IMPACTS of the ECONOMY and INSURANCE FRAUD

Florida Department of Financial Services

Division of Insurance Fraud

Crime Intelligence Analyst Unit

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I. INTRODUCTION

When the economy began to decline in late 2007, early 2008, it was expected that insurance fraud would most likely increase. And, as the unemployment rate, the cost of gasoline and the foreclosure rates all increased, an increase in insurance fraud became a certainty. However, as is the nature of the reporting process of insurance fraud, current data to correlate with current conditions is not readily available and impacts cannot be measured in real-time. As the Division of Insurance Fraud began scrambling to gather data to identify the exposure of insurance proceeds to fraud as an impact of the economy, other interested entities such as the Coalition Against Insurance Fraud and The National Insurance Crime Bureau, as well as other states' fraud divisions and bureaus, were seeking data as well, hoping to identify the greatest exposure risks and perhaps play a proactive role with projections and safeguards. And, as predicted, the increase in insurance fraud is indisputable; FY 2008/2009 resulted in a 21% increase in referrals received by the Division of Insurance Fraud from FY 2007/2008.

The types of fraud in which increases were noted included vehicle claim fraud, marine (watercraft) claim fraud, mortgage fraud, homeowner's claim fraud, workers' compensation premium fraud, and disability claim fraud. And, with the increases in both vehicle claim fraud and homeowner's claim fraud were increases in related arson for profit occurrences.

Vehicle claim fraud increased over the last year in several forms. Vehicle ditching was the most rapidly and greatest increasing trend, of which arson was one means in which the unwanted vehicles were reportedly unloaded. Personal injury protection fraud via staged accidents increased over the past year as well, and while not a new trend in Florida, bordering states to Florida have reported a surge of staged accidents emerging as a predatory act of opportunists preying upon vehicle owners desperate for quick cash to meet financial obligations.

An increase in marine claim fraud (watercrafts) was also reported over the last year, but is not a great surprise, given the numerous coastal communities and the great number of water sport enthusiasts in Florida. Undoubtedly, many have felt the financial impact during the economic downturn and have been forced to abandon recreational hobbies. The slowed economy has lessened resale opportunities for recreational or luxury watercrafts, thereby inspiring creative abandoning plots.

The least surprising is the noted increase in *reported* mortgage fraud schemes, of which many believe was the initial culprit of the economic down turn. An over-priced housing market and loose lending practices opened the door for the lending woes that lead to the eventual failure of numerous lending institutions. As the economy began to slide, illicit lending practices surfaced and foreclosure rates increased; and while late delivery of information and delayed discovery of emerging schemes is our unintentional paradigm, it did not take long for Division detectives to discover the link between mortgage fraud and industry insiders.

And, thereafter, once the mortgage crisis took center stage, among the greatest fall-outs was an increase in homeowners' insurance claim fraud. Because of the increase of people with a great need of financial relief from the debt for houses they could no longer afford, and those attempting to avoid foreclosure, there were marked increases in fraudulent homeowners' insurance claims, including an alarming increase in related arsons in some states.

Of great consequence is the increase in workers' compensation fraud by employers who have felt forced to cut costs, and therefore chose to cut required workers' compensation insurance, sometimes by deceptive reporting practices to reduce costs – and in other instances to avoid payment altogether. And, disability fraud increased over the last year by 17%, of which a new trend of income seekers should be carefully considered as possible newcomers on the insurance fraud scene.

But, Florida is not alone in measuring the impact of the economy on insurance fraud. Media reports and data revelations from the Coalition Against Insurance Fraud, the National Insurance Crime Bureau and other states' fraud bureaus and divisions all reveal as well that insurance fraud has increased as a direct impact of the down-turned economy.

