

### Best's Insurance Law Podcast

# How the COVID-19 Crisis Creates an Environment for Fraudulent Insurance Claims - Episode #169

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**John Czuba:** Welcome to "Best's Insurance Law Podcast," the broadcast about timely and important legal issues affecting the insurance industry. I'm John Czuba, Managing Editor of Best's Insurance Professional Resources.

We're pleased to have with us today, James Barbieri, from independent adjusting company, Claims Advantage in Georgia. James is the president and CEO of Claims Advantage. He's a former police officer and has a BS degree in criminal justice.

Mr. Barbieri is a certified insurance fraud investigator/adjuster and has been conducting SIU investigations for over 30 years. Jim, thank you so much for joining us today.

James Barbieri: Thanks for having me.

**John:** Today's podcast discussion is how the COVID-19 crisis creates an environment for fraudulent insurance claims. Jim, for our first question, how can the COVID-19 pandemic impact insurance fraud?

**James:** Insurance fraud is a significant problem in the United States, and by some estimates, about 10-percent of property and casualty claims are fraudulent, which represents a cost of approximately \$120 billion across all lines of insurance. With this pandemic, insurance fraud will most certainly increase.



With the COVID-19 pandemic, and now with the recent civil unrest, which we've been seeing lately, people are losing their businesses and livelihood. Their life savings are being rapidly depleted, which could cause some people and corporations to engage insurance fraud scams that could be a lifeline in a recession as we are seeing now.

More Americans may tolerate insurance fraud in these tough economic times, and this type of crime is generally considered low-risk as compared to more high-risk crimes such as drug dealing, burglary or armed robbery.

Insurance fraud is an economic crime that usually does not result in heavy jail sentences, especially now with higher-risk prisoners being released from prisons due to the COVID-19 situation.

There are many district attorneys in several states who do not place insurance fraud high on their list of prosecutions. Therefore, the benefit of insurance fraud to get quick money for some struggling people will outweigh the risk of getting caught.

John: Jim, what are you seeing in terms of automobile-related claims?

**James:** John, we have seen these fraud schemes over the years, but some of the common fraud schemes that we are seeing more now are vehicle give-ups and vehicle arson. As many Americans are working from home and not driving to work, they may not have a need for that second automobile and the monthly payments that go along with it.

The insured may simply get rid of their vehicles by driving them into a lake, a pond, a wooded area and then claim the vehicle was stolen to collect the insurance money and get out from under the loan. The obvious motivating factor is the poor economic conditions, job losses, and financial hardships as a result of this pandemic.

Insureds who are desperate for money may have the vehicle stolen and burned to ensure that the vehicle is a total loss. In some cases, they may also strip the vehicle and sell the parts to make extra money.

This type of fraud is also common with motorcycles or recreational vehicles where the insured can no longer justify the monthly payments. Even if the vehicle owner gets caught and fraud is detected, the lien holder is considered an innocent party and will still get paid by the insurance company. Of course, the insured will not get paid.

We're also seeing an increase in staged automobile accidents. Organized groups of fraud rings who need fast cash create an accident scenario that involves phony injuries. Some dishonest personal injury attorneys, doctors, and body shops may have runners who recruit the fraud ring participants, and they usually claim soft tissue injuries.

Some of the time, these alleged passengers, commonly referred to as jump-ins, were not even in in the vehicle at the time of the fraudulent accident. Of course, a jump-in is a common term used in SIU. It refers to a person that was not in the vehicle, but they claim they were in the vehicle and they file a bodily injury claim.



The jump-in will then treat at a medical clinic and get expensive diagnostic tests and epidural injections. In some cases, these tests and medical procedures were not even performed. It is important for the investigator to do a clinic inspection to confirm that these claimants are getting the treatment and that they are signing in the log-in sheet.

What we are seeing now are clinics performing these treatments even though they were shut down due to the COVID-19 pandemic.

In many staged accidents, as we have seen over the years, immigrants are involved. Especially now with the pandemic, undocumented immigrants are more likely to get involved in this fraud ring activity as they have no source of income due to the virus. They are not eligible to receive the government stimulus check if they're undocumented immigrants.

In some staged accidents, innocent motorists are the victims. A fraudster may slam on the brakes in order to get rear-ended, and in that scenario, it is common to have jump-in passengers claiming injuries.

Now, John, also along with staged collisions, we are seeing more body shop scams. Now that there are less vehicles on the road, there will be a decline in accidents. Many dishonest shops will work with the professional fraud rings by enhancing damages or causing more damages to render a vehicle a total loss.

I have investigated several fraud rings where the body shop would tow the damaged vehicle to a staged accident scene and another vehicle would arrive with fake passengers.

I recently handled a claim in Mattapan, Massachusetts involving a rental truck company where I obtained a confession from the renter of the truck.

