ARKANSAS INSURANCE DEPARTMENT

INSURANCE FRAUD NEWSLETTER

Volume 5

January 2000

Mike Huckabee
Governor

Mike Pickens
Insurance Commissioner

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MESSAGE FROM THE DIRECTOR

"THIS IS A CASE THEY WILL NEVER FILE!", exclaimed a defense attorney to an Insurance Fraud Investigation Division investigator when informed a client was being investigated for "padding" an otherwise legitimate burglary claim on his homeowners policy. The client is now a convicted felon and was ultimately represented by another attorney.

This scenario is indicative of the change of attitude and atmosphere in Arkansas in regard to so-called "soft" insurance fraud. "Soft" fraud is basically claims fraud committed by someone who rationalizes that they are somehow justified in making a false claim because "everyone does it", "my premiums are going up because other people are committing fraud and I might as well get into the act", or he/she just decides this is the only way out of a financial bind. It is the kind of insurance fraud committed by a next door neighbor who would never consider committing any type of traditional theft.

While insurance fraud committed by professional criminals is a danger to the welfare and safety of the public, "soft" fraud is responsible for most of the $85 to $100 billion in claims fraud committed in this country annually. This type of insurance fraud translates directly into higher premiums for consumers.

The Insurance Fraud Investigation Division, working with the insurance industry, is on the frontlines against this type of fraud because that is where it can be most effective. If "soft" fraud can be deterred through publicizing that these types of false claims will be prosecuted, there will be a direct economic benefit to Arkansas consumers. "THIS IS A CASE THEY WILL FILE!", is what you can expect to hear in Arkansas.

Martin J. Nevrla

(See related article of page 2)

FRAUD REFERRAL UPDATE

- Revised Fraud Referral Forms have been mailed out. Call 501-371-2790 if you did not receive one.
- For removal of your name from our mailing list, contact Jeannie LaCour at the above number.

SPOTLIGHT ON FRAUD

"SOFT"

INSURANCE FRAUD

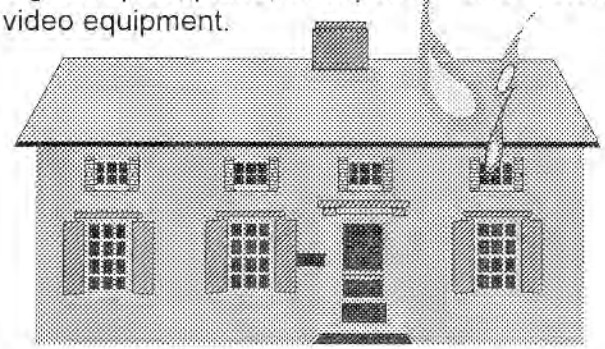
So-called "soft" insurance fraud involves inflated or false claims submitted by other than professional fraudsters - in other words, by someone like your next door neighbor. This type of fraud often evolves from an initially legitimate burglary or accidental fire claim. The insured rationalizes the fraudulent act in any number of ways (See Message from Director on page 1).

In an inflated or false burglary or accidental fire claim, the following indicators may indicate an attempt to commit "soft" insurance fraud:

- Insured over-documents losses with a receipt for every loss and/or receipts for older items of property.
- Insured cannot provide receipts, cancelled checks or other proof of ownership for recently purchased items.
- Insured's loss inventory differs significantly from police department's crime report.
- Insured provides receipt(s) with incorrect or no sales tax figures.
- Insured provides receipt(s) with no store logo.
- Loss inventory indicates unusually high number of recent purchases.
- Insured cannot recall place and/or date of purchase for newer items of significant value.
- Insured indicates distress over prospect of an examination under oath.
- Insured cannot provide bank or credit card records for recent purchases of significant value.
- Insured provides receipts/invoices from same supplier that are numbered in sequence.
- Insured provides receipts from same supplier with sequence numbers in reverse order of purchase date.
- Insured provides two different receipts with same handwriting or typeface.
- Insured provides single receipt with different handwriting or typefaces.
- Insured provides credit card receipts with incorrect or no approval code.

The following indicators are applicable to both accidental and intentional fire claims:

- Fire scene investigation reveals absence of remains of expensive items used to justify an increase over normal 50% contents coverage, e.g. antiques, piano, or expensive stereo/video equipment.



