The Big Rip-off: Top 5 Strategies of Insurance Fraudsters

When it comes to insurance fraud, it's go big or go home

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Whether it's a deliberately misstated water damage claim on a homeowners' policy or a sophisticated international crime ring for stolen autos, insurance fraud is driven by a combination of greed, stealth and exploitation.

The U.S. economy may have stabilized enough so that the blatant vehicle torchings and business arsons of the financial meltdown era have slowed; but insurance fraud, in all its myriad forms, marches on—and shows no signs of stopping.

Like death and taxes, insurance fraud is inevitable, if often difficult to quantify. While organizations like the Coalition Against Insurance Fraud (CAIF) and the National Insurance Crime Bureau (NICB) keep a close eye on trends, insurance company special investigative units (SIUs) each have different ways of tracking claims data—making it difficult to get a

hard-and-fast number for specific types of fraud, says Roger Morris, the NICB's vice president of communications.

Nailing down insurance fraud is like playing a game of Whack-A-Mole: as states like Florida start cracking down on staged auto crash rings, crooks flee to greener pastures like Minnesota or follow the trail of devastation left by natural disasters to ply scams like bid-rigging and contractor fraud.

But however you slice it, insurance fraud hurts both the industry and the consumer. The FBI estimates the total cost of non-health insurance fraud at more than $40 billion per year, hitting the average U.S. family in the pocketbook to the tune of $400 to $700 a year.

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Common "white collar" fraud schemes targeted by the FBI include premium diversion (the most common type of fraud, perpetrated by insurance agents); fee churning (when intermediaries take commissions through reinsurance agreements); asset diversion (which happens almost exclusively in an acquisition or merger of an insurance company); and workers' comp fraud (when fraudulent companies sell coverage at a reduced cost without actually providing coverage).

Then there are the organized crime rings that are more Mafia than Madoff: Eastern European staged-accident scams or cargo container hijackings involving sophisticated processes and lots of players.

And as always, policyholders are far from innocent. The FBI notes the prevalence of false or exaggerated policyholder claims and misclassifications, especially in the wake of a natural disaster. Morris at NICB reports an uptick in water-damage claims in the aftermath of Superstorm Sandy, calling it "the new kitchen fire." Premium cheating is always popular, especially in high-auto-premium states like New York, where more drivers are registering their vehicles in states with lower premiums, says Jim Quiggle, director of communications for CAIF: "You'll see loads of Pennsylvania license plates in some New York neighborhoods."

And NICB finds the perennial biggies to be the same as always: vehicle theft and medical fraud related to auto and workers' comp policies.

But whatever the scam, most perpetrators of insurance fraud fall back on a basic toolkit of sneaky tricks to ply their trade. Read on to discover a few of the most popular MOs.

Trick No. 1: They follow global market trends. Like any smart businessmen, insurance fraudsters are always alert to trends. Are the *nouveau riche* in China thirsting for American luxury cars? No problem; organized fraud rings have built a veritable pipeline from spurious U.S. dealerships to the Asian black market.

Although NICB marked a slight increase in 2012 vehicle thefts, this is not a good indication of how many vehicles are actually stolen, since the estimated 730,000 vehicles pilfered per year reflect those that are actually reported. "Today, many cars are never entered into the NCIC (the FBI's National Crime Information Center), so they're never reported; it's more like financial fraud than auto theft," Morris says. Organized crime rings employ individuals with good credit who lease or finance a car purchase, "and then the vehicle is on a container ship to China, where they can sell a U.S.-made car intended for domestic sale for two or four times the price overseas," he says. Meanwhile, the vehicles are reported stolen to insurers.

Morris cites a recent case where 35 high-end vehicles worth $2.5 million from 11 different states were ready to be shipped overseas, all tied to a single fictitious car dealer in Arizona. Such "ghost buyers" pay foreigners in the U.S. on a valid green card or visa to buy luxury cars, then put them on a boat back to their country of origin to make a killing on the black auto market.

