

## Arson for Profit

Arson for profit is one of the oldest, most common, and costliest forms of insurance fraud. It is estimated that annual property losses from arson-related and suspicious fires in Mississippi exceed \$62 million each year. Anyone with any information about a suspicious fire should call their local law enforcement agency or the State Fire Marshal's Office, a division of MID, at 601 354 6900 or 888 648 0877. The State Fire Marshal's Office, through the "Cash for Hot Tips" arson reward program, is authorized to pay up to \$1,000 for information leading to the arrest and conviction of any person who destroys real or personal property by fire or explosion in Mississippi. The State Fire Marshal's arson investigators have an excellent record of successfully solving suspected cases, consistently maintaining arrest rates that are above the national average. Under the County Arson Investigator Program (CAPI), a trained local investigator can request assistance from the State Fire Marshal's Office and other state and federal agencies in solving arson-related cases. Consequently, the State Fire Marshal's Office does not investigate every suspected arson-related fire occurring in Mississippi.

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# MID & You: Fighting Insurance Fraud



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## Fraud Impacts Everyone

Unfortunately, some Mississippians become aware of the financial harm that insurance fraud can cause. They may include people whose insurance premiums were stolen by a rogue agent or company official. Employees may be left with worthless health insurance or bogus workers' compensation coverage. Physicians searching for lower medical malpractice insurance rates may be led to fictitious offshore companies. All consumers become victims when claim fraud drives up insurance premiums. Every taxpayer is affected when internal fraud results in an insurance company's financial collapse. When most licensed companies fail, other companies contribute to the guaranty associations that pay the failed companies' claims. Insurance companies recover their contributions through state tax write-offs. This drains away revenue that could have been spent for education, law enforcement, prisons and mental health.

The Mississippi Insurance Department (MID) seeks to detect fraud and stop it with license revocations, cease-and-desist orders and criminal prosecutions. MID investigates suspected fraud cases, refers perpetrators to local district attorneys, the Mississippi Attorney General's Office, and U.S. Attorneys for prosecution. Insurance criminals often sound



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very helpful and considerate. They strike when people are the most vulnerable and their promotions are very enticing. If you feel that someone is offering you something that is too good to be true, report it to MID. Call the Consumer Help Line toll-free at 800 562 2957 or the Insurance Integrity Enforcement Bureau of the Mississippi Attorney General's Office at 888 528 5780.

### Agent Fraud

Although the overwhelming majority of insurance agents and companies are honest and reputable, there are a few unscrupulous operators. Protect yourself by verifying whether or not an agent or company currently is licensed in Mississippi. Be sure to watch out for these agent fraud schemes:

- **Pocketing** – Instead of turning an insurance policyholder's premium payment in to the company, an agent simply "pockets" it and leaves the consumer without coverage.
- **Twisting** – An agent persuades the life insurance policyholder to change policies after the first year that it is in effect, in order that he or she can continue to receive the highest commission rates that typically are paid during that first year.
- **Churning** – An agent tries to sell an additional policy to a person who already has a life insurance policy with cash value. However, the cash value of the old policy is depleted to pay the premium of the new policy, requiring the policyholder to come up with money to pay for both policies, or allowing the coverage to lapse.
- **Sliding** – An agent "slides" extra, more expensive coverage into a low-commission life insurance policy. The extra coverage

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typically includes high-cost accidental death, guaranteed renewable term or motor club membership.

- Understatement of risk, or “cleansheeting” - An agent omits pertinent health information from a consumer’s health insurance application to make a sale which might not otherwise meet the insurance company’s risk-management requirements.
- Fraud rings – An agent that is part of a fraud ring tries to restrict you to going to one particular doctor, auto repair shop, or attorney.

