

INSURANCE FRAUD NEWSLETTER

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Mike Huckabee
Governor



Mike Pickens
Insurance Commissioner

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- Brian White**
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- Evelyn Brown**
Legal Secretary
- Jeannie LaCour**
Legal Secretary

MESSAGE FROM THE DIRECTOR

Arkansas rightfully calls itself "The Natural State". It has many scenic areas both remote and close to home. Yet, "natural" can have another connotation and, unfortunately, Arkansas can lay claim to that one as well.

Natural events such as tornadoes, floods and ice storms are a common and inevitable fact of life in Arkansas, as it is in many other states. Recent catastrophes have exacted high tolls in lives lost and property damaged. One way that people prepare for these eventualities is with full and adequate insurance coverage. The Insurance Department and, most importantly, the insurance industry are constantly fine tuning the emergency response effort when a natural catastrophe strikes; unfortunately, those who prey on innocent victims and those who unlawfully take advantage of the confusion and

pressures of these events are also fine tuning their schemes.

The insurance industry, including local agents and adjusters on the scene, and the public at large must be diligent of the predatory practices that come part and parcel of any natural catastrophe. The Spotlight on Catastrophe Fraud article on page 2 is a good starting point in the education process. Natural catastrophes can strike anyone and anywhere (downtown Little Rock as well as rural trailer parks) and we should all be put on notice that danger exists even after the sun shines through and all seems peaceful.

Martin J. Nevrla

FRAUD REFERRAL UPDATE

- Although workers' compensation fraud referrals are down approximately 70% since 1994, they still represent the highest volume among all lines of insurance, followed by automobile claims and structure arson, respectively.
- Insurance agent fraud, which crosses all lines of insurance, would replace structure arson in volume if referrals of just "types" of fraud were considered.



SPOTLIGHT ON CATASTROPHE FRAUD

Massive disasters overload insurance claim personnel. Insurance personnel are under pressure to settle losses quickly to alleviate the hardship of insureds. Criminals recognize and exploit these crises.

Catastrophe related fraud and abuse primarily falls into three categories; insurance claim fraud, property repair fraud and fraud associated with claims and loss processes.



INDICATORS OF CLAIM RELATED FRAUD

Insureds With Catastrophe Insurance Coverage

- ◆ Insured declares extensive losses without physical evidence, photographs or documented receipts.
- ◆ Items claimed do not match claimant's life-style, décor, house, occupation or income.
- ◆ Insured is unusually knowledgeable regarding insurance terminology and the claims settlement process.
- ◆ Insured is overly pushy for quick settlement.
- ◆ Investigation reveals absence of family photographs, heirlooms or items of sentimental value.

Insureds Without Catastrophe Insurance Coverage

Theft

- ◆ Affected area was not evacuated.
- ◆ No other homes were damaged or destroyed in

the affected area.

- ◆ Insured has no documentation or receipts (stolen, damaged or thrown out).

Fire/Flood Losses

- ◆ No other homes or businesses were damaged or destroyed by fire or flood in the affected area.

INDICATORS OF PROPERTY REPAIR FRAUD

Contractors/Providers

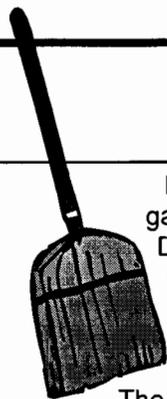
- ◆ Do not maintain a local office and/or have a local telephone number.
- ◆ Are not able to provide references.
- ◆ Want cash or payment up front.
- ◆ Arrive at loss site without being solicited.

INDICATORS ASSOCIATED WITH THE CLAIMS PROCESS

- ◆ Insured over-documents losses with a receipt for every item including older items of property.
- ◆ Insured cannot provide receipts, cancelled checks or other proof of ownership for recently purchased items (i.e., warranty information, user manuals).
- ◆ Insured provides numerous receipts for inexpensive items, but no receipts for items of significant value.
- ◆ Insured provides receipt(s) with incorrect or no sales tax figures.
- ◆ Insured provides receipt(s) with no store logo (blank receipt).
- ◆ Insured claims the identical items under different policies or with a different insurance company.

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 catastrophe fraud. For copies of this information, contact the Insurance Fraud Investigation Division or the NICB directly at 708-430-2430.

OPERATION CLEANSWEEP UPDATE



Early in 1998, the Insurance Fraud Investigation Division of the Arkansas Insurance Department conducted "Operation Cleansweep", a statewide investigation of insurance agent fraud which culminated in felony warrants being issued against nine agents and one other individual in July.

The charges have resulted in jail terms for illegal insurance agent activity that in the past usually resulted only in relatively minor administrative penalties. Below are the remaining dispositions of those charged as part of that operation.

In October 1998, **Edward Mark Johnston**, a former Shelter Insurance Company agent and former police officer, pleaded guilty to felony insurance fraud, a class D offense. He admitted profiting from the submission of fabricated and fraudulently inflated insurance claims to Shelter. Mr. Johnston received in excess of \$213,000 as a result of submitting seventy-six (76) fraudulent claims. Edward Mark Johnston was sentenced to five (5) years in the Arkansas Department of Corrections, two years suspended, and was ordered to pay \$213,000 in restitution to Shelter.