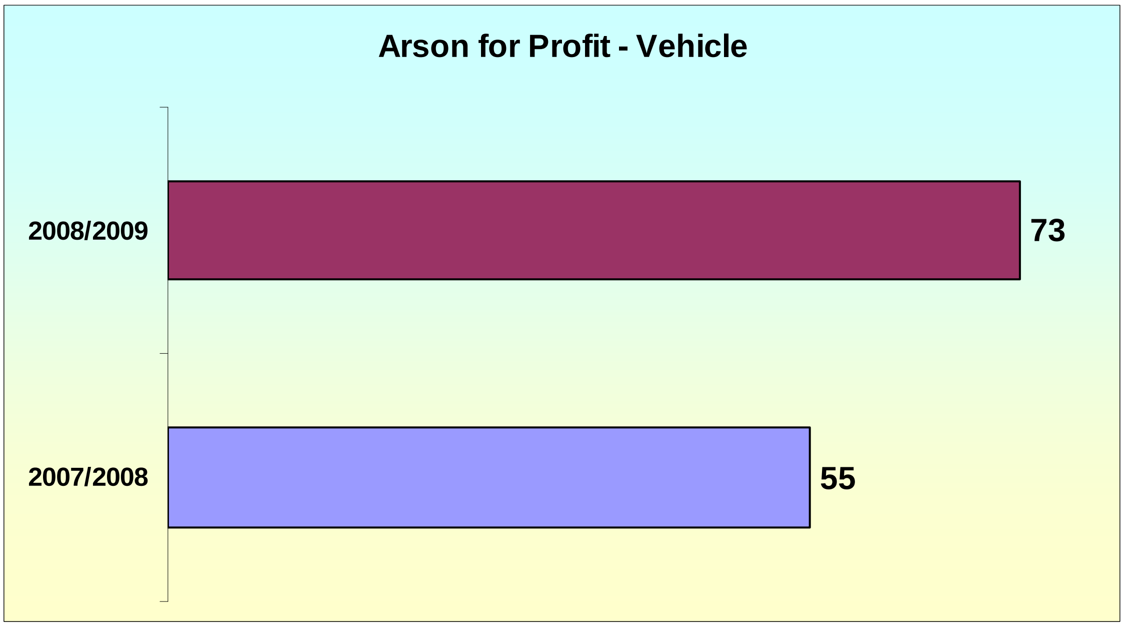
II. IDENTIFIED TRENDS AND MEASURED CONDITIONS IN FLORIDA

A. Vehicle Fraud

Among the most notable and alarming impacts of the economy is an increase in vehicle ditching, which has appeared in several states and in various forms. Increases in fictitious vehicle thefts (ditching) and arsons have been reported in Florida, Texas, New York, California, Pennsylvania, South Carolina, Georgia, Michigan, Alabama and Hawaii. Among the various forms of vehicle fraud emerging over the past year was a new trend identified as "owner give-ups." Within this scheme, vehicle owner's loans are in default or in jeopardy of going into default and the owners simply return the vehicles to the lender. At times the vehicles are returned without notification, but more common is the classic scheme in which vehicle owners ditch the vehicles and file bogus auto theft claims. According to NICB, such give-ups **increased 24 %in 2009**, compared to 2008. Claims related to suspicious vehicle fires and arsons--the most common way to get rid of a vehicle, **increased 27 % for the same period**. SUV's and pick-ups were more commonly dumped, especially with the increase in gas prices. But, even with the price drop in the second half of 2008, the increase of cases has largely continued because of the overall economy, according to Jim Quiggle of the Coalition Against Insurance Fraud, and most states have been impacted by this problem. California and Texas in particular have experienced high rates of potential owner give-up cases, some of which have been perpetrated by fraud rings that burn cars for people, so desperate for relief they actually seek help from "professionals." Others left the deed to Mother Nature. In the wake of Hurricane Gustav in September of 2008, Mississippi police found cars left suspiciously close to seashores in the path of raging weather. And, Steven Nachman, Deputy Superintendent for Frauds and Consumer Services for New York State reported 96 arrests for owner give-ups in 2007. That number jumped to 130 in 2008, **an increase of almost 35 %.**

A more convoluted vehicle ditching scheme emerged as a result of the panicked lending environment; out of fear of loan defaults, some lenders sought alternative avenues to protect their interests and therefore insured vehicle loans. The vehicle "owners", realizing the complicated claim and repossession process, kept the vehicles after defaulting on the loan once it was revealed the lender had insured the loan. This latest trend prompted DIF's CIA Unit to add a new category to the DIF case tracking database in order to capture the number of related referrals. "Failure to Return (Theft)," was added to the DIF case tracking database in September, 2008; **DIF received eighty-five (85) referrals through June 30, 2009.**

And, the most alarming trend is the most classic; burning vehicles for insurance proceeds. Florida, like many states, experienced a notable increase in such incidents over the past year. The DIF case tracking database revealed **an increase of 33% in vehicle arson for profit** from FY 2007/2008 to FY 2008/2009.

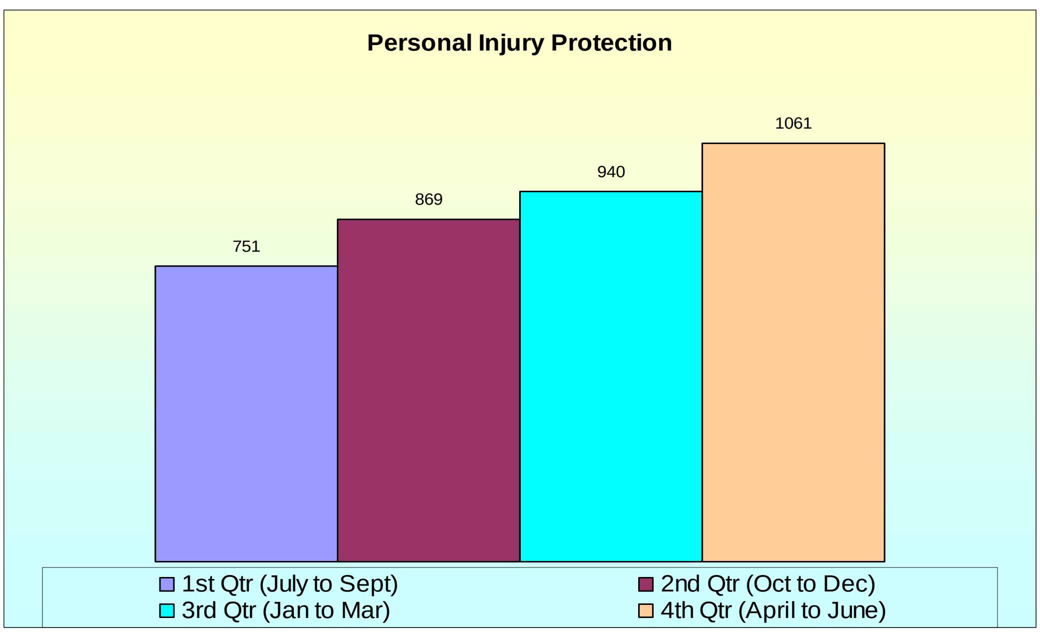


The National Insurance Crime Bureau (NICB) reports that with increasing job losses and reported stolen vehicles recovered burned or flooded is steadily on the rise. Many cash-strapped consumers are dumping unwanted vehicles and then trying to defraud insurance companies. This is yet another fall-out from American's troubled economy from high debts such as high mortgages or car payments. With the rise in gas prices, owners begin to give-up their vehicles with poor gas mileage as a way to eliminate the financial burden. Whatever the scam, drivers make false claims to their insurer that someone "stole the auto."