What he told me was that the claimant had the damaged vehicle towed to a location in Mattapan, Massachusetts, the tow truck dropped down the damaged vehicle, they sprinkled all the debris on the ground, and then another vehicle arrived with five passengers. They got into the damaged vehicle and called the police.

Auto body shop scams involve shops that will perform repairs using old parts in order to inflate the bill. This is commonly seen in airbag fraud where the shop will replace a deployed airbag with a bag full of paper, rags, cardboard, and other items, which poses a public safety risk.

In some cases, the shop will remove an undeployed airbag and replace it with a deployed unit. And then after the claim is paid, they will put back the original airbag.

John: Jim, what is the impact of COVID-19 on workers compensation claims?

**James:** The COVID-19 pandemic creates a problem for insurance carriers and many employees that are working from home. John, as you know, workers compensation claims, to be compensable, the injury must arise out of and in the course of the employee's employment.

The challenge for carriers is to determine if the injuries sustained while working at home are legitimate. Most of these at-home, alleged, work-related claims will be unwitnessed. Unlike factories, and as you see in commercial businesses, there are security cameras. In this case, there will not be any security camera footage to corroborate the injured worker's story.



John: Jim, are there any other areas that claims managers need to be concerned about?

**James:** We are seeing more business interruption claims. Struggling businesses who are shut down due to the pandemic and cannot afford to pay the mortgage may burn the building to collect money, not only for the structural damage but also for business interruption.

An example would be a restaurant that is forced to close because of the virus and they lose meat and produce as well as other product. Normally, they would not be covered under a business interruption policy if there's a virus exclusion. Also, the policy requires that you show physical damage. Now, the loss of product will be the result of arson.

John: Jim, what are some of the investigative challenges out there?

**James:** Most potential fraud claim investigations require in-person interviews. We are finding that fraud participants are using the pandemic as an excuse not to meet with the investigator in person.

This situation hinders a detailed investigation where the investigator needs to inspect the insured's residence or to confirm the identification of the insured by viewing his or her driver's license. These investigators will be forced to conduct telephone recorded statements where one cannot read the body language of the interviewee to determine possible deception.

An alternative solution, which I have been using lately, is to conduct a virtual interview using a platform such as Zoom or Google Meets. However, the insured or claimant may allege that they do not have a computer or webcam.

In some instances, they will claim not to have a cell phone to do the interview, or they will have a cheap phone such as a burner that does not have a camera. In that case, it is extremely difficult to go over scene photographs, maps, and other documents on the phone and impossible to have the insureds mark or sign relevant documents.

The challenge for the investigator is obviously to verify any submitted documents. The investigator will have to adapt to this post-COVID world. I had an automobile theft claim in March, here in Georgia, where there were several red flags or fraud indicators in the claim and an in-person statement was needed.

I instructed the insured to set up a folding table in the backyard, with two chairs spaced apart, and we both wore face masks during the interview.

John, this is a different world, post-COVID, where claims adjusters, attorneys, and investigators need to adapt when conducting a claims investigation.

**John:** Jim, what are your final thoughts for our audience?

**James:** I did not mention that we are seeing more homeowners claims for mysterious jewelry losses, and that's a way to get quick cash at low risk. There is no need to engage in risky behavior to stage a phony loss because simple carelessness can be the basis of a mysterious disappearance claim.



One other thing I want to point out, John, is that you are seeing opportunistic fraud, people that are ordinarily good American citizens, honest people that wouldn't commit fraud, but they're in dire straits.

These people are unlikely to have a substantial or relevant claims history in ISO and are more likely to be long-standing customers of a carrier. A typical claims history or policy history red flags are seldom found.

Just one other thing I want to touch on is the telephone recorded statement or the virtual recorded statement using the computer. It is impossible to counter possible coaching of insureds who communicate virtually.

Somebody could be in the background while you are doing the statement and you cannot see them and they're coaching the insured or the claimant. On that same thought, it is also impossible to conduct separate interviews or EUOs for the attorneys involved of the insureds when the policy provides that they must give statements separately.

An example would be a married couple with a homeowners claim, as most homeowner policies require that insureds give separate statements or EUOs. One final thought. Ironically, the strategic advantage of claiming fear of COVID-19 only goes one way and it advantages only the insureds.

No insurance company could ever delay an investigation or refuse to appraise a vehicle, citing fear of an employee's or investigator's personal safety without the risk of sanction or a bad faith violation.

John: Jim, thank you so much for joining us today.

James: Thank you, John.

**John:** That was James Barbieri, president, and CEO of Claims Advantage in Georgia. Thank you all for joining us for "Best's Insurance Law Podcast." To subscribe to this audio program, go to our web page, www.ambest.com/claimsresource.

If you have any suggestions for a future topic regarding an insurance law case or issue, please email us at lawpodcast@ambest.com.

I'm John Czuba, and now this message.

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