

INSURANCE FRAUD NEWSLETTER

Volume 3

December
1998

Mike Huckabee
Governor



Mike Dickens
Insurance Commissioner

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MESSAGE FROM THE DIRECTOR

This edition of the INSURANCE FRAUD NEWSLETTER highlights two separate but often related insurance fraud problems – application and agent fraud.

In conducting "Operation Cleansweep" on July 9, 1998 (see page 3), the Fraud Investigation Division sent a strong message to insurance agents who had been engaged in illegal schemes as "business as usual". The message was that the penalty for engaging in illegal activity would no longer be just administrative, but criminal as well. Agents who were pocketing premiums, filing false claims, and engaging in the business of insurance without a license were going to be prosecuted and face jail time.

These types of activity are obvious in their criminality. What is not so obvious is when an agent assists an insured in committing application fraud. If an agent advises a potential customer on how much mileage

to and from work would get the best rates, intentionally misidentifies the location of a residence for "suburban rating" purposes or turns a blind eye to an employer setting up a successor company to avoid a high experience modifier on its workers' comp coverage, is the agent committing fraud? The answer should also be obvious. If an insured is paying less than he/she legitimately should as a result of a material false statement, fraud has been committed and the agent may have aided and abetted that fraud.

Insurance agents are on the front line against insurance fraud and a critical element in the Fraud Investigation Division's antifraud efforts. If you are an insurance agent or are otherwise involved in taking or reviewing insurance applications, please pay special attention to the Spotlight on Application Fraud on page 2. The license you save may be your own!

Martin J. Nevrla

FRAUD REFERRAL UPDATE

- ⇒ The Fraud Investigation Division received 768 referrals in its first year of operations.
- ⇒ Workers' Compensation referrals are down 68% since the first year of the Workers Compensation Fraud Investigation Unit (1993-1994).

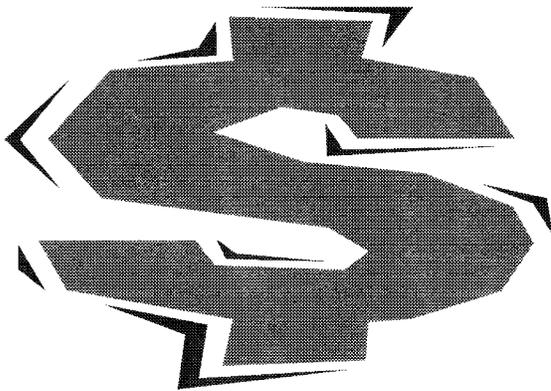
SPOTLIGHT ON APPLICATION FRAUD



All applications for insurance should be reviewed for possible fraud. While most applicants for insurance are trustworthy, a sufficient number are dishonest to warrant attention to detail.

GENERAL INDICATORS

- ◆ Unsolicited, new walk-in business, not referred by existing policyholder.
- ◆ Applicant neither works nor resides near the agency.
- ◆ Applicant gives post office box as an address.
- ◆ Applicant has no telephone number or provides a mobile cellular phone number.
- ◆ Applicant cannot provide driver's license or other identification or has a temporary, recently issued, or out-of-state license.



- ◆ Applicant wants to pay premium in cash.
- ◆ Applicant pays minimum required amount of premium.
- ◆ Applicant's income is not compatible with value of vehicle to be insured.
- ◆ Applicant is never available to meet in person and supplies all information by phone.
- ◆ Applicant questions agent closely on claim handling procedures.
- ◆ Application is not signed in agent's view.
- ◆ Applicant returns the completed application unsigned.

COVERAGE INDICATORS

- ◆ Question about recent prior claims is left unanswered.
- ◆ Full coverage requested for older vehicle.
- ◆ No existing damage is reported for older vehicle.
- ◆ Exceptionally high liability limits are requested for older vehicle inconsistent with applicant's employment, income or lifestyle.

VEHICLE INDICATORS

- ◆ Vehicle is not available for inspection.
- ◆ Vehicle has unusual amount of after-market equipment (e.g. wheels, high priced stereo, CB radio, car phone).
- ◆ Vehicle inspection by agent uncovers discrepancy between VIN listed on title/bill of sale, VIN plate on dashboard, and/or manufacturer's sticker on door.
- ◆ No lienholder is reported for new and/or high value vehicle.
- ◆ Vehicle title or authenticated bill of sale cannot be produced.

These and other warning signs are only indicators of possible fraud. No one sign or combination of signs means fraud has actually been committed; it means only that further inquiry may be justified. The National Insurance Crime Bureau ("NICB") has published material thoroughly detailing the indicators of application fraud. For copies of this information, contact the Insurance Fraud Investigation Division or the NICB directly at 708-430-2430.



On July 9, 1998, the Fraud Investigation Division, in cooperation with local prosecuting attorneys and law enforcement agencies across the state, announced that felony warrants had been issued for ten (10) insurance agents and two (2) insurance agencies for offenses involving theft, insurance fraud, forgery and engaging in the business of insurance without proper licensure. Most of the agents were either being arrested or were surrendering themselves to authorities at the time of the announcement.

State Insurance Commissioner Mike Pickens and Marty Nevrla, the Director of the Fraud Investigation Division, announced that the warrants were the result of an operation conducted by the Division over the past several months to identify those agents who were alleged to have conducted their business in a fraudulent and illegal manner. None of these cases were related (all are the result of separate investigations) and the Division will be continuing the operation and expects to recommend charges against more agents in the future.