B. Personal Injury Protection (PIP)

Another form of vehicle fraud which increased over the past year was personal injury protection fraud through staged accidents. While not a new trend in Florida, nonetheless personal injury protection fraud has increased over the past year. And, bordering states to Florida in which the trend was relatively unknown have reported a surge of staged accidents, suspected to be a predatory act of opportunists preying upon vehicle owners desperate for quick cash to meet financial obligations. In Florida, we know staged accidents as one of the most lucrative vehicle fraud schemes perpetrated in the insurance industry, with the numerous facets of profitable related schemes, with numerous potential players. And, certainly the end-all impacts will be financially dramatic to the recovery of the economy.

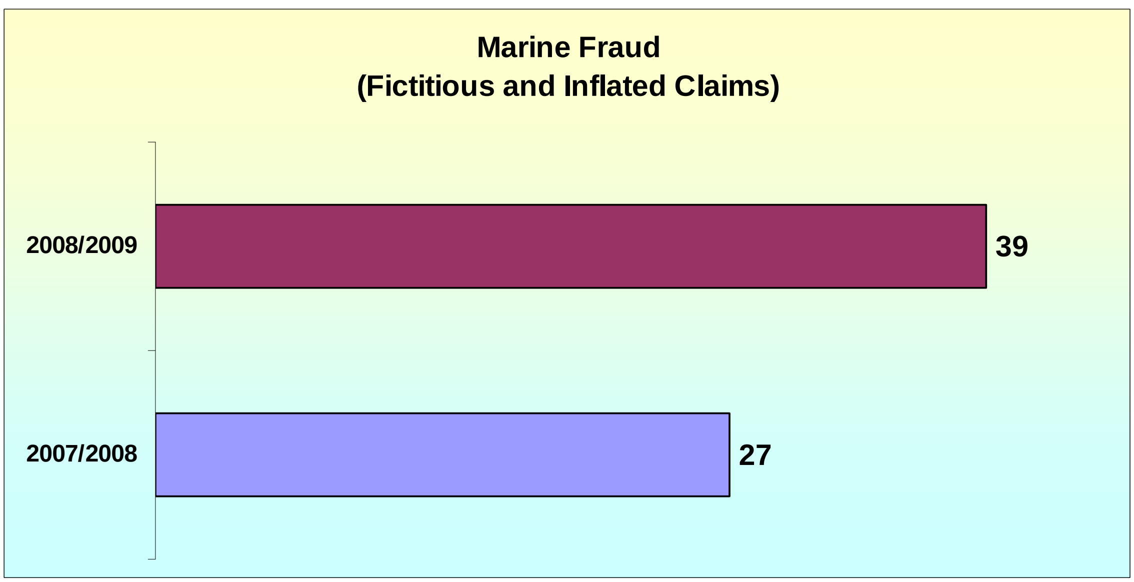
A search of the DIF case tracking database revealed that personal injury protection (PIP) fraud **increased by 41% increase from the 1st quarter of FY 2008/2009 to the 4th quarter of FY 2008/2009.**



C. Watercraft Thefts

Another fall-out of the economic climate in Florida is an increase in watercraft losses. According to the National Insurance Crime Bureau (NICB), **watercraft thefts increased by 32% between 2006 and 2008**. NICB and the Florida Fish and Wildlife Conservation Commission (FWCC), report that boat owners are abandoning (ditching) boats at sea in order to get out from under the responsibility of boat ownership during financial hardships. Many of the boats are paid for but the cost of mooring and maintaining the boats are costs that many cannot afford, which prompts owners to abandon the vessels. **FWCC further reported that abandoned boats in need of disposal increased by more than 100% in Florida between 2008 and 2009**, which is an additional cost impact.

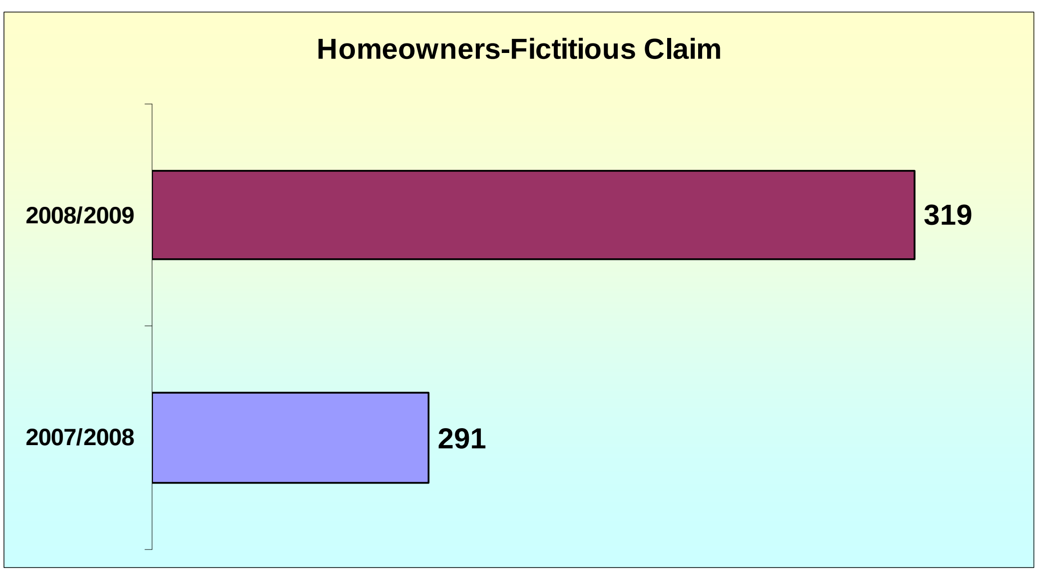
A search of the DIF case tracking database revealed that **reported "marine fraud" to include fictitious and inflated claims, increased by 44% between fiscal year 2007/2008 and fiscal year 2008/2009.**



