Fraud Squad. Rate Evasion: Do We Know It When We See It?

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In the ever-evolving world of schemes, scams, and conspiracies, much of the effort to combat insurance fraud has been focused on denying a claim based on "traditional" forms of rate evasion. In the context of auto insurance, this includes drivers who misrepresent their residencies, where their vehicles are garaged, the number of drivers in their households, their past driving histories, or any combination of the foregoing.

As underwriters, SIU directors, claims investigators, and the attorneys who represent them become more sophisticated, so do fraud perpetrators. The more sophisticated forms of rate evasion recently involve obtaining fraudulent "discounts," rather than fraudulently obtaining better "rating" in the traditional sense. In these fraudulent discount scenarios, either the policyholder, the insurance agent, or both work together to have a policy issued at a price that the policyholder can afford. The motivation for both the policyholder and the agent working together is simple: the policyholder saves money by way of a "discount:' and the insurance agent makes a commission by writing a policy. It's all about the money.

Most insurance professionals and attorneys are quite familiar with the phrase "phantom hit-and-run vehicle Phantom vehicles, while ever so prevalent, are not usually associated with rate evasion. Rather, they involve the victim vehicle occupied by multiple passengers, all of whom allege that a phantom vehicle cut them off, hit their vehicle, or otherwise caused an accident before fleeing the scene. Many of these "accidents" have common fraud indicators: they occur at night in a dilapidated neighborhood with no cameras, no witnesses, and usually no police scene investigation. Further, most of these claims result in excessive treatment despite no objective findings, and often are coupled with PIP, medical payments, and an uninsured motorist benefit claim.

The following phantom scenario below demonstrates how this fraud can creep up at or sometimes even before the point of sale.

John Doe is a single, 23-year-old professional who rents a home. He goes to purchase insurance on his new, high-end luxury vehicle, but finds out that the cost of insurance is $2,500 per year. John already lives in an affluent town, which brings with it some of the lowest insurance premiums in the state. Therefore, the traditional methods of rate evasion will not work for John.

Scenario One: Phantom Vehicle

Using the hypothetical fact pattern above, John's insurance agent, who is at risk of losing a sale, asks John if he still has the vehicle identification number (VIN) of his last vehicle, which was an older-model vehicle that had a book value of $1,000. John is able to locate the VIN and promptly provides it to the insurance agent, who then adds this phantom vehicle, which John no longer owns, onto John's policy. The point-of-sale system automatically adds a multivehicle discount onto his policy. The insurance agent then places the phantom vehicle into "storage making the premium for it $50 per year, while maintaining the multivehicle discount. However, John's premium for the new, high-end luxury vehicle drops from $2,500 per year to $1,800 per year. John saves money, and the insurance agent makes a sale, earning a commission.

Scenario Two: Phantom House

Using the hypothetical fact pattern above, John's insurance agent, instead of adding a phantom vehicle, adds a future-dated homeowners' policy onto John's single-vehicle policy. In this scenario, the agent adds the house that John rents but future dates the effective date. Because John has access to the house, an agent of the insurance company can do a drive-by of the property and may even see John's vehicle parked in the driveway.

So how does it really work? The $2,500 per year premium on John's new, high-end luxury vehicle is discounted down to $1,500 per year because the insurance company's system believes that John has both a homeowners' and an auto insurance policy with it. It therefore offers a large discount to John. However, after the auto policy is issued, the insurance agent cancels the homeowners' policy, but John keeps the discount and the insurance agent makes a commission from the sale of the auto insurance policy.

What Should Be Done?

In instances of suspected fraud, if an examination under oath is requested, the claims professional or attorney conducting it or the deposition should ask for a copy of the entire underwriting file. In the first scenario, the claims professional or attorney also should request a copy of the titles and registrations for all autos listed on the policy and ask specific questions about the ownership history of the autos.

In the second scenario, the claims professional or attorney also should request a copy of the entire underwriting file. Many times, the underwriters for auto insurance are not the same as the underwriters for the homeowners' policy.

The bottom line is that good internal communication and a close look at the underwriting file is a good starting point for combating these newer forms of rate-evasion. Discovering these material misrepresentations may aid in rescinding the policy, ab initia, thereby saving honest consumers money on their premiums.