Trick No. 2: They take advantage of the vulnerable. Whether it's disaster-stricken homeowners desperate to put their world right again or immigrants unclear on the ways of insurance, fraudsters prey on the vulnerable. Staged accident rings in places like Los Angeles target drivers in Hispanic or Korean neighborhoods for extortion—fraudsters deliberately hit cars on foot or on bikes, then demand money on the spot in return for "not reporting it," Morris says. The Russian-staged accident rings in New York have "runners" or "cappers" who recruit legal or illegal immigrants to claim injury and collect medical treatment from unethical clinics. Unfortunately, sometimes these people end up injured or dead in staged accidents gone awry.

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Scammers also love to take advantage of people who've been hit with a natural disaster. "Contractor scams loom large for insurers," says Jim Quiggle, director of communications for CAIF. Unlicensed and incompetent contractors descend on catastrophe-devastated areas and lure traumatized homeowners into signing contracts. Then they often will take in a down payment and disappear without doing most of the work, or none at all.

Trick No. 3: They make it happen on paper. Emulating white-collar criminals, many staged-accident fraud rings bypass the dangers of "real" fake accidents altogether and instead make everything happen on paper, with fake passengers, fake injuries and fake treatment, says Quiggle. "That simplifies the clinic's cons," he says. "There are far fewer crashes involving maneuvering innocent motorists into wrecks."

Simply inventing medical treatment records of imaginary crashes increases the crook's control and lessens the likelihood of being busted, he adds. "There are no messy cars, fewer pretend victims who can turn on the ringleaders at trial, and no innocent motorists to be questioned by investigators," he says. Instead, there are stacks of medical records for treating people for nonexistent whiplash involving several or even dozens of phantom crashes. Ringleaders may coach a few "victims" on how to lie to investigators about symptoms and pain in case the insurer wants to question them, or bang up a few cars with a hammer in case the insurer wants to see vehicle damage. But for the most part, minimalist crash rings can generate maximized claim dollars while reducing their chances of getting caught.

Trick No. 4: They exploit chinks in the system. There's no shortage of fraud in the medical arena, in large part because of the many ways in which the system can be scammed—especially with the glut of practitioners. Overbilling and upcoding are common. Some chiropractors may bill 10times more than the industry average, which can trigger red flags for insurers, Morris says. However, with the aggregated medical database becoming more robust and more insurers sending data about abuses, the NICB can alert members when certain providers show up in the database for potential billing issues.

“We can never tell a company not to pay a claim, but we can alert them” about potential bad apples, he says. The NICB and CAIF are also part of the national public-private Healthcare Fraud Prevention Partnership (HFPP) launched in 2012 by the Obama administration and the Department of Health & Human Services, which shares information with the government and private insurers about medical fraud. “Fraudsters know who does what and how to work the system,” says Morris. “When we can share info, it’s key to shutting it down.”

Trick No. 5: They play big. Although there are plenty of instances of small-potatoes insurance fraud—claims-padding probably being the most common— sophisticated perpetrators adopt the adage of “go big or go home.” Increasingly, large, complex crash rings are run by organized crime, often ethnic groups including Russians, Armenians, Estonians, Latvians and a variety of Spanish-speakers, either domestic or tied to organized crime in their home countries.

> Cargo theft has become huge as crooks in the auto-theft arena focus on pulling off one big score. “If they steal one load of plasma TVs, cell phones or pharmaceuticals, they can sell it on the black market and make more money than just stealing a couple of cars, and there’s less risk involved,” Morris notes. Organized rings know where goods are being stored in warehouses and when they’re being shipped; they scout out locations and know when a truck is leaving with a payload, sometimes hijacking or stealing the truck outright. NICB recently thwarted a copper theft ring where ingots en route from a mine in Arizona to a port for overseas shipment were being hijacked on an interstate in Virginia.