D. <u>Homeowner's Insurance Claim Fraud</u>

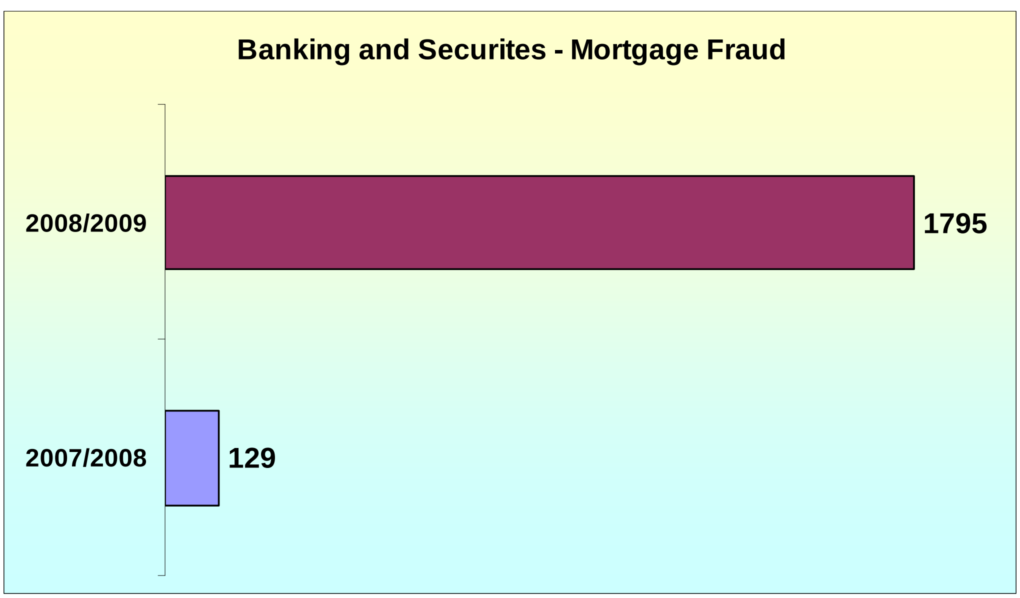
Research and analysis also revealed that homeowner claim fraud has increased. While also appearing in more than one form, inflated or bogus damage claims are more prevalent. Most alarming is an increase in reported homeowner arson for profit. In a report published by The Coalition Against Insurance Fraud (CAIF), spokesperson James Quiggle added to the growing list of troubles that have emerged in the wake of the national housing crisis. Identified as "the biggest surge of mortgage defaults in seven decades", the crisis coincides with an increase in blazes in foreclosed properties, reportedly led by states with the most repossessed homes according to officials in Nevada, Massachusetts and Ohio. And, further, according to CAIF, insurers have reported an increased number of suspicious homeowner's claims related to theft, storm damage, etc.., which were filed approximately six months prior to foreclosure. CAIF further reported that a survey conducted in a dozen states in September, 2008, revealed that home arsons connected to foreclosures are occurring. Insurance companies have been forced to examine home fires more closely for lost or stolen articles from previous reported claims.

A search of the DIF case tracking database revealed that **reported fraudulent homeowner claims – fictitious claim or damage, increased by 9.6% between fiscal year 2007/2008 and fiscal year 2008/2009.**



E. Title and Mortgage Fraud

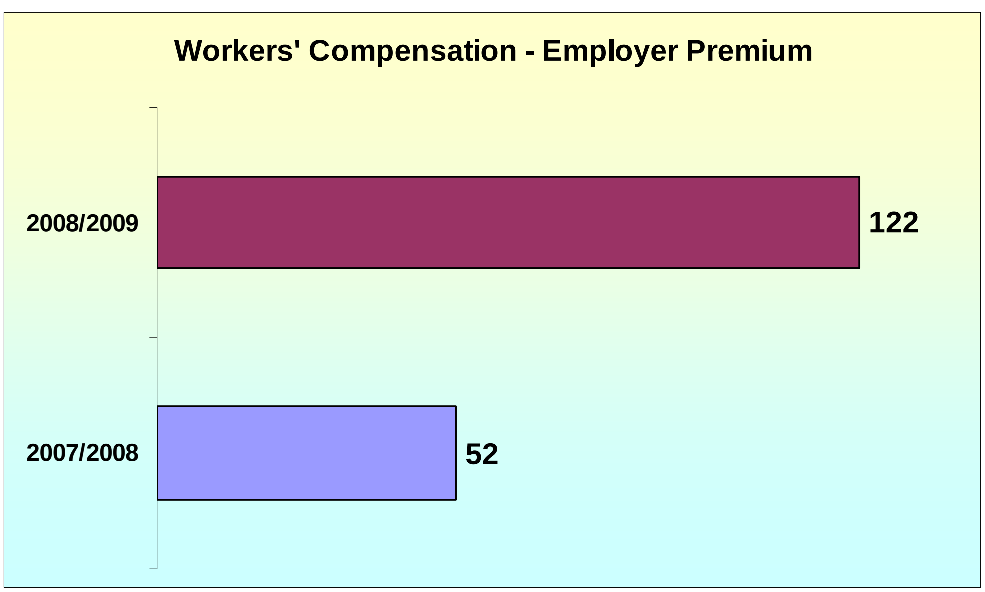
Title and Mortgage Fraud – In the wake of the current economic crisis, mortgage fraud was exposed as the most egregious and conspicuous culprit; however, as is the nature of the insurance fraud industry, complex schemes take longer to be revealed, and are therefore later in delivery to DIF than other less complicated incidents, especially those with only one offender and one victim. Mortgage fraud schemes almost always involve multiple victims and frequently multiple suspects as well. According to RealtyTrac.com, the nation's premier website for tracking foreclosures, **"new foreclosures" in Florida increased 4.89% from May 2009 to June 2009** (Statistics have not yet been released for July 2009). A sudden burst of mortgage fraud infractions resulting from licensee involvement made their way to DIF only recently, although many of the reported incidents date back to 2008. So therefore, the "true time" of the reported incidents is somewhat subjective. Nonetheless **Analysis of the DIF case tracking database revealed an increase of 1291% in mortgage fraud referrals between fiscal year 2007/2008 and fiscal year 2008/2009**, which is undoubtedly one of the greatest measured impacts of the economic down turn.



