



Insurance fraud: The crime you pay for
Coalition Against Insurance Fraud
Washington, DC
<http://www.insurancefraud.org/>

Watch out — insurance crooks are picking your pocket in order to line theirs. These thieves are committing insurance fraud, one of America's largest criminal industries. Insurance fraud is a crime, and one way or another, honest consumers and businesses pay the price.

Insurance fraud occurs every day and in every state. People of all races, incomes and ages are victimized. Insurance fraud costs Americans at least \$80 billion a year, or nearly \$950 for each family, the Coalition Against Insurance Fraud estimates.

But look beyond the high dollar costs... you'll also see honest, hardworking Americans whose lives, businesses, careers and families are damaged or even ruined by insurance fraud crimes.

People lose their savings. Trusting citizens are bilked out of thousands of dollars, often their entire life savings, by insurance investment schemes. The elderly are especially vulnerable.

Health is endangered. People's health and lives are endangered by swindlers who sell nonexistent health policies or perform quack medical care to illegally inflate health insurance claims.

Premiums stay high. Auto and homeowner insurance prices stay high because insurance companies must pass the large costs of insurance fraud to policyholders.

Consumer goods cost more. Prices of goods at your department or grocery store keep rising when businesses pass higher costs of their health and commercial insurance onto customers.

Honest businesses lose money. Businesses lose millions in income annually because fraud increases their costs for employee health coverage and business insurance.

Innocent people are killed and maimed. People die from insurance schemes such as staged auto accidents and arson — including children and entire families. People and even animals also are murdered for life insurance money.

Employees lose jobs. People lose jobs, careers and health coverage when insurance companies go bankrupt after being looted by fraud thieves.

What is Fraud?

Insurance fraud occurs when people deceive an insurance company or agent to collect money to which they aren't entitled. Similarly, insurers and agents also can defraud consumers, or even each other. Insurance fraud can be "hard" or "soft."

Hard Fraud. Someone deliberately fakes an accident, injury, theft, arson or other loss to collect money illegally from insurance companies. Crooks often act alone, but increasingly, organized crime rings stage large schemes that steal millions of dollars.

Soft Fraud. Normally honest people often tell "little white lies" to their insurance company. Many people think it's just harmless fudging. But soft fraud is a crime, and raises everyone's insurance costs. Consider...

A car owner inflates a fender bender claim to cover her deductible, or she understates how many miles she drives annually to lower her auto premium... A homeowner inflates the value of his stereo equipment stolen during a robbery... Or a printing business lists fewer employees than it really has in order to pay lower workers compensation premiums.

Fraud is Big.

Insurance fraud is hard to measure because so much goes undetected, and complete research has yet to be done. Still, we have enough evidence to

know that fraud is widespread — and expensive.

Healthcare fraud alone costs Americans \$54 billion a year, the Coalition Against Insurance Fraud estimates.

More than one third of people hurt in auto accidents exaggerate their injuries. This adds \$13-\$18 billion to America's annual insurance bill, notes a study by the Rand Institute for Civil Justice.

Nearly one third of doctors exaggerate the severity of a patient's illness to help the patient avoid early discharge from a hospital, according to the *Journal of the American Medical Association*.

Why Is Fraud So Big?

Insurers sometimes back off. Most insurance companies take a tough stand against fraud, but some companies unwittingly encourage fraud by paying suspicious claims too easily. These companies believe it's cheaper to pay some smaller suspect claims than fight in court, and a quick payoff also may avoid multimillion-dollar lawsuits for bad faith.

Health system is an easy target. America's health care system is huge and vulnerable. The sheer number of patients and treatments plus complexity of billing attract cons who are skilled at looting our overworked health care system. The pressure to control costs also encourages many doctors or health firms to cheat so they can recoup lost profits or meet rigorous treatment quotas.

Immigrants are vulnerable. Insurance cheats consider America's large and growing immigrant groups easy targets. Asian and Hispanic communities, for example, report extensive insurance fraud as con artists prey on immigrants' trust, lack of English skills and ignorance of how insurance works.

Low-Risk Crime. Insurance cheaters view insurance fraud as a low-risk, high-reward game, and far safer than drug trafficking or armed robbery. Consider:

- Six states still don't have specific insurance fraud laws, thus discouraging many prosecutors from tackling tough fraud cases.
- Courts are getting tougher on convicted schemers, but too often jail sentences still are light, with courts often reserving space in overcrowded

prisons for people convicted of more-violent crimes.

- Professional societies overseeing doctors and lawyers often are reluctant to discipline peers convicted of insurance fraud.
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Low Legal Priority. Prosecutors often give top priority to combating drugs, violence and other high-profile crimes. Though prosecutors are tackling more fraud cases than in the early 1990s, too many prosecutors still believe insurance crimes often are too complex and technical to successfully prosecute.