### **Fraudulent Claims**

Fraudulent insurance claims drive up everybody’s insurance costs. They typically fall in the categories of auto accident fraud and health care provider fraud. Auto accident fraud typically involves staged accidents in which the drivers intentionally collide or involve an innocent driver in a wreck that is made to look like his or her fault. Auto repair shops may bill for unperformed work, or charge to replace parts that were merely repaired. Accident reports may be faked altogether by criminal parties. Don’t place an insurance company sticker on your car – it’s an advertisement that you have liability insurance.

Never follow cars too closely, particularly when the car in front of you is packed with passengers. Watch traffic in other lanes. A common fraud ploy is for a car in a different lane to swerve in front of you and immediately brake. Compare the body shop’s bill with the insurance adjuster’s repair estimate. The amounts –

particularly the parts total – should be fairly close.

In cases of health care fraud, a provider may bill patients’ insurers for procedures that were never done or perform unnecessary tests. An unscrupulous provider may bill for superfluous treatments for unspecified illnesses, or con the desperately ill with hopes of an obscure “miracle” cure. Ask about your provider’s credentials and background. When faced with a treatment, ask about its cost and make sure that your insurance company will pay for it. If little is known about the treatment, make sure that it has been approved by the Federal Food & Drug Administration (FDA). Make sure that your bill accurately reflects the services that you received.

### **Fraud Against Seniors**

Although no one is protected from fraud because of their race, sex or age, the elderly are common targets for insurance fraud because of their need for financial security and concern about burdening their families. Rogue agents will single out seniors that are vulnerable to high-pressure sales tactics and misleading sales pitches. Seniors need to be especially aware of “churning” and other forms of agent fraud, as well as misrepresentation, such as agents claiming to be from Medicare or Social Security. Beware of mail-order or phone solicitations – particularly those that offer a free gift – and never freely give out your Social Security number. An unethical salesperson will resort to a “guilt trip”, telling the elderly prospect that they should purchase

an insurance policy in order to avoid burdening their family. Only buy the insurance that you need and can afford. You may be urged to liquidate existing savings or investments in order to purchase a new policy, but always seek the advice of an independent financial advisor before doing so. MID participates in the Mississippi Insurance Counseling and Advocacy Program (MICAP), which trains volunteer counselors to assist older Mississippians with insurance-related matters. To learn more about MICAP, call 800 948 3090.

### **Pyramid schemes**

Fraudulent insurance products sometimes are sold through multi-level marketing or “pyramid schemes” that emphasize recruitment of salespeople who share their commissions with a recruiter. (Multi-level marketing usually is legal when commissions and other payments are tied to the actual sale of goods.) Pyramid schemes involving the sale of insurance products are illegal because licensed agents cannot legally share commissions with unlicensed persons.

### **Business Insurance Fraud**

Businesses and professionals often are the target of insurance fraud schemes because they need coverage to stay in business and large commercial policies generate large premiums and commissions. These schemes focus on expensive products such as workers’ compensation, medical malpractice, commercial general liability,

contractor performance bonds, and trucker’s auto liability. Most of these fraud schemes involve sales of policies by unauthorized, offshore companies mostly located in small Caribbean or Pacific Island nations. If a company has “Ltd.” or “S.A.” in its name, it usually indicates an offshore company that cannot sell in Mississippi unless it qualifies as a surplus lines carrier. Most health insurance scams seen today involve unlicensed, self-insured Multiple Employer Welfare Arrangements (MEWAs) that seduce employers with unusually low premiums for covering their workers. While many legitimate MEWAs exist – enabling affordable health insurance solutions for many small businesses - unscrupulous operators usually seduce employers with low premiums. The bogus MEWA begins paying small initial claims, but denies or ignores larger claims for serious illnesses or surgeries.

When shopping for business or employee health insurance, employers and professionals should stick with agents that have a record of reliability and honesty. Shop carefully for the insurance that you need. Seek the advice of a trade association on insurance carriers. Study the legitimate market’s normal price range for the coverage that you want. If a quote is well below this range, be skeptical. If you think a company may be based offshore, check with MID to see if the company is an eligible surplus lines carrier.



Need help?  
Contact MID at  
800 562 2957