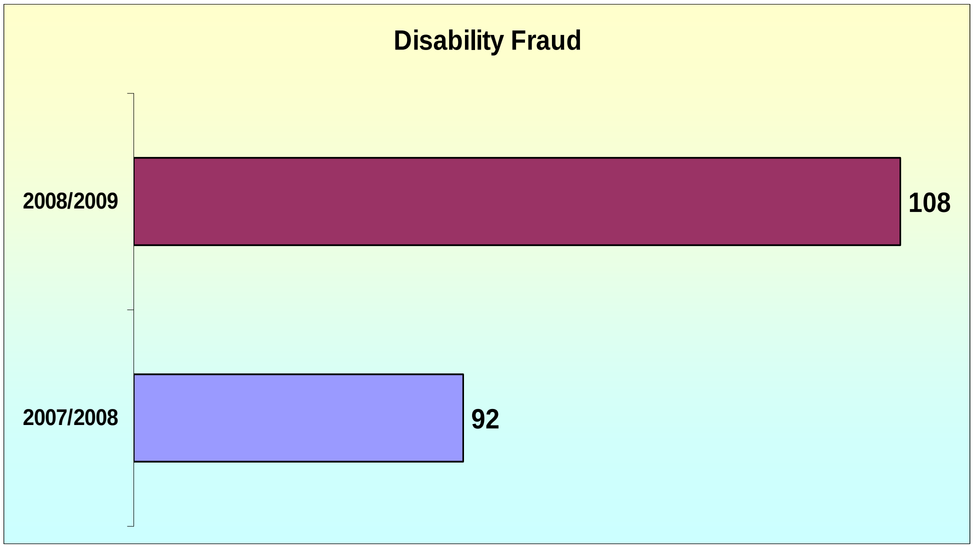
F. <u>Workers' Compensation Fraud</u>

According to CAIF, workers' compensation fraud by employee claimants has not increased during the recent economic down-turn, most likely because employees are in fear of losing their jobs and therefore do not want to rouse negative attention from their employer. However, insurers are now watching for possible "after-the-fact" spikes in bogus injury claims by laid-off employees. Even so, CAIF reports that conversely, hard-pressed businesses are finding ways to *avoid paying full workers'* compensation premiums. Companies hide workers in shell companies to reduce their payroll…they misclassify workers in high-risk jobs as being low-risk (i.e., roofers misclassified as clerks).

An analysis of questionable claims submitted by more than 1,000 NICB member companies in the first quarter of 2009 found that **cases of workers' compensation premium fraud increased 71% from reported incidents during the first quarter of last year**. Researchers also found that **questionable claims related to disability have risen 47% and incidents of injured employees working other jobs while collecting comp benefits have jumped 41%**. **Commercial slip and fall claims are up 77% year-to-year**. A search of the Division of Insurance Fraud database revealed a *decrease* in workers' compensation fraud by claimant (employee) of 26% between fiscal year 2007/2008 and fiscal year 2008/2009, but **an *increase* of 135% in workers' compensation fraud – employer premium.**



The DIF case tracking database also revealed a **17% increase in disability fraud between fiscal year 2007/2008 and fiscal year 2008/2009**.



III. IMPACTS REPORTED BY OTHER FRAUD BUREAUS AND DIVISIONS

A. California

Cases of suspected auto insurance fraud have surged in California amid the recent economic downturn, stated Insurance Commissioner Steve Poizner. The state Department of Insurance documented an "**alarming" 25% increase in referrals about suspected vehicle-arson fraud cases in 2008 as compared with 2007. Likewise, he said, the agency received about 200 more notifications about apparent auto-theft fraud last year than in the prior 12-month period**. The National Insurance Crime Bureau says California -- the car capital of the nation -- leads other states in owner give-ups.

B. Hawaii and New York

In Hawaii, there was a 61% increase in convictions for auto insurance fraud from 2007 to 2008. **Car give-ups (ditching) rose by almost 33% in 2008 in New York**, according to the state's fraud bureau. According to the Insurance Information Institute article on “No-Fault Insurance in N.Y. State”, PIP claim costs are rising faster in New

York than in any other state in the country. The cost of these PIP claims, which many are believed to be from organized staged accident crime rings, rose by one-third in New York, which is more than twice the percent increase found in Florida. The article further purports that it is not due to an increase in medical goods and services (which rose by 4.1% in NY) that is responsible for the increase in PIP claims. According to the New York Insurance Fraud Bureau, no-fault PIP fraud accounts for 55% of their insurance fraud cases. While the National Insurance Crime Bureau reported that 90% of its fraud referrals in New York are auto-insurance fraud.

