

Posted on November 29, 2008 by [Chip Merlin](#)

[Are Insurance Fraud Statistics Fraudulent?](#)

For years, a colleague of mine, [Eugene Anderson](#) has questioned whether the insurance industry is involved in a conspiracy against its own customers by claiming that a sizable portion of them are involved in insurance fraud. The insurance associations claim an enormous amount of insurance fraud is committed every year. For example, the [Insurance Information Institute](#) says that ten percent of all property and casualty losses, totaling \$30 billion, is the result of insurance fraud. An insurance fraud investigation firm, [D.M. Disney](#), claims on its website that fraud cost the insurance industry \$96.2 billion in 1999, and cost the average American household more than \$5,000 in higher premiums in 2001. The last figure seems absurd since [the median household income in 2007 was just over \\$50,000](#). Anderson and I question the veracity of these claims and wonder what they are based upon.

A more skeptical person may assume these statistics are made up by the insurance industry and broadcast by their paid spokespeople to assuage anger over their exorbitantly high premiums. A highly respected claims expert, Gary Fye, has suggested to me that the insurance industry propagandists are engaged in a wrongful attempt to create a culture where society suspects all claims are fraudulently created or inflated. It does not take a genius to figure out why insurance companies would love to encourage this myth among the general populace.

Just because one questions the truthfulness of insurance fraud statistics does not mean one supports insurance fraud. Insurance fraud is wrong, and it should be punished. As a society we must be ever vigilant against those who abuse the system. Indeed, that a few may attempt to destroy property or participate in other schemes to fraudulently make money from insurance companies is expected. We all suffer from these wrongdoings, and we should applaud audits and fair investigations that uncover fraudulent activity.

Still, there is great danger in an insurance culture where the investigators and public view all claims as possibly fraudulent. It is sort of like saying otherwise patriotic citizens are no longer patriotic because they question a war or government decision. Yet, from what many of us see in the claims environment, some Special Investigative Units (the fraud department) treat their insurance customers as guilty crooks before analyzing any evidence. They have a 'guilty until proven innocent' mentality in their treatment of their own customers. A current example of this is found with [Barry Zalma, an insurance industry fraud attorney](#).

He thanks the "U.S. Congress, greedy bankers and stock brokers" for causing the economic downturn that, in turn, causes him and other fraud investigators more work "as normally honest people attempt to regain their losses by insurance fraud." It is no wonder these fraud investigators act this way. When all you do for a living is focus on possible corruption and schemes to wrongfully obtain insurance benefits, a siege mentality can become commonplace. It is not that different from problems in some police cultures.

The bottom line is that an insurance customer is every bit as good a customer after a loss as when the insurance company was pleading for the premium. Policyholders do not deserve Gestapo

claims organizations treating them as guilty or unworthy of respect following a loss. While insurance fraud is a problem and should be punished, the insurance industry owes its customers and society in general an apology for providing unsupported statistics which cast dispersions on honest customers. If the industry truly believes the fraud numbers they cite are accurate, it should prove them.

[Barry Zalma](#) - December 1, 2008 3:34 PM

Dear Mr. Merlin:

Although insurance fraud exists and is recognized by insurers and police agencies, no one really knows how extensive it is because most frauds succeed and are never recognized; others are recognized and paid by the insurer who is unwilling to get into a long and drawn out fight with the fraud perpetrator; and a very few are caught and prosecuted.

My practice involves those few. I am a sole practitioner and have a very limited practice unlike you and my friend Gene Anderson. I can only say, from experience, that my work load increases when the economy falls into recession.

You quote from a part of my Newsletter where I gave thanks on Thanksgiving for many things, including, as the last item, what you quoted. The rest of the things for which I gave thanks include:

- "1. A free country in which to live and bring up my children without fear of discrimination due to religion, race or national origin.
- "2. A father, may he continue to rest in peace, who taught me by his example, that nothing is gained except through keeping every commitment made, never quitting, and that success comes by giving more than is expected in everything you do.
- "3. A mother who is approaching her 97th year, is still going strong, who cared for my brother, my sister, my grandmother and I managing when a church mouse looked on us as poor.
- "4. My wife, three children and my, so far, only grandson.
- "5. Each and every one of you, the readers of ZIFL.
- "6. The business of insurance for providing me with a career that I enjoy.
- "7. Those publishers who have published books I have put together.
- "8. Everyone who has read an article or book I wrote.
- "9. The practice of law that has allowed me to keep working, albeit on a less stressful schedule, three score and six years after I was born...."

I don't know, nor does anyone know, how much insurance fraud costs the insurance industry since most fraud perpetrators succeed. Everyone who puts out numbers bases it upon scientific studies like that recently reported by the Insurance Research Council (IRC) that estimates that claim fraud and buildup added between \$4.8 billion and \$6.8 billion in excess payments to auto injury insurance claims closed with payment in 2007. That means that insurers, even when they believe a fraud has been perpetrated pays the claim. You might want to read the listing of prosecutions for insurance fraud posted on the web site of the Coalition Against Insurance Fraud

at <http://www.InsuranceFraud.org>: before you continue to state that insurance fraud is exaggerated.

I prefer acting as an insurance coverage lawyer. I act as counsel for insurers who believe they are the victim of insurance fraud. Often I advise them to pay unless there is clear evidence that fraud has been committed.

Thank you, Mr. Merlin, for spelling my name correctly and linking to my website.

I don't know you but I do know Gene Anderson with whom I often agree and many times disagree. You might also have noted, in the same edition of my Newsletter the following from Gene:

"Barry: you are a fun read. ...

"While I disagree with you, I think you are one of the few with your views I truly admire and respect.

Eugene R. Anderson,
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