In November 1998, **Roy Lee James** pleaded guilty to felony forgery (2 counts), felony insurance fraud (2 counts) and misdemeanor theft (one count). James transacted the "business of insurance" by forging the name of another agent to applications for insurance after having his license revoked by the Arkansas Insurance

Department in April 1996. James was sentenced to 120 months incarceration, 102 months suspended, and was ordered to pay full restitution of \$236.50.

In January 1999, **Joyce E. Crump** pleaded guilty to theft of property (two counts), a class B felony; forgery (three counts), a class C felony; and felony insurance fraud (two counts). She admitted to unlawfully retaining insurance premiums of clients and failing to forward the premiums to the respective insurance carrier. Ms. Crump admitted to forging the name of a licensed insurance agent without her permission and conducting the "business of insurance" without a valid and active agent license. Ms Crump was sentenced to 24 months incarceration, payment of court costs, and full payment of \$7,946.97 in restitution to victims. She voluntarily surrendered her Arkansas insurance license.

In January 1999, Joyce E. Crump pleaded guilty on behalf of **All Risk Insurance Services, Inc.**, for which she was an agent and corporate officer, to felony theft of property (one count). All Risk, via Joyce E. Crump, unlawfully retained insurance premiums and failed to forward the premiums to the respective insurance carriers. All Risk was ordered to pay a fine of \$300 and court costs; it also voluntarily surrendered its agency license.

In January 1999, **Glen W. Foster** pleaded guilty to theft of property, a class B felony, and was sentenced to 7 years incarceration, 5 years suspended, and court costs. He also surrendered his insurance license and paid \$11,952 in restitution.

CRIMINAL CONVICTIONS



DEWEY HARDWICK, Pulaski County. Subject filed a false claim for automobile allegedly stolen, but later found in a storage unit he owned.

Pleaded guilty to filing a false police report and felony insurance fraud and received 5 years probation, a \$500 fine, \$1,447 in restitution and court costs.

LINDA BACUS, Pulaski County. Subject filed a false police report that her home had been burglarized with \$30,000 in property reportedly stolen; she later confessed that no burglary had occurred. Pleaded guilty to filing a false police report and felony insurance fraud and received 5 years probation, a \$150 fine, 60 days incarceration and court costs.

BERNA SUE ANDERSON, White County. Subject filed a claim with Farm Bureau alleging property damage and personal injury in a one vehicle accident. The investigation re-

vealed that defendant's daughter was in the vehicle alone and ran off the road when the accident occurred. Pleaded guilty to felony insurance fraud and received 80 hours of community service, 3 years probation, a \$1,150 fine and court costs.

KELLY HARPER, Pulaski County. Subject filed a false claim for an automobile allegedly stolen, but later confessed he had burned the vehicle. Pleaded guilty to felony insurance fraud and received 60 days incarceration, 3 years probation, and was ordered to pay restitution of \$832, plus fines and court costs of \$1,174.

BILL BAKER, Washington County. Subject filed false claims on property damage resulting from alleged burglary/thefts at residences he was building as a general contractor. Pleaded guilty to attempted theft of property (class C felony) and received 5 years probation and \$5,150 in fines and court costs.





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RICKY DOBBINS, Pulaski County. Subject attempted to obtain an automobile registration with a fraudulent insurance application, but an attentive Revenue Office employee spotted the bogus document. Pled guilty to a misdemeanor offense of using a fraudulent certificate to obtain automobile registra-

tion and paid a fine of \$250 and court costs.

RICKY COLE, Washington County. Agent made false representations to insurance company when he devised fictitious employee health care groups and received commissions on these policies. Pled guilty to felony theft of property by deception, received 5 years probation and was ordered to pay restitution of \$9,239.00 and \$1,650 in court costs.

MICHAEL BLAIR, Benton County. When informed by Blair that the property damage settlement check they had mailed to him had not been received, the insurance adjusters mailed him another check. Both checks were in fact received and cashed by Blair who pled guilty to felony theft of property, received 4 years probation, restitution of \$859, court costs and a \$750 fine.

RAY JONES, Pulaski County. Employee was working as a Pinkerton Security guard while drawing total temporary disability benefits from Cigna Insurance. Pled guilty to felony workers' compensation fraud and was sentenced to 2 years probation, restitution of \$2,844.00, sixty hours of community service, a \$400 fine and court costs.

MEET OUR NEW ATTORNEY

Raymond Boyles was born and raised in Augusta, Arkansas and began working with us in March of this year. He was in private practice for six years before joining the Department of Human Services where he was employed for four years. Raymond is married to Carolyn and both enjoy collecting antiques in and around Arkansas. Raymond is also a history buff and enjoys participating in the re-enactment of civil war battles in his spare time.