C. Pennsylvania and Texas

In Pennsylvania, **insurance fraud and related crimes increased 30% in 2008 over 2007, with car insurance fraud accounting for 46% of total fraudulent claims**. Two-hundred eighty-eight people were arrested for false car insurance claims, including staged accidents. In Dallas, **suspected auto insurance fraud increased approximately 12 % this year**.

D. South Carolina

Insurance fraud is on the rise in the South Carolina, the biggest factor reportedly a spike in auto fraud. A group of people were convicted of staging accidents and collecting insurance money. State Farm Fraud Unit, Bill Hess stated the most common claims are people reporting cars stolen, only to find they got rid of them on purpose. Another was house fires; people filed claims for items they never owned.

Attorney General Henry McMaster reported that **during 2008, his office's Insurance Fraud Division secured 135 convictions for insurance fraud, a 44% increase over 2007 with 94 convictions.** The greatest number of complaints were due to **automobile insurance fraud (57 %)** and **personal/commercial property fraud (12%),** followed by workers' compensation fraud (11 %) and health/medical fraud (10 %).

IV. OTHER MEASURED IMPACTS ACROSS THE NATION

Additional analysis was conducted to measure economic impacts from other notable sources. Documented on the following pages are the results of analysis of data obtained from the following sources:

- ✓ Federal Bureau of Investigations (FBI)
- ✓ United States Department of Labor / Bureau of Labor Statistics
- ✓ Mortgage Asset Research Institute (MARI)
- ✓ Coalition Against Insurance Fraud (CAIF)
- ✓ RealtyTrac (the nation's leading online foreclosure marketplace and source of foreclosure information)

A. The Federal Bureau of Investigation (FBI)

FBI's Latest Mortgage Fraud Statistics:

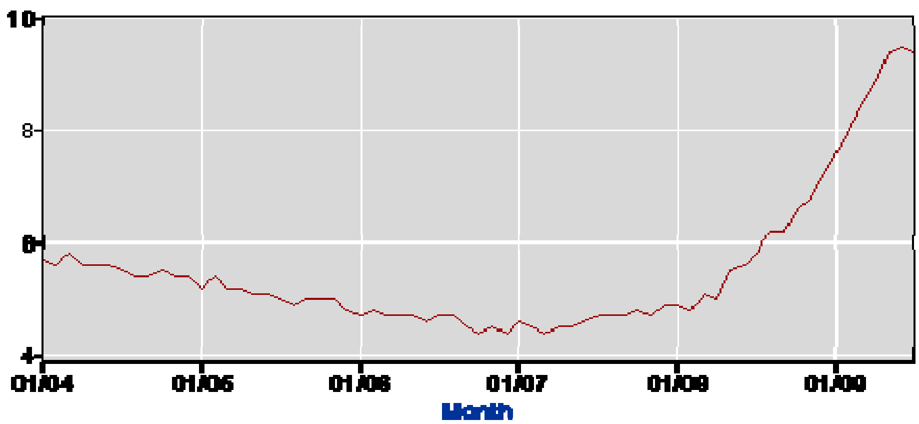
- Estimated Annual Losses*: $4 billion to $6 billion
- Total Mortgage Fraud Suspicious Activity Reports (SAR's) in Fiscal Year 2008: 63,173, with more than $1.5 billion in losses
    - Through 4/30/09: 40,901
- Total FBI Mortgage Fraud Task Forces/Working Groups: 65
- Pending FBI Mortgage Fraud Investigations (through 4/30/09): 2,440
- Cases opened in Fiscal Year 2009 (through 4/30/09): 965 (compared to 136 in all of Fiscal Year 2004)
- Successes in Fiscal Year 2008: 574 indictments and 354 convictions

B. United States Department of Labor, Bureau of Labor Statistics

One of the measurements used to evaluate the economic impact on crime, and in this case insurance fraud, is to take a look at the unemployment rate. As legitimate sources of income may not be available through employment, many have often turned to alternative income to replace what is lost. Therefore, the unemployment rate statistics as reported by the United States Department of Labor, Bureau of Labor Statistics, were obtained for the last five years (2004 – July 2009):

Labor Force Statistics from the Current Population Survey

Series Id: LNS14000000
Seasonal Adjusted
Series title: (Seas) Unemployment Rate
Labor force status: **Unemployment rate**
Type of data: Percent
Age: 16 years and over



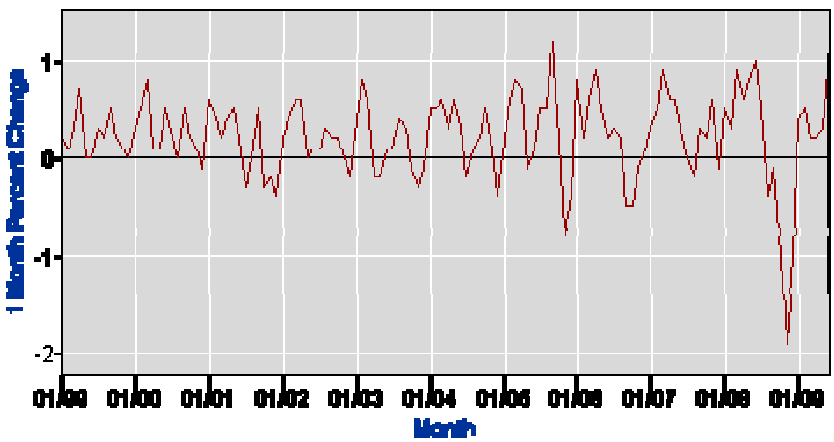
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	
2005	5.2	5.4	5.2	5.2	5.1	5.1	5.0	4.9	5.0	5.0	5.0	4.8	
2006	4.7	4.8	4.7	4.7	4.7	4.6	4.7	4.7	4.5	4.4	4.5	4.4	
2007	4.6	4.5	4.4	4.5	4.5	4.6	4.7	4.7	4.7	4.8	4.7	4.9	
2008	4.9	4.8	5.1	5.0	5.5	5.6	5.8	6.2	6.2	6.6	6.8	7.2	
2009	7.6	8.1	8.5	8.9	9.4	9.5	9.4						