Commissioner Pickens noted: *"The vast majority of insurance agents in Arkansas operate in a legal and ethical manner and provide a necessary and important service for the financial protection and well-being of our citizens. How-*

ever, this Department will have a 'zero tolerance' policy toward those few agents who do business illegally and unethically in order to profit at the expense of Arkansas insurance consumers."

Director Nevrla identified the agents listed in the "Operation Cleansweep" warrants as follows:

- ◆ Joyce Crump and All Risk Insurance Services, Inc., Jonesboro (theft, forgery and insurance fraud)
- ◆ Doyle Fulmer, Renee Fulmer and Fulmer Insurance Agency, Inc., Fayetteville (theft)
- ◆ Glen Foster, Jonesboro (theft)
- ◆ Alan English, Sherwood (insurance fraud)
- ◆ Mary Jones, Cabot (theft)
- ◆ Roy Lee James, Little Rock (insurance fraud, forgery and misdemeanor theft)
- ◆ Edward Mark Johnston, Little Rock (insurance fraud)
- ◆ Louis McGaugh, Smackover (theft)
- ◆ Jerry Hammond, Cherokee Village (insurance fraud)

Losses resulting from the alleged illegal activities of these individuals were estimated at over \$500,000, with additional amounts expected to be identified through further investigation. (See reports below for disposition of some of these cases.)



WORKERS' COMP FRAUD

Eugene Collins, Texarkana. Employee made false representations regarding the cause of an accident on the job when he attempted to shake a free drink from a large soft-drink machine, but claimed the accident occurred when a shelf collapsed on him. Pleaded guilty to the charge of workers' compensation fraud and received 3 years probation, a \$1,500 fine and court costs.

Jon Rackley, Fayetteville. Employee made material false representations concerning outside employment while pursuing workers' compensation benefits. Pleaded no contest to theft by deception and was ordered to pay \$139 in restitution and court costs.

Fred Rychlock, Mountain Home. Employee failed to disclose a similar prior injury to same area of the body. Pleaded guilty to attempted workers' compensation fraud and received a one-year suspended sentence and was ordered to pay \$2,000 in restitution, \$150 fine and court costs.

Steven D. Evans, Jonesboro. Subject began working another job while receiving temporary disability benefits. Pleaded guilty to theft by deception and received one-year suspended sentence and was ordered to pay \$1,068 in restitution and court costs.

INSURANCE FRAUD



Larry J. Martin, Searcy. Subject filed a false claim for automobile allegedly stolen and burned. Pleaded guilty to one count of felony fraudulent insurance act and received 3 years probation, 80 hours community service and a \$1,000 fine and court costs.

Mary Jones, Cabot. Agent made false representations in obtaining money for insurance policy which was never in force. Pleaded "no contest" to theft by deception and received six months probation, court costs, \$485 in restitution and was ordered to complete a theft workshop. (Result of Operation Cleansweep)

Joshua Wordlaw, Little Rock. Subject misrepresented himself as licensed insurance agent, sold policy and collected commission check. Pleaded guilty to theft by deception and received a one-year suspended sentence and was ordered to pay \$262 in restitution, \$1,000 fine and court costs.

Louis McGaugh, El Dorado. Agent made false representations in obtaining money for insurance policy where the application and funds were never forwarded to the insurance company by the agent. Pleaded guilty to felony theft of property and received 1 year probation and 50 hours of community service. (Result of Operation Cleansweep)

Doyle & Renee Fulmer, Fayetteville. Unlawfully retained insurance premiums received from clients and insurance premium finance companies. Agent and spouse pled guilty to felony theft of property. Agent sentenced to 10 years with 8 years suspended. Spouse sentenced to 10 years probation. Each defendant to pay \$10,000 restitution plus court costs. (Result of Operation Cleansweep)



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DIVISION PROFILES

ADMINISTRATIVE STAFF

Evelyn Brown, Legal Secretary, has been with the State Insurance Department for 11 years, the last three in the Insurance Fraud Investigation Division. Evelyn was born and raised in Little Rock, is married and has a 7 year old son and a 2 year old daughter. Her son was born in Germany during the 2 1/2 years she accompanied her husband on his tour with the Army. Evelyn enjoys traveling, watching her son participate in sporting activities, working with the Youth Program at her father's church and is a big Razorback fan. Evelyn also does professional catering for weddings.

Shirley Pegg, Administrative Assistant, was with the State for 10 years before joining the Insurance Fraud Investigation Division last year. Shirley was born and raised in Garrett, Indiana and after spending four years in the Air Force as Procurement Specialist, raised her three children (one daughter and two sons), and returned to college to pursue her degree in Business Management. She then worked for the Conway Human Development Center for nine years. Shirley enjoys family time, reading, hiking, canoeing and biking.

Jeannie LaCour, Legal Secretary, has been with the Insurance Fraud Investigation Division for one year. She was born and raised in Bradford and has worked in the legal field for 20 years. Jeannie has two daughters and two grandsons whom she claims to be the light of her life. She enjoys most outdoor activities, (especially those involving her grandsons), reading, cooking, racquet ball and searching out flea markets in her quest for that special "find".

Marty Nevrla, Director, organized the Insurance Fraud Investigation Division in 1997 and its predecessor, the Workers' Comp Fraud Investigation Unit, in 1993. Marty is a 1975 graduate of the University of Arkansas, School of Law and is a former Assistant Attorney General

and Assistant Securities Commissioner of the State of Arkansas. He spent ten years in private practice in Colorado and Vermont engaged principally in a criminal defense and business practice before returning to Arkansas to organize the Fraud Unit. Marty is married, has three young sons and loves golf and family activities.

