

A CONSUMER GUIDE TO

INSURANCE FRAUD



INSURANCE
ADMINISTRATION

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FRAUD**



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INTRODUCTION

The Maryland Insurance Administration (MIA) is an independent state agency that regulates Maryland's insurance marketplace and protects consumers by ensuring that insurers and insurance producers (agents and brokers) act in accordance with insurance laws. We produced this guide to help educate Maryland residents about insurance fraud.



The Insurance Administration also is responsible for investigating and resolving complaints and questions concerning insurers that conduct business in Maryland.

INSURANCE FRAUD

Insurance fraud is one of the most costly white-collar crimes in America. Insurance fraud ends up increasing the amount everyone pays in insurance premiums to offset the cost of the fraud. By law, all applications for insurance and all claim forms must contain the following statement, or a substantially similar one:

Any person who knowingly and willfully presents a false or fraudulent claim for payment of a loss or benefit or who knowingly and willfully presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

WHAT IS INSURANCE FRAUD?

Insurance fraud occurs when someone deceives either an insurance company or a consumer in an insurance transaction in order to make money. Insurance fraud can be divided into two major categories.

1. Fraud by an insurance agent, an insurance employee or someone posing as an authorized representative of an insurance company or agent. Examples of these types of fraud are:
 - **Fake/False Documents** – An insurance agent or insurer issues fake policies, certificates, insurance identification cards or binders.
 - **False Statements** – A producer or consumer makes a false statement in the sale or issuance of a policy, or on the application itself. For example, an individual or a company represents to the public that they are licensed to act as insurance producers or public adjusters in the state when they have not received the appropriate license from the Maryland Insurance Administration. An insurance agent falsely reports that an applicant has a burglar alarm to qualify the individual for a special discount.
 - **Pocketing Premiums** – An insurance agent or insurer pockets the premium, and then issues a phony policy or none at all.
 - **Selling Unauthorized Insurance** – It is illegal to sell an unauthorized insurance product. The exception to this is policies that are written in the surplus lines market. These policies must be clearly labeled as surplus lines products. In addition, policies sold in Maryland must be approved by the Maryland Insurance Administration. Unlicensed companies will collect premiums and offer policies that appear to provide extensive coverage. The premiums are very low and for that reason are very appealing; however, these policies frequently will not pay your claim or will not pay what you think you are entitled to.

2. Fraud by individuals, policyholders, medical providers or other service providers against the insurance company to receive money for filing a false claim or inflating a legitimate claim. Examples of this type of fraud include:

- **Arson for Profit** – A business, home, or vehicle is intentionally set on fire by the owner or someone acting on behalf of the owner to collect insurance money.
- **Disaster Fraud** – An individual persuades a disaster victim to claim more damages than actually occurred.
- **Creating a Fraudulent Claim** – This may include: staging or intentionally causing an auto accident; staging slip-and-fall accidents; claiming an injury occurred on the job when it did not; falsely claiming a foreign object in a food or drink; faking a death to collect benefits, or filing a phony death claim; murder-for-profit; phony burglary, theft, or vandalism; arson; staging auto thefts; and staging homeowner accident or burglary.
- **Exaggerated Claims (Overstating the Amount of Loss)** – These can include: inflating bodily injuries from an auto accident or work-related injury; inflating the value of items taken during a burglary or theft; inflating a physical damage claim from a minor fender bender; and medical providers inflating billing or upcoding of medical procedures.
- **Medical Fraud (“Medical Mills”)** – Medical providers bill insurers for services they do not provide or inflate the bills for services. These scams frequently are connected to automobile accidents or disability claims.
- **False Health Claims** – Knowingly making a false statement or representation in a health insurance claim or application, by a patient or by a provider, to an insurance company or to a state health plan or program.



- **Drive-Down** – A driver waves on another driver, indicating it's O.K. to proceed, and then intentionally hits the passing car.
- **Hit & Run** – Using a pre-damaged vehicle, a dishonest individual claims he or she was in an accident and can't identify the other driver, often calling police to verify.
- **Sideswipe** – A driver in the inside lane of a dual left-turn lane in a busy intersection drifts into the outer lane, intentionally forcing a collision.
- **Swoop & Squat** – This scam occurs when the vehicle you are following is suddenly passed by another vehicle that “swoops” in front of it. This causes the vehicle in front of you to stop abruptly, or “squat.” As a result, you are unable to avoid colliding with the rear end of the vehicle. The drivers of both the swoop and squat cars planned the accident. The swoop car typically never will be seen again. The driver of the squat car may submit a claim to your insurer for damage to his car and for personal injury.

