

# Chapter Eight: Insurance-Related Crimes

The Impact of Insurance Fraud

Arson and Its Impact

Auto Theft and Its Impact



# The Impact of Insurance Fraud

## THE IMPACT

Insurance fraud is a deliberate deception perpetrated against or by an insurance company or agent for the purpose of financial gain. Fraud may be committed at different points in the insurance transaction by applicants for insurance, policyholders, third-party claimants or professionals who provide services to claimants. Insurance agents and company employees may also commit insurance fraud. Common frauds include “padding,” or inflating actual claims, misrepresenting facts on an insurance application, submitting claims for injuries or damage that never occurred, and “staging” accidents.

Insurance fraud may be classified as “hard” or “soft.” Hard fraud is a deliberate attempt either to stage or invent an accident, injury, theft, arson or other type of loss that would be covered under an insurance policy.

Soft fraud, which is sometimes called opportunity fraud, occurs when a policyholder or claimant exaggerates a legitimate claim. One example of soft fraud is the car owner involved in a “fender bender” who pads the claim to cover the policy deductible. Another is exaggerating the number and value of items stolen from a home or business. Soft fraud may also occur when people purposely provide false information to influence the underwriting process in their favor when applying for insurance. To lower insurance premiums or increase the likelihood that the application for insurance will be accepted, people may underreport the number of miles driven, misrepresent where a car is garaged, fail to

provide an accurate medical history when applying for health insurance, or falsify the number of employees and the nature of their work for workers compensation coverage.

- The Coalition Against Insurance Fraud estimates more than \$80 billion of insurance fraud takes place each year. This translates into higher insurance premiums and increased costs for running a business, owning a home, or driving a car.
- It is estimated that every American household pays approximately \$300 extra in insurance premiums each year to offset the cost of fraud, according to the National Insurance Crime Bureau.
- At least 10 percent of all property-casualty insurance claims are either inflated or outright fraudulent.
- The Insurance Research Council (IRC) estimates that more than one-third of injury claims from car crashes involve fraud or deliberate exaggeration of injuries.
- The U.S. Chamber of Commerce says fraud adds 25 percent to property-casualty insurance rates.

State	Insurance Fraud a Felony	Immunity Statutes	Fraud Bureau
Alabama	X	X	
Alaska	X	X	X
Arizona	X	X	X
Arkansas	X	X	X
California	X	X	X
Colorado	X	X	X
Connecticut	X	X	X
Delaware	X	X	X
D.C. X	X	X	X
Florida	X	X	X
Georgia	X	X	X
Hawaii	X	X	X
Idaho	X	X	X
Illinois	X	X	
Indiana	X	X	
Iowa	X	X	X
Kansas	X	X	X
Kentucky	X	X	X
Louisiana	X	X	X
Maine	X	X	X
Maryland	X	X	X
Massachusetts	X	X	X
Michigan	X	X	
Minnesota	X	X	X
Mississippi	X		X
Missouri	X	X	X
Montana	X	X	X
Nebraska	X	X	X
Nevada	X	X	X
New Hampshire	X	X	X
New Jersey	X	X	X
New Mexico	X	X	X
New York	X	X	X
North Carolina	X	X	X
North Dakota	X	X	X
Ohio	X	X	X
Oklahoma	X	X	X
Oregon		X	
Pennsylvania	X	X	X
Rhode Island	X	X	X
South Carolina	X	X	X
South Dakota	X	X	X
Tennessee	X	X	X
Texas	X	X	X
Utah	X	X	X
Vermont			
Virginia	X	X	X
Washington	X	X	
West Virginia	X	X	X
Wisconsin	X	X	
Wyoming	X	X	



# Arson and Its Impact

Arson, the act of deliberately setting fire to a building, car or other property for fraudulent purposes, is a crime in all states. Insurers have an interest in preventing and detecting arson because such fires cause needless loss of life and property and also push up the cost of insurance for homeowners, vehicle owners and owners of commercial buildings.

Great strides have been made in fighting arson over the past two decades. Church arson is classified as a federal crime and a coalition of federal agencies are allied against church arson. More fire fighters and police officers have basic training in arson detection. Insurers have set up a computerized database of property claims to help identify suspicious fires and insurance companies have special units to investigate suspected arson. State laws now allow a free exchange of information between insurers and law enforcement agencies eliminating the threat of civil suits for libel or violation of privacy. New computer modeling programs enable fire investigators to better understand the dynamics of arson fires.

## KEY STATISTICS

Arsonists intentionally set fires that destroyed \$777 million worth of property in 2005, down 12 percent from \$879 million in 2004. These fires include factories, residential buildings, churches and motor vehicles, according to the National Fire Protection Association.

The number of civilians killed in arson fires in buildings in 2005 totaled 315, down slightly from 320 in 2004. Only 18 percent of cases were cleared (closing a case either by an arrest or by a predominance of the evidence) in 2005.

Vandalism is the leading cause of arson. An Insurance Research Council study indicates that only 14 percent of arson suspects are motivated by a desire to defraud an insurance company, but other studies find the percentage is higher. Between 20 and 25 percent of arson fires are drug-related.

Children are responsible for almost half of the arson fires set in the United States

**NFPA Data:** According to the National Fire Protection Association (NFPA), in 2005 there were 31,500 intentionally set structure fires, down 13.7 percent from the prior year. In 1996 there were 52,500 such fires. Intentionally set fires in structures in 2005 accounted for 6 percent of all structure fires. These figures do not count suspicious fires.

In 2005 intentionally set structure fires cost \$664 million in property damage, down 7 percent from \$714 million in 2004. These fires killed 315 civilians.

There were 21,000 intentionally set vehicle fires in 2005, down significantly from 36,000 in 2004, a 42 percent decrease. These fires caused an estimated \$113 million in property damage, compared with \$165 million in 2004. Like structure fires, these statistics do not include suspicious fires.

