

INSURANCE PREMIUM FRAUD

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THE COST

The Federal Bureau of Investigations (FBI) estimates insurance fraud to cost in excess of \$40 BILLION each year, with premium diversion at the top of the list. Premium Fraud is the willful misrepresentation of information with the intent of paying less than the appropriate premium for an insurance policy or insurance coverage.



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TYPES OF PREMIUM FRAUD

- **UNDERREPORTING PAYROLL AND SALES FIGURES**

In Northern California, a 34-year-old janitorial and pest control company owner was sentenced for eight felony counts relating to workers' compensation insurance premium fraud; she was required to pay more than 2 million in restitution to two different insurers. It was determined that the number of employees and its payroll were misrepresented during the application and renewal process for workers' compensation insurance.



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TYPES OF PREMIUM FRAUD

MISSCLASSIFICATION OF EMPLOYEES

Recently in Texas it was reported that more than 40 % of the construction workforce were misclassified as independent contractors...

In trucking owner/operators are paid based on the amount of miles and weight of the load. Payroll can be manipulated by reporting lower miles and lighter loads.

One Florida construction business owner recently used 12 different shell companies to move 70 million in undeclared payroll in a workers' compensation scheme.



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TYPES OF PREMIUM FRAUD

EXPERIENCE MODIFICATION EVASION

Another form of insurance premium fraud occurs when an established company with a greater loss history resurfaces as a new company on paper to obtain a lower experience modification factor. This factor adjusts the premium based on the number of losses a business has with their insurer.

Experience modification evasion is widespread, and in most cases, the business is actually unchanged in its operations, still presenting a greater than average risk. It is important that brokers and agents do NOT ignore the red flags in an form of Premium Fraud.



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RECOGNIZING RED FLAGS

- . Clients that are reluctant to provide information
- . Excessive number of checking accounts
- . Regular change in bank accounts
- . The client is argumentative and or/disrespectful
- . Significant downsizing when competitors are growing
- . High employee turnover
- . Photocopied or missing documents
- . Excessive amount of year-end transactions
- . Unnecessary or unjustified cash transactions



Additionally, Premium Auditors have a host of other issues that they look for following the application process that brokers and agents may be unaware of. Moreover, brokers can get caught up in the premium fraud themselves.

One insurance broker diverted premium dollars from a Hollywood film icon. Premiums were inflated by as much as 600 percent and the broker was sentenced to more than 2 years in Federal Prison



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THE INVESTIGATION

ISO
TLO-Background Reports Individuals & Entities
Dun & Bradstreet
Google
NICB
State and County Records searches
Governing Bodies-Insurance Commissions etc.









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PRIZE QUESTION

WHAT TWO THINGS DOES IT TAKE TO COMMIT FRAUD?



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