People Tolerate Fraud. Too many consumers believe insurance fraud is justified. This environment of tolerance makes it much easier for con artists to operate safely. Research by the Coalition Against Insurance Fraud reveals:

- Two of three Americans tolerate insurance fraud to varying degrees;
- Two of five Americans want little or no punishment for insurance cheats; they blame the insurance industry for its fraud problems because they believe insurers are unfair.

All Shapes and Sizes

Insurance fraud comes in all shapes and sizes. Here are several examples...

Staged Auto Accidents. Juan and Maria Lopez and their 2-year-old daughter Joanna were burned alive during an auto accident two men staged on the Long Beach (Calif.) freeway to collect insurance money in 1997. The scammers suddenly stopped in front of a tractor trailer the Lopezes were following. A gravel truck then rammed the Lopezes from behind, killing the young family instantly. Isidorio Medina Gomez and Esteban Galves Solano each received 11 years in state prison in 1998.

Arson. Helen Tidwell hired two local teenagers to torch her Tampa restaurant, Gram's Country Kitchen, so she could collect insurance money in 1996. But fumes from the gasoline the boys poured in the restaurant accidentally ignited, causing an explosion. One boy died and the other was permanently scarred. Tidwell received 30 years in prison in 1999.

Health Insurance Fraud (corporate). Columbia/HCA Healthcare has agreed to pay at least \$754 million after overbilling taxpayer-funded Medicare for years. If the deal stands, it will be the largest healthcare fraud settlement in U.S. history. The chain (now named HCA) billed Medicare for unneeded lab tests, improper diagnoses to make patients seem sicker than they were, and disguising unreimbursable expenses as reimbursable.

Criminal charges still are pending.

Health Insurance Fraud (individual). Massachusetts orthopedic surgeon Harold Goodman routinely gave patients potentially harmful X-rays and steroid injections they didn't need so he could falsely bill Medicaid. Goodman spent as few as five minutes with each patient, giving one patient 74 X-rays and 112 steroid injections in less than three years. Goodman received six months in prison in 2000.

Faked Death. Bonnie McCaslin bought 78 life insurance policies on her ex-husband Timothy, who knew nothing about the policies. She then tried to collect \$11 million from dozens of life insurance companies by claiming he died in an earthquake in Mexico in 1995. McCaslin received two years in jail in Nebraska, but blames Timothy for not cooperating with her ruse. "He's such a jerk. If it weren't for him, I wouldn't be in here," she told *Forbes* magazine.

Murder for Insurance. Dina Abdelhaq suffocated her seven-week-old daughter Tara to collect \$200,000 in life insurance money to feed her gambling addiction in 1995. Jobless and on welfare, the Illinois resident was deeply in debt from riverboat gambling. Tara died in her crib just two weeks after Abdelhaq took out a life policy on the child. Abdelhaq received 21 years in prison for insurance fraud in 2000.

Insurer Fraud. Thousands of investors, many of them retirees left almost penniless, were financially devastated when National Heritage Life Insurance Co. collapsed in 1995 after being looted of \$450 million by company insiders. The insiders lived lavish lifestyles while retirees who invested in the company lost their entire life savings. Four major players were convicted in 1999, and dozens more are charged in America's largest insurer insolvency caused by fraud.

Property Insurance. California software distributor Irwin Bransky had a lot of useless merchandise on his hands. So when the Northridge earthquake struck California in 1994, Bransky ordered employees to jump on the software packages and bend them with their hands to inflate an insurance claim. Bransky filed a \$5-million claim, and the insurer paid \$840,000 before an employee blew the whistle. Bransky received 51 months in prison in 1998.

Fighting Back

Insurance Companies Respond

Fraud-busting units. Most insurers have made fighting fraud a priority, more than tripling anti-fraud spending in recent years. Most insurers have created special fraud-busting units, often staffed by former detectives and police officers.

Educate consumers. Many insurers actively educate consumers how to detect and protect against fraud, and often sponsor active fraud hotlines so people can phone in tips.

Train employees. Most insurers train employees and alert insurance agents to spot fraud.

Track down cheaters. Insurers also sponsor the National Insurance Crime Bureau (NICB). The NICB is increasing the number of fraud convictions by gathering detailed data about suspected fraud crimes, and referring them for prosecution. The NICB also runs a national consumer fraud hotline.

States Increase Pressure

More fraud bureaus. State insurance regulators have created 37 fraud bureaus in 45 states, whose job is to investigate and hunt down fraud.

Closer scrutiny of companies. State regulators have created a model law that makes it harder for con artists to set up fake insurance companies. Many states also are scrutinizing insurance company finances and market practices more closely.

