases and slightly higher. A total of 41 percent said they see no change in 2009. This somewhat conflicts with reports by insurers and state fire marshals who have told the Coalition that arsons in almost all categories have increased in 2009.



Disability fraud

The same percentage of respondents reported an increase in cases and referrals involving disability fraud as the percentage

who reported no change. Ten percent reported fewer incidences of this type of fraud.



Drug diversion

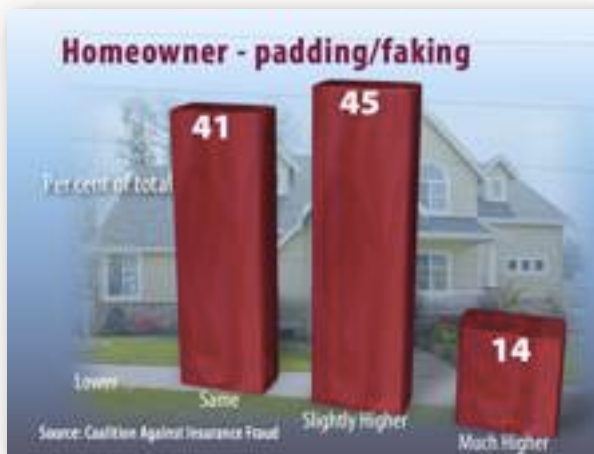
Fraud involving the diversion of prescription drugs, mainly painkillers, appears to continue to increase as it has for the last few years. No fraud bureau reported dealing with fewer instances of this crime. A total of 63 percent say they are seeing more cases.



Home arsons

There appears to be no evenly or widely spread national trend of people setting fire to their homes for financial gain. Rather, the trend appears to involve regional and local “hotspots” that are cause for alarm in several

states, especially where the economy has taken an especially steep downturn. Overall, 63 percent of fraud bureaus report increases in referrals and cases open for home arsons. Yet,



more than one in five report fewer instances.

Homeowner - padding and faking

In mid-2008 as the U.S. economy deteriorated, insurers started reporting an uptick in the padding of legitimate homeowners losses and outright faking of losses, especially bogus burglaries. Several cases of homeowners filing claims for stolen or lost jewelry ended in arrests and convictions. Data from fraud bureaus indicate this trend continues – 59 percent reported increases.





Liability - false claim

Reports of increases in slip and fall claims from insurers and self-insurers, especially grocers, department stores and restaurants, began surfacing in early 2009 and seem to have continued during the fourth quarter. No fraud bureau reported fewer cases so far in 2009, and 59 percent reported increases.



Life insurance

A majority of fraud bureaus in the survey reported no change in referrals and cases involving life insurance, which normally are low in number in most states. Still, 40 percent say life insurance fraud cases are on the rise.



Medical provider fraud

In terms of total dollars paid out, scams by medical providers and suppliers are greater than any other category of insurance fraud, and it appears to be growing even larger. Half of the fraud bureaus surveyed say medical fraud is rising while only four percent report seeing fewer cases. This may be especially true in no-fault auto states, where suspect scams involving false billing and staged crashes are rising after years of leveling off. More focus by the federal government on health care fraud also likely is bringing more cases to light and to state fraud bureaus.



Worker compensation fraud by workers

Only 27 percent of fraud bureaus reported increases in cases involving employees who defraud worker compensation systems with bogus injury claims. This data is in line with experiences logged during the previous economic downturn from 2000 to 2001. One explanation may be that since there are fewer jobs during a recession, there are fewer opportunities to commit this type of fraud. Others say that workers may value their jobs more during a recession and don't want to place them in jeopardy. There's clearly a decline in the number of comp claimants who are suspected of having side jobs while