Figure 8 – United States Department of Labor, Bureau of Labor Statistics, Unemployment Rate Statistics 2004 - 2009

Another factor that may have an economic impact on insurance fraud is the price in goods and services over time, which is measured in the Consumer Price Index (CPI), by the United States Department of Labor, Bureau of Labor Statistics. The CPI is based on all prices of goods and services people buy for day-to-day living, and also includes all taxes associated with these purchases. Therefore the CPI was obtained for the last five years (2004 – June 2009):

Consumer Price Index - All Urban Consumers

1 Month Percent Change
Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
1999	0.2	0.1	0.3	0.7	0.0	0.0	0.3	0.2	0.5	0.2	0.1	0.0			
2000	0.3	0.6	0.8	0.1	0.1	0.5	0.2	0.0	0.5	0.2	0.1	-0.1			
2001	0.6	0.4	0.2	0.4	0.5	0.2	-0.3	0.0	0.5	-0.3	-0.2	-0.4			
2002	0.2	0.4	0.6	0.6	0.0	0.1	0.1	0.3	0.2	0.2	0.0	-0.2			
2003	0.4	0.8	0.6	-0.2	-0.2	0.1	0.1	0.4	0.3	-0.1	-0.3	-0.1			
2004	0.5	0.5	0.6	0.3	0.6	0.3	-0.2	0.1	0.2	0.5	0.1	-0.4			
2005	0.2	0.6	0.8	0.7	-0.1	0.1	0.5	0.5	1.2	0.2	-0.8	-0.4			
2006	0.8	0.2	0.6	0.9	0.5	0.2	0.3	0.2	-0.5	-0.5	-0.1	0.1			
2007	0.3	0.5	0.9	0.6	0.6	0.2	0.0	-0.2	0.3	0.2	0.6	-0.1			
2008	0.5	0.3	0.9	0.6	0.8	1.0	0.5	-0.4	-0.1	-1.0	-1.9	-1.0			
2009	0.4	0.5	0.2	0.2	0.3	0.9									

Figure 9 – United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index 2004 - 2009

C. The Mortgage Asset Research Institute Research (MARI)

The Mortgage Asset Research Institute (MARI) in their report to the Mortgage Bankers Association reviewed reported fraud in the United States in the last five years from 2004 - 2008:

- Florida ranked in the Top 5 each year for states reporting incidents of Mortgage Fraud. In 2008, the top three states for reported incidents of mortgage fraud were:
  - 1st **–** Rhode Island (1st time in Top Ten)
  - **2nd - Florida**
  - 3rd – Illinois

- In 2008, MARI found in all reports of mortgage fraud to their database, these top 5 classifications were found in the fraud incidents reported:
  - Application – 61%
  - Tax Return and Financial Statement – 28%
  - Appraisal/Valuation – 22%
  - Verification of Deposit – 21%
  - Verification of Employment – 15%

  For example, 15 % of all cases reported for Mortgage Fraud to their database in 2008, contained Verification of Employment Fraud. More than 1 fraud classification may be in a reported fraud report.

  - In Florida, the highest percentage of Mortgage Fraud Type in 2008 was Application Fraud, which is found in 67% of fraud reported to MARI.

There has not been an updated report for 2009 from the Mortgage Asset Research Institute (MARI) on current trends for this year.

D. The Coalition Against Insurance Fraud (CAIF)

Additional pertinent information was provided by CAIF, which further establishes the correlation between the down-turn of the economy and the increase in insurance fraud. Several impacts were reported by fraud bureaus and divisions across the nation which included:

- Vehicle give-**ups increased 35 percent in New York** from 2007 to 2008
- Vehicle arsons have **doubled in Louisville, Kentucky** since 2007. Most involve high-end, big dollar vehicles
- Burned cars **have soared 50 % in Las Vegas, Nevada** over the last two years

CAIF also indicated that shady health insurance plans are also showing up. Vulnerable families and businesses are struggling with double digit premium hikes. Victims are being conned with discounted premiums and easy signup despite pre-existing conditions.

E. RealtyTrac

Foreclosure trends measured by RealtyTrac revealed that Florida continues to rank at the top nationally in number of foreclosures. However, even though Florida foreclosures continue to increase, our standing in the rankings is dropping among all states. Most likely, these changes are indicative of the changing climate in other states from the impact of the down-turned economy:

Florida documented the second highest state total. **Florida foreclosure activity in the first half of 2009 increased 7%** from the previous six months and was **up nearly 42% from the first half of 2008.**

1. California
2. Florida
3. Nevada
4. Arizona
5. Georgia
6. Michigan
7. Texas
8. Ohio
9. Illinois
10. Colorado

- According to RealtyTrac, foreclosures (including default notices, auction sale notices and bank repossessions) *decreased* nationwide from 303,410 in December 2008 to 274,399 in January 2009

- There was a *decrease* in the number of foreclosures in many Florida counties such as Miami-Dade and Palm Beach for which the numbers each decreased by a thousand

- In Broward County, the number of foreclosures *increased* from 2,788 in December 2008 to 4,403 in January 2009