Tougher fraud laws. Increased crackdowns in the 1990s uncovered far more insurance fraud than anyone realized existed. To give prosecutors better legal tools to convict crooks, the Coalition Against Insurance Fraud developed a tough model state fraud law. Some 15 states have adopted or strengthened their insurance fraud laws based on the coalition's model. Among other provisions, this model:

- creates state fraud bureaus that help hunt down fraud artists and build strong cases against them. Many fraud bureaus even have power to subpoena and fine crooks.
- requires insurance companies to develop thorough plans for preventing and detecting fraud.
- requires insurance applications and claim forms to warn that fraud is a serious crime.
- provides immunity to insurers when sharing fraud information with

other insurers, investigators and law enforcement.

Feds Tighten Up

Tougher health fraud penalties. Stopping widespread Medicare and Medicaid fraud is a special focus of federal efforts. Congress has enacted tougher penalties and expanded current federal health insurance fraud laws to cover all payers.

More pressure on white-collar crooks. Federal law imposes stiff prison terms and fines for white-collar criminals who loot insurance companies. The law also heavily penalizes anyone who gives false financial information to state insurance regulators, and forbids convicted insurance felons from returning to insurance without permission.

Information sharing. The federal government and health insurers share fraud info on a large scale, thus helping them discover hundreds of hidden schemes and build stronger cases for prosecution. The Justice Department began sharing with health insurers its own field intelligence about health frauds with health insurance companies in 2000. The federal government further tightens the net by collecting and sharing vast amounts of data covering convictions and other actions against health providers under a landmark 1996 federal law.

Report Card: Progress?

The nation's improved fraud-fighting efforts are working. More insurance crooks are being convicted every year, and billions of dollars stolen from honest citizens and businesses are being recovered. Precise figures aren't available, but growing evidence shows real progress on many fronts. Consider:

State fraud prosecutions have tripled over the last three years, according to a new study of state fraud bureaus by the coalition.

Nearly nine of 10 fraud cases lead to convictions in Massachusetts.

Healthcare insurers have saved policyholders more than \$11 for every dollar spent fighting fraud, a 50-percent increase over 1995, notes the Health Insurance Association of America.

Fewer people believe it's ok to inflate insurance claims by small amounts to

recoup their deductible or premiums, according to the Insurance Research Council.

The Future: Still Dangerous

Despite the encouraging progress, insurance fraud will remain a vast and dangerous criminal enterprise. Here are several fraud trends consumers should know about:

The Internet will hatch new insurance swindles as computer-savvy consumers buy from online insurance companies that may be virtually untraceable. Young people raised on the Internet will be the vanguard of this crime wave.

The global economy is igniting huge insurance money-laundering schemes, often involving fake insurers that bilk people out of millions. Tracking them across international borders will pose a big problem for U.S. law enforcement.

The large population bulge of aging Boomers needing more medical attention will keep health fraud near the forefront of the largest and costliest fraud crimes.

Insurance fraud against immigrants will remain a serious problem as diverse ethnic groups continue migrating to the U.S. Many fraud crimes will be committed by fraud rings or organized mafias of immigrants themselves. The elderly will remain one of the largest targets of insurance swindles. Investment schemes are among the newest approaches: Thousands of seniors are investing in bogus viaticals – life insurance policies that don't exist or were obtained illegally. Many seniors also are investing in fake promissory notes sold by insurance agents and guaranteed by non-existent insurance companies.

Everyone's Solution

Everyone pays for insurance fraud, and so everyone must join in stamping out these swindles. Consumers, lawmakers, insurance companies, doctors, lawyers and many more must be part of the answer. Insurance fraud will disappear only when criminals realize fraud is a fast highway to jail, not an easy road to riches.

Protect Yourself: Stay Alert

You *can* protect yourself against insurance scams: Stay alert, ask questions, and go slow or back out if an insurance transaction seems suspicious. Never sign blank insurance claim forms.

Demand detailed bills for repair and medical services. Check closely for accuracy.

Make sure "free services" aren't actually hidden in your insurance bill. Be wary of buying insurance from door-to-door or telephone sales people. Be suspicious if the price of insurance seems too low to be true.

Contact your state insurance department to make sure the agent *and* company are licensed.

Keep your insurance identification number secret; insurance crooks can steal it and involve you in scams.

Be wary if a car suddenly pulls in front of you, forcing you to follow dangerously close. You may be set up for a staged accident.

After an auto accident, be careful of strangers who offer you quick cash or urge you to see a specific medical clinic, doctor or attorney. They could be part of a fraud ring.

Contact your state insurance department and the National Insurance Crime Bureau (1-800-835-6422) if you think you're being scammed or someone asks you to take part in a fraud.