THE McINTYRE GROUP
INSURANCE BROKERS & CONSULTANTS

Risk Monitor

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Insurance Fraud Schemes Every Individual Should Know About

According to statistics from the Federal Bureau of Investigation, there are more than 7,000 insurance companies collecting over $1 trillion every year through premium charges. The large size of the insurance industry is part of the reason why insurance fraud is such a big issue today. Insurance fraud costs more than $40 billion every year, which means the average family pays as little as $400 or as much as $700 per year due to premium increases. There are several common fraud schemes used.

Fee Churning

With this type of scheme, several intermediaries accept commissions by way of reinsurance agreements. Initial premiums are reduced until there is no more money for paying claims, and this is done using repeated commissions. Conspirators often set up companies and leave them to pay the claims. Every transaction by itself appears to be legitimate. However, the use of fraud is not apparent until after consideration of the cumulative effect.

Premium Diversion

This involves embezzling insurance premiums and it is the most common type of fraud used. With this scheme, the insurance agent does not send the premiums to the underwriter but keeps the money instead. In some cases, an individual may try to sell insurance without a license, collect premiums and avoid paying any claims.

Asset Diversion

This is the stealing of an insurance company's assets, and it often happens during mergers or acquisitions of existing companies. It may include acquiring control of insurance companies using borrowed money. Following a purchase, subjects use the items they received to pay the debt. Any leftover assets are diverted to the subject.

Workers' compensation fraud is another popular scheme where some people claim to provide benefits at lower costs and misappropriate premiums without providing insurance. When powerful storms hit, the fraudsters come out of the woodwork. During the famous Hurricane Katrina in 2005, over $100 billion in damages was sustained. There were well over 1.5 million insurance claims filed, which totaled a little less than $34.5 billion for insured losses. Insurance fraud costs consumed more than $5 billion of the $80 billion in government funds allowed for reconstruction. There several different forms of fraud schemes used after natural disasters. These include the following:

- Exaggerated or false claims filed by policyholders.
- Claims filed by people who do not live in the immediate area.
- Contractor bid rigging and falsification of the cost of repairs.
- Charity fraud scams that waste funds donated for disaster relief.
- Flood damages that are misclassified as fire, theft or wind damage.
- Contractors who require upfront payments for services they fail to perform.

Insurance fraud is something that all people and business owners should be aware of and familiar with. To learn more about this topic, discuss concerns with an agent.

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