CONSEQUENCES OF INSURANCE FRAUD

Generally speaking, insurance fraud results in higher insurance premiums for all policyholders. The insurers must charge all policyholders higher premiums in order to maintain legal requirements with regard to capital and surplus, when insurers pay fraudulent claims for: unnecessary repairs or those not made properly; for property that was not damaged or stolen; for injuries that were not as severe as reported or did not result from a workplace accident.

In addition, when businesses pay higher insurance premiums, those costs are usually transferred to consumers through higher prices for goods and services. If the costs become high enough, demand for those goods and services falls. If demand decreases considerably, jobs may be lost. Finally, insurance fraud also can result in criminal prosecution, jail time, penalties and fines, and/or a civil fraud penalty and restitution.

FRAUD AGAINST SENIORS

Seniors are often fraud targets, particularly in regard to life and health insurance. Seniors are more likely than others to need these coverages, and many worry that they'll become a burden to family if they don't have enough insurance. If you are a senior, it's a good idea to seek advice from your friends or family, or from a trusted accountant, attorney, or financial adviser before making an insurance purchase. Be especially wary of a salesperson or telephone caller who:



- **Contacts you unsolicited.** The salesperson has probably obtained your information through a mailing list. Not all agents who contact you are dishonest, but it's a good idea to be cautious.
- **Uses high-pressure tactics.** Common tactics include offering a “last-chance deal,” appealing to your sympathy or emotions, or attempting to pressure you to sign forms without carefully reviewing them with you so that you fully understand them. Also, any decision to buy insurance should be made rationally, based on a sound assessment of your financial needs.
- **Urges you to cash in an existing annuity or life insurance policy to buy a new annuity, life insurance policy, or other investment.** Annuities and life insurance generally are worth more the longer you keep them. Changing to a new annuity or policy may cause you to lose money over the first three to five years.
- **Claims to be from Medicare, Social Security, or another government agency.** The government does not sell insurance. An agent or broker who claims to be associated with the government is breaking the law.

- **Wants to sell you a package policy that includes several different benefits, some of which duplicate a policy you already have or include coverage you do not need.**
- **Wants you to pay cash or make your check/money order payable to him.**
- **Wants you to sign forms that contain false or incomplete information or are blank.**

If you suspect Medicare fraud (for example, overbilling for services or billing for services you did not receive) or if you would like more information, you should contact the Maryland Senior Medicare Patrol at the Maryland Department of Aging at 800-243-3425 or 410-767-1100 or www.aging.maryland.gov/SeniorMedicarePatrol.html.

FRAUD AGAINST BUSINESSES

Businesses are often targets of the most ambitious and financially damaging schemes. Businesses with risks that are hard to insure and small businesses that have difficulty affording coverage are particularly vulnerable.

The sale of unauthorized health insurance is one of the most common schemes. A fraudulent insurer may claim to be associated with a trade union, trust, or “Multiple Employer Welfare Agreement” (MEWA), which allow small companies to pool their resources when purchasing health plans.

A fraudulent company also may claim its plan is exempt from state regulation because it’s a “self-funded” plan authorized by the federal Employee Retirement Income Security Act (ERISA). While it is true that ERISA plans are exempt from most state laws, they usually are created by businesses and organizations to cover

their own employees or members. Your business almost never will be sold a valid ERISA plan from an outside company or agent.

Business insurance fraud frequently involves workers' compensation coverage. In most cases, employers with a valid workers' compensation policy are protected from lawsuits by injured employees. Policies sold by unauthorized or fraudulent companies are not considered workers' compensation under state law and do not provide these protections.