**FBI Data:** According to the FBI's Uniform Crime Reporting Program, law enforcement agencies in the United States reported 65,868 arson offenses, down 2.7 percent from 2004. Only the fires that investigators have determined to have been willfully set — not fires labeled as suspicious or of unknown origin — are

included in the FBI report.

Arsons involving structures (residential, storage, public, etc.) accounted for 43.6 percent of all arson offenses. Mobile property — composed of motor vehicles, trailers and the like — accounted for 29.0 percent of arsons. The rest were arsons of other types of property.

According to the FBI, the rate of arson was 26.9 offenses for every 100,000 inhabitants of the United States in 2005. Arson rates were highest in cities with populations of 250,000 or more, at 46.3 per 100,000 inhabitants. The arson rate for suburban areas was 20.9 per 100,000 inhabitants.

The average loss value per arson offense was \$14,910. Arsons of industrial and manufacturing structures resulted in the highest average dollar losses — an average of \$356,324 per arson.

Arson in the nation's cities fell 2.1 percent in 2005 from 2004, compared with a 2.7 percent drop in the nation as a whole. The number of arson incidents in 2005 fell 1.2 percent in the nation's smallest cities, with populations of 10,000 or fewer inhabitants. In metropolitan counties, arson offenses fell 4.2 percent from 2004 to 2005, and 5.4 percent in nonmetropolitan counties.

Juveniles under 18 years of age accounted for 41.2 percent of arson clearances in 2005. Arson has one of the lowest clearance rates of any major crime. The national rate in 2005 was 18.3 percent, worse than the 17.1 percent in 2004. Motor vehicle clearances were lower in 2005, at 7.4 percent.

# Auto Theft and Its Impact

Auto theft is covered under the comprehensive section of an auto insurance policy. Theft coverage applies to the loss of the vehicles as well as parts of the car such as air bags. Comprehensive coverage, which is not mandatory, also pays for fire, vandalism and weather-related damage including damage from flooding and earthquakes.

Premium rates for comprehensive insurance are affected by the risk of loss, meaning the likelihood that an insured car will be stolen or damaged and the car's value at the time of the loss. The dollar size of claims has been going up, reflecting the higher value of new cars on the road, the value of the cars that are targets for theft or are damaged and the cost of vehicle bodywork. Vehicle bodywork costs include replacing stolen components. Nationally, more than 75,000 airbags are stolen every year. Thefts of xenon headlights are also a growing problem.

The number of U.S. motor vehicle thefts decreased by 1.9 percent from 2003 to 2004, the first decrease since 1999. In 2003, the value of stolen motor vehicles was \$7.6 billion, down from \$8.6 billion in 2003. The average value of a motor vehicle reported stolen in 2004 was \$6,143, compared with \$6,797 in 2003.

## KEY STATISTICS

- Every 26 seconds, a motor vehicle is stolen in the United States. The odds of a vehicle being stolen were 1 in 190 in 2003 (latest data available). The odds are highest in

urban areas.

- U.S. motor vehicle thefts fell 1.9 percent in 2004 from 2003, according to the FBI's Uniform Crime Reports. In 2004, 1,237,114 motor vehicles were reported stolen.
- The West was the only region with an increase in motor vehicle thefts from 2003 to 2004, up 3.2 percent. Thefts fell 9.7 percent in the Northeast, 4.4 percent in the Midwest and 2.9 percent in the South.
- Nationwide, the 2004 motor vehicle theft rate per 100,000 people was 421.3, down 2.9 percent from 433.7 in 2003. The highest rate was reported in the West, 664.5, up 1.7 percent, the only region registering an increase. The rate of motor vehicles stolen was 397.8 in the South, down 4.2 percent from 2003; 341.6 in the Midwest, down 4.8 percent; and 262.5 in the Northeast, down 9.9 percent.
- Only 13.0 percent of thefts were cleared by arrests in 2004.
- Carjackings occur most frequently in urban areas. They account for only 3.0 percent of all motor vehicle thefts.
- The average comprehensive insurance premium in the U.S. rose 11.2 percent from 1999 to 2003, the most recent data available.

## Top Ten States for Motorcycle Thefts, 2005

State	Motorcycles stolen
California	9,110
Florida	6,324
Texas	5,755
North Carolina	3,053
Ohio	2,573
Arizona	2,464
New York	2,195
<b>Indiana</b>	<b>2,186</b>
Georgia	2,159
Pennsylvania	2,021

Source: National Insurance Crime Bureau.

## 2006 Indiana City Auto Theft Rankings<sup>1</sup>

50. Indianapolis-Carmel
74. Chicago (includes Jasper, Lake, Porter and Newton counties in Indiana)
77. Louisville (includes Clark, Floyd, Harrison and Washington counties)
111. Terre Haute
135. South Bend-Mishawaka
136. Elkhart-Goshen
139. Michigan City-LaPorte
177. Cincinnati (includes Dearborn, Franklin and Ohio counties)
207. Columbus
212. Fort Wayne
226. Kokomo
263. Muncie
274. Evansville
277. Anderson
287. Bloomington
296. Lafayette

Source: National Insurance Crime Bureau.

<sup>1</sup>Rankings out of 361 Metropolitan areas

## Top Ten Most Stolen Cars, 2005

	Year	Make and Model
1	1991	Honda Accord
2	1995	Honda Civic
3	1989	Toyota Camry
4	1994	Dodge Caravan
5	1994	Nissan Sentra
6	1997	Ford F150 Series
7	1990	Acura Integra
8	1986	Toyota Pickup
9	1993	Saturn SL
10	2004	Dodge Ram Pickup

Source: National Insurance Crime Bureau.