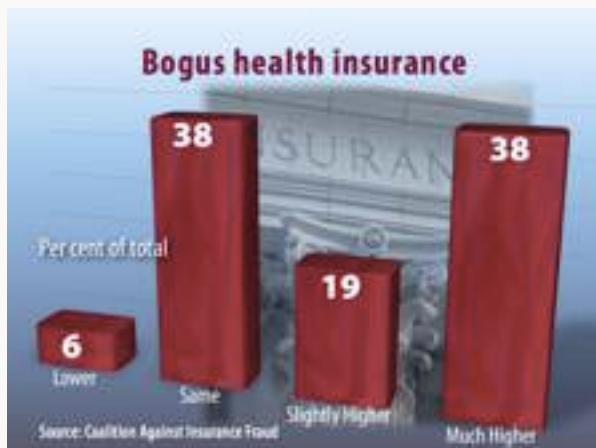


collecting workers compensation, the coalition has observed. This may be a result of fewer side jobs available in combination with prevention efforts by insurers and government agencies.



Workers compensation fraud by employers

This category increased by the least amount. Only one of five bureaus reported an increase. This is counter-intuitive because businesses on the margins during an economic downturn have more reasons to cut corners in reporting accurate workers comp statistics to insurers. Workers compensation premiums have fallen in recent years, so perhaps businesses have less incentive to take risks in illegally attempting to cut their premiums.

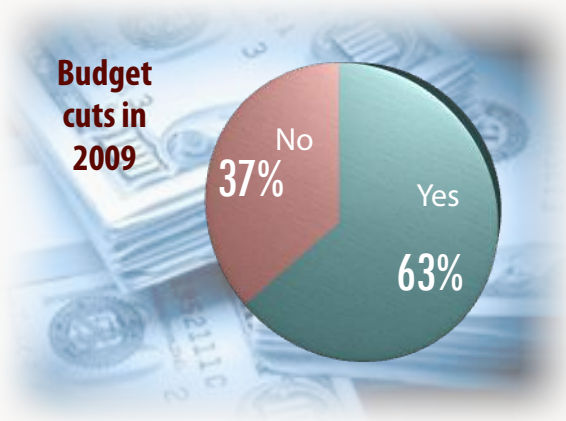


Bogus health insurance

The greatest rise comes in this category. More fraud bureaus said the increase in bogus health insurance was “much higher” than in any other category. The reported rise in unauthorized entities selling fake coverage combined with the emergence of medical discount plans seems to be driving the increase in this area.

Impact on fraud bureau operations

The survey also asked fraud bureaus if they had experienced changes in resources in 2009.

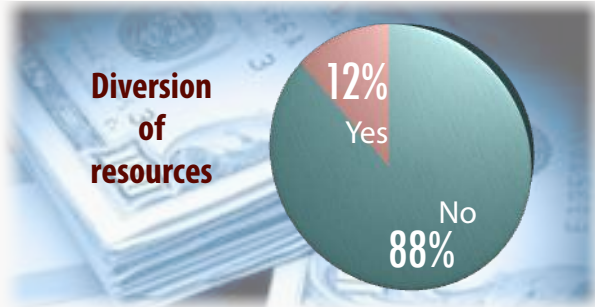


Budget reductions

Question: So far in 2009, has your unit’s budget been reduced, either formally or by some other means?

While fraud is up in every category, more fraud bureaus have fewer dollars to investigate and prosecute this crime. Nearly two-thirds of the agencies say they are now working with reduced budgets in 2009. This is somewhat surprising given that a majority of the fraud bureaus were created with dedicated funding, specifically assessments on insurers, which was done to shield these agencies from the whims

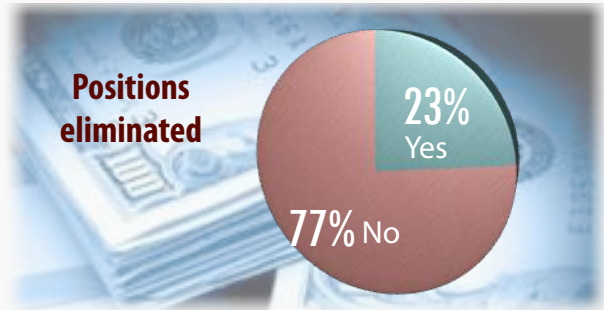
of state budget cutters. Some of the formulas for those assessments are based on insurers' premium volume, which may be down during an economic decline.