Employers should be honest and exercise diligence in classifying individuals who perform work for their companies as employees. Under the Insurance Article, it is a fraudulent insurance act to knowingly or willfully make a false or fraudulent statement or representation in, or with reference to, an insurance application. An employer who misclassifies individuals who perform work for their companies also may be in violation of other state laws, including the Insurance Article, and may be subject to additional civil penalties and/or criminal prosecution under those laws. If you encounter any difficulty purchasing workers' compensation insurance in the private market, the Injured Workers Insurance Fund (IWIF) may be able to underwrite coverage for your business. IWIF can be contacted at 410-494-2000, 800-264-4943 or at www.iwif.com.

Other lines of insurance that frequently are sold fraudulently to businesses include:

- medical malpractice
- commercial general liability
- contractor performance bonds
- auto liability coverage for truckers.

If you're in the market for any of these types of insurance, be sure to verify with the Maryland Insurance Administration the license or surplus lines registration status of the companies you're considering by calling us at 800-492-6116 or 410-468-2000.

DRUG AND HEALTH DISCOUNT PROGRAMS

In Maryland, there are two basic types of discount plans available: Discount Medical Plans and Discount Drug Plans. These plans may be structured to look like insurance, but they are not insurance and don't pay any of your health care costs. Instead, discount plans give plan members access to a group of providers of health care services and supplies on a discounted basis.

We all have seen the billboards or received an email promising to “save 50% to 80%” on the cost of health care. With the rising cost of health care and prescription drugs, these advertisements are becoming more and more enticing. Consumers should be careful when considering purchasing a discount plan because each one is different, and not all those that are advertised comply with the law.

Discount plans must register with the Maryland Insurance Administration unless they are offered by entities that are licensed to do insurance business in Maryland – such as insurers, nonprofit health service plans, health maintenance organizations (HMOs) or dental plan organizations.

Before you become a member of a Discount Medical Plan or Discount Drug Plan, it is important to understand how the plans work and how they can be used. You also need to understand exactly how much money a discount plan will save you and how much it will cost to join. Refer to our guide, *What Consumers Need to Know About Discount Medical and Discount Drug Plans* at www.mdinsurance.state.md.us to learn more.

When considering any type of discount program, make sure the program is right for you and offers a genuine cost savings. For instance, find out whether the discount program covers the prescriptions you need. In some cases, you can save as much or more money on your prescriptions by purchasing them at a discount pharmacy

than by enrolling in a discount program. Some discount programs falsely claim to be accepted by certain doctors and providers when they are not. Before joining a discount program, contact your doctors and other health care providers to make sure they participate in the program.

If you believe a discount program has been misrepresented to you, or you've been misled in some other way, contact the Maryland Attorney General's Health Education and Advocacy Unit at 410-528-1840 or toll-free 877-261-8807.



AVOID BEING A VICTIM

Pay close attention to the medical and repair bills you receive. If your auto mechanic charges you for repairs you never received, or tells you that he will inflate your bill to cover the cost of your deductible, watch out. This mechanic is committing insurance fraud and you could be charged as an accomplice if you assist him in any way. Another way of protecting yourself against fraud is to inspect the part your mechanic has replaced. Under Maryland law, car repair customers are generally entitled to the return of any replaced parts.

When you have a doctor's appointment, sign only one claim form per visit. Make sure you date this form. This makes it easier for your insurer to match bills with services. It also makes it harder for unscrupulous healthcare providers to double-bill or bill for services they never provided.

When you get a notice of payment from your insurance company, check it closely. If it is for a service you don't remember getting or something you're just not clear about, contact your insurer or the insurance administrator where you work. It could be a mistake, or it could be fraud. Medical identity theft could result in false

claims filed with your insurance policy as well as incorrect information in your medical records. Always review your explanation of benefits (EOBs) statements and medical records to make certain that they all pertain to treatment you actually received.

Check our website to see if the insurance company is licensed to sell insurance in Maryland. [Go to www.mdinsurance.state.md.us and select the Queries tab from the menu on the left side of the screen.]

Even if the insurance company claims to be exempt from state regulation or is utilizing a license as a Third-Party Administrator (TPA), contact the Maryland Insurance Administration to check if the company is really exempt.

Check to see if the agent or broker is licensed. [Call us at 410-468-2000 or 800-492-6116 or visit <http://www.nipr.com/pdb.htm>.]

A trusted insurance advisor can assist you to make certain that you are purchasing a licensed product.