V. GLOBAL IMPACTS

By many accounts, the impact of the economy on insurance fraud is global, extending well beyond the United States to places like the United Kingdom, South Korea, and South Africa.

a. City of London

The number of reported frauds rose by 64% during the past financial year. Mike Bowron, Commissioner of City of London Police, said that with the downturn in the property market, they are seeing a lot of mortgage fraud. Bowron further stated that, “Fraud has not been a priority for either the police or the public, not because nobody understands it but because nobody walks down the street in fear of being embezzled. But the fact is that it is the crime that we are most likely to fall victim to.”

b. Association of British Insurers (ABI)

The current global recession has led to a huge increase in the number of fraudulent insurance claims and cases of identity authentication fraud. This is the finding of a study by the Association of British Insurers (ABI), who found that 107,000 incidents of insurance fraud were uncovered in 2008. However, in 2007 the number of insurance claims that were found to be dishonest was **17% less**. Such is the impact of the recession that one in five respondents to a YouGov poll of 3,000 people that was commissioned by ABI said that they would be open to the idea of making a fraudulent claim in the future. Nick Starling, Director of General Insurance and Health at ABI, commented: "Fraud thrives in a recession, so insurers are intensifying their crackdown on insurance cheats." He added that **the average insurance premium has risen by 40% as a result of insurance fraud** and the likelihood of getting caught has increased. According to the ABI, one in four homeowners in the north-west of England does not have home contents insurance.

c. South Korea

South Korea has reported an increase in insurance agents committing fraud to increase their sales, often by forging medical documents or staging false accidents.

According to the Financial Supervisory Service, 261 Korean Insurance agents were caught committing insurance fraud last year, up from 36.7% a year earlier. The number of shady agents discovered to have committed such fraud increased, from 181 in 2006 to 191 to 2007 to more than 260 last year, more than **36% increase**. Additionally, the amount of financial damage cause by such fraud jumped 13.9% ($2.2 million).

d. South Africa

An increase in fraud is costing the short-term insurance industry billions as the economic recession deepens. Hugo van Zyl, operations head of the SA Insurance Crime Bureau, said: “Some companies’ **insurance- fraud figures rose by between 10% and 12% in the past six months**.” Van Zyl said there had been an increase in fraudulent insurance claims on cell phones and laptop computers. Viviene Pearson, stakeholder relationship manager for the SA Insurance Association, said: “About 10% of short-term insurance claims contain an element of fraud, which amounts to nearly R2-billion a year.” Not only is the recession contributing to an increase in insurance fraud, but international organized crime syndicates operating in South Africa are also involved, Van Zyl said.

VI. IMPACTS WITH VIABLE IMPLICATIONS

A new study by the Insurance Research Council (IRC) finds that many Americans have taken steps to reduce personal insurance costs in response to the economic downturn, but that maintaining essential auto and homeowner’s coverage remains a priority for the vast majority of consumers. Of those polled with auto or homeowners insurance, 15% said they had increased their insurance deductibles or reduced the amount of coverage in order to reduce premium costs; 9% of those with at least one household vehicle reported canceling or not renewing coverage for a household vehicle in response to the economic downturn; 5% of homeowners and 14% of renters reported canceling homeowners or renters insurance coverage.

VII. CONCLUSION AND RECOMMENDATIONS

Insurance fraud increased significantly over the past year, indisputably as an impact of the down-turned economy. While there are several products of which exposure has been noted, the greatest measured impacts are as a result of vehicle insurance fraud, mortgage fraud, and workers' compensation premium fraud.

By all accounts, there will be a continued surge of vehicle claim fraud as a consequence of lost jobs and lessened incomes. And, there are scores of personal injury protections fraud schemes that occur in Florida daily, many that involve large, organized schemes with a multitude of individuals working in concert together. Equally so, homeowners' insurance has suffered great exposure, specifically given the high number of foreclosures and resulting fraudulent claims to avoid foreclosure – without question as a result of the actions of unscrupulous acts that involved industry insiders that have been entrusted with licenses issued by the State of Florida. And, workers' compensation fraud premiums that are unpaid or deceptively reduced are a costly impact that cannot be ignored, as the risk to Florida workers is too great to ignore.

It is therefore recommended that we continue our efforts to track and identify increases in occurrences of insurance fraud, specifically as it relates to inferences and implications of economic impacts as identified in this report. Reduced coverages and deductibles, while perhaps a cost savings to financially strapped families, can also cause desperation when facing financial setbacks resulting from losses that would have otherwise been satisfied through policy coverages. The CIA Unit must therefore be ever diligent in identifying and reporting such increases, as well as identifying emerging trends that contribute to a change in the existing conditions.

The Division of Insurance Fraud should further devote resources to vehicle insurance fraud as it relates to vehicle ditching, vehicle arsons and personal injury protection fraud. By all accounts, these trends are expected to grow in Florida and across the nation and will require enforcement efforts by DIF. It is further recommended that we track and identify mortgage fraud schemes that have been perpetrated by industry insiders. DIF should continue to focus enforcement efforts on large scale mortgage fraud schemes by title agents; DIF should place an emphasis on opening and assigning cases to the greatest extent possible to facilitate appropriate response to this egregious trend that impacted the economy and so many Floridians, some devastatingly so.

And, last but not least, it is recommended that we focus efforts on the increase in workers' compensation premium fraud; specifically we must work diligently to identify employers who are misclassifying workers' to reduce costs, as well as employers who have elected to avoid payment of premiums altogether, and do so in partnership with the Division of Workers' Compensation Compliance, not only as enforcers, but as educators, to increase awareness to minimize such instances by reinforcing the potential consequences.

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