Resource diversion

Question: So far in 2009, has there been any attempts to divert or re-channel anti-fraud resources to other areas either within your parent agency or government?

Three fraud bureaus reported that resources had been diverted to other areas of government or back to the general fund. In some cases, diverting funds may violate statutes that require assessments collected

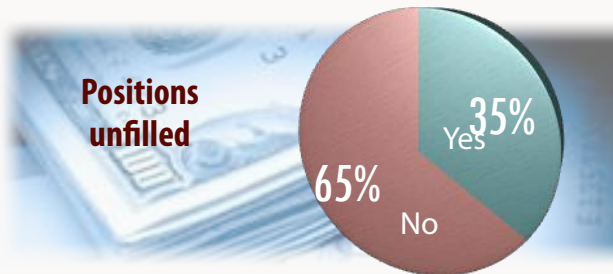


from insurers to be used exclusively for combatting insurance fraud

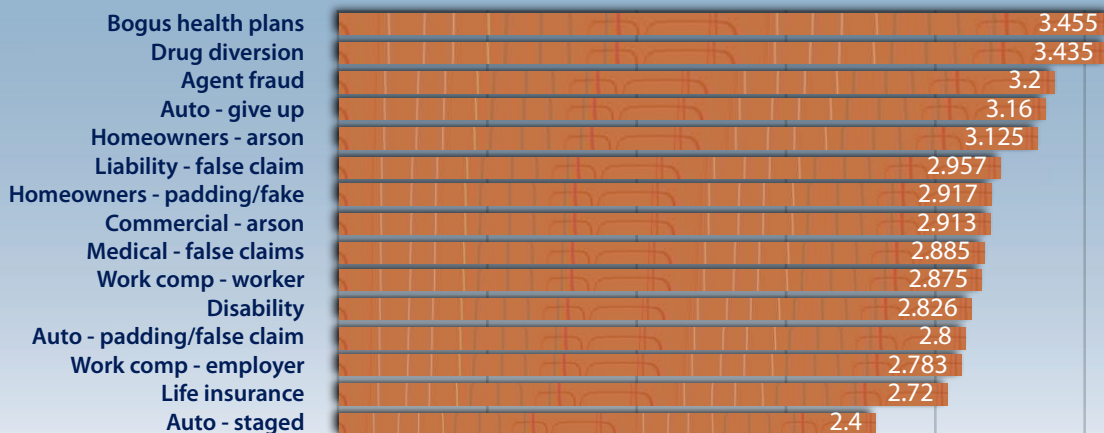
Positions eliminated

Question: So far in 2009, have any positions in your unit been eliminated?

Nearly one of four fraud bureaus reported that they have lost staff positions so far in 2009. However, 35 percent reported they were asked not to fill empty positions (see below).



Weighted Averages of Responses by Fraud Type



Weighted averages were calculated from the responses to the question of change in the number of referrals and cases received in each category as follows: Lower=1; Same=2; Slightly Higher=3; and Much Higher=4



Survey instrument
Qualitative survey of state insurance fraud bureaus — 2009

1. So far in 2009, has your unit's budget been reduced, either formally or by some other means?

Yes No

If Yes, by what amount? \$ _____

2. So far in 2009, has there been any attempts to divert or re-channel anti-fraud resources to other areas either within your parent area or government?

Yes No

3. So far in 2009, have any positions in your unit been eliminated?

Yes No

If Yes, how many _____ and what type of positions _____.

4. So far in 2009, have any positions remained unfilled at the request of your parent agency or others?

Yes No

If Yes, how many _____ and what type of positions _____.

5. So far in 2009, how would you describe the volume of cases and referrals you have received in the following areas:

	Lower	About the same	Slightly higher	Much higher	Not applicable
Agent fraud					
Auto - staged					
Auto - padding/false claim					
Auto - give up					
Commercial - arson					
Disability					
Drug diversion					
Homeowners - arson					
Homeowners - padding/fake					
Liability - false claim					
Life insurance					
Medical - false claims					
Work comp - worker					
Work comp - employer					
Bogus health insurance/ discount health plans					
Other _____					