ADDITIONAL TIPS TO PROTECT YOURSELF AGAINST INSURANCE FRAUD

- **Shop around.** Many schemes promise extensive coverage at a very low price. You can usually save money by comparison-shopping, but be cautious of any plan or policy that costs significantly less than others you've priced.

- **Take your time.** Make certain you understand the type of policy and coverages you are buying before you write a check, give out your bank account information, or provide credit card information to any person or entity. Even if the person appears trustworthy, if you feel at all uncomfortable – WAIT! Take as much time as you need to feel comfortable. Do not feel pressured to make an on-the-spot decision. Ask the individual selling you the policy for a business card and the documents you will need to sign so that you may review them at your leisure.
- **Always pay by check or credit card.** Check and credit card payments usually can be traced and verified. If you pay by credit card, you also may be able to get reimbursed by the credit card company in the event of fraud. If you must pay cash, be sure to get a receipt that shows the name of the company, the date, and the amount paid.
- **Be cautious of policies sold door-to-door or over the phone.** Unauthorized companies often use these methods to market their products. Insist on knowing a company's physical address, and make sure you verify that the company and agent is licensed. Also, verify that the policy terms and rates are comparable to those available elsewhere.
- **If you buy insurance over the Internet, take the same precautions as you would for any insurance purchase.** Many legitimate companies have websites that allow you to purchase insurance online. This can make shopping for insurance easy and convenient. However, the Internet provides the anonymity that also can allow illegitimate companies to flourish. Therefore, it's important that you take the same precautions when buying insurance over the Internet as you would when buying insurance in any other way. Verify that the company is licensed and make sure you understand the exact coverages you're getting. Be especially cautious of insurance that's offered through unsolicited e-mails.
- **Keep your insurance documents.** In addition to the actual policy, keep a copy of any correspondence between you and the insurance company, including advertisements, receipts, and details of any claims submitted. Also keep notes of any telephone or in-person contacts with the company,

including the name and title of the person you spoke with, the date, and the details of the conversation. Good recordkeeping may assist you to resolve any future problems.

- **Review all of your insurance documents to make sure they only include the coverages you purchased.** If you do not receive your policy, contact your agent or the insurance company. In the case of life insurance policies, make sure it does not include any loans that you have not authorized.

WHAT TO DO IF YOU ARE INVOLVED IN AN AUTO ACCIDENT

Automobile accidents are one source of a large number of fraudulent claims. The following are a few tips to assist you to avoid becoming a victim of these claims.

1. Stop at the scene and call 911 to get help.
2. Gather the following information:

Date & time of the accident

Location

Police dept. responding

Officer's name & phone #

Case number

Tickets issued

Owner & Driver of Other Vehicle

Owner of vehicle _____

Address _____

Phone # _____

Driver's license # _____

Insurance company _____

Agent's name _____

Policy # _____

Injuries _____

Driver of vehicle _____

Address _____

Phone # _____

Driver's license # _____

Insurance company _____

Agent's name _____

Policy # _____

Injuries _____

Vehicle year, make & model _____

Vehicle ID _____

License plate # _____

Passengers

Number of passengers in the other vehicle _____

Record the details of each one as best as you can.

Passenger (other vehicle) _____

Address _____

Phone # _____

Injuries _____

Passenger (other vehicle) _____

Address _____

Phone # _____

Injuries _____

Passenger (other vehicle)

Address

Phone #

Injuries

Independent Witnesses

Record the details of each one as best as you can.

Witness

Address

Phone #

3. Notify your insurance company of all of the above information as soon after the accident as possible. Make them aware of any suspicions you may have relating to the facts of the accident.
4. If someone appears at the scene of the accident and attempts to entice any of the involved parties into accompanying the individual to an attorney or a doctor, or furnishes anyone involved with the card of an attorney or doctor, recommending that the party involved in the accident go to that provider for treatment or representation, get as much information about that individual as possible. Attempt to ascertain the license number of the vehicle being used. Anyone who engages in this type of activity for money, or anyone who pays an individual to engage in this type of activity may be guilty of a crime.

REPORT INSURANCE FRAUD

Consumers are encouraged to report insurance fraud activities to the Maryland Insurance Administration's Insurance Fraud Division. You need not give your name. Call 800-846-4069 or file a referral form by mail. The form can be found on our website at *www.mdinsurance.state.md.us* under Consumer Information.

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