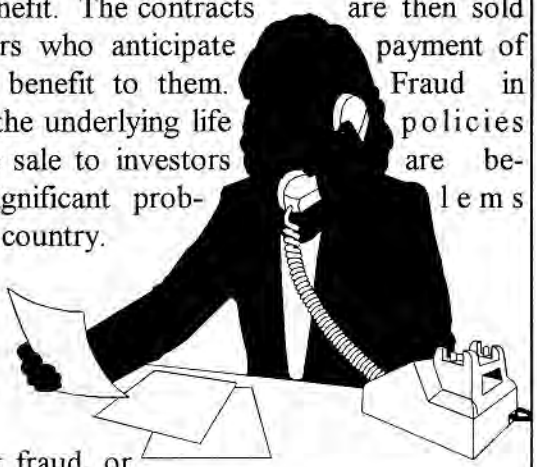
- Fire scene investigation reveals absence of items of sentimental value: e.g. family Bible, family photos, trophies.
- Fire scene investigation reveals absence of remains of items normally found in a home or business. The following is a sample listing of such items, most of which will be identifiable at fire scenes except in total burns. Kitchen: major appliances, minor appliances, normal food supply in refrigerator and cabinets. Living Room: television/stereo equipment, record/tape collections, organ or piano, furniture (springs will remain). Bedroom: guns, jewelry, clothing and toys. Basement/Garage: tools, lawn mower, bicycles, sporting equipment, e.g. golf clubs (especially note if putter is missing from otherwise complete set). Business/Office: office equipment and furniture, normal inventory, business records (which are normally housed in metal filing cabinets and should survive most fires).

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

FRAUD ALERT

Although not necessarily fraudulent schemes, two areas of recent concern to the Insurance Fraud Investigation Division are:

- High-pressure telemarketing tactics, usually directed at senior citizens, to join "discount" prescription or medical services programs for a monthly fee. Consumers are being signed up without an adequately informed decision on their part, or no decision whatsoever. Also, the programs may not even exist but the purpose of the sales pitch is to obtain personal financial information such as credit card or social security numbers.
- Viatical settlement contracts in their simplest form are written agreements under which a viatical settlement provider will purchase the death benefit of a terminally ill person's life insurance policy for considerably less than the expected benefit. The contracts are then sold to investors who anticipate payment of the death benefit to them. Fraud in obtaining the underlying life policies and in the sale to investors are becoming significant problems across the country.



If you suspect fraud, or just have questions concerning these areas, please contact the Insurance Fraud Investigation Division or the Consumer Services Division of the Arkansas Insurance Department at 501-371-2600.

CRIMINAL CONVICTIONS

JERRY HAMMOND, Sharp County. Subject made a false representation on his agent's license application regarding his felony background and engaged in the business of selling insurance in violation of the law. Pleaded guilty to committing a fraudulent insurance act (Class D felony) and received 5 years probation, a $2,000 fine, $150 in court costs, and 100 hours of community service.

A. C. STORES OIL, INC., White County. Subject corporation submitted a falsified and inflated purchase agreement from a computer software company following a reported theft. Pleaded guilty to committing a fraudulent insurance act (Class D felony) and received a fine of $10,000 and $150 in court costs.

TOMI COLLINS, Sebastian County. Subject attempted to obtain insurance benefits on a vehicle that had been previously damaged in an accident. Pleaded guilty to attempted insurance fraud (Class A misdemeanor) and received one year suspended sentence, a $250 fine and $150 in court costs.

ALAN ENGLISH, Garland County. Subject, (an insurance agent) quoted rates promising substantial savings to a business owner, then altered the proof of insurance to show more coverage than was actually given. The business was forced to temporarily suspend operation until properly insured. Pleaded guilty to falsifying business records (Class A misdemeanor) and received one year probation, restitution of $2,500 and court costs.

FRED HOLZHAUER, Cross County. Subject, (an insurance agent) collected premiums from clients and used the money to pay personal and business expenses instead of forwarding funds to insurance company. Pleaded guilty to theft of property (Class B felony) and received 5 years suspended sentence, 60 days in jail, paid $19,714 in restitution, a $5,000 fine and court costs.

EDMUND MURRAY, Garland County. Subject attempted to obtain loss benefits for property not in his possession when a burglary occurred. Pleaded guilty to attempted theft of property (Class D felony) and received two years probation, $3,727 in restitution, a $6,000 fine, court costs and 40 hours of community service.

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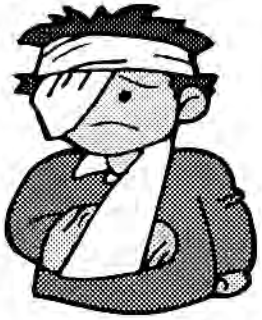
CAMELIA MORGAN, Pulaski County. Subject submitted two false invoices for medical treatment. Pleaded guilty to attempt to commit a fraudulent insurance act (Class A misdemeanor) and received 12 months probation, a $500 fine, court costs and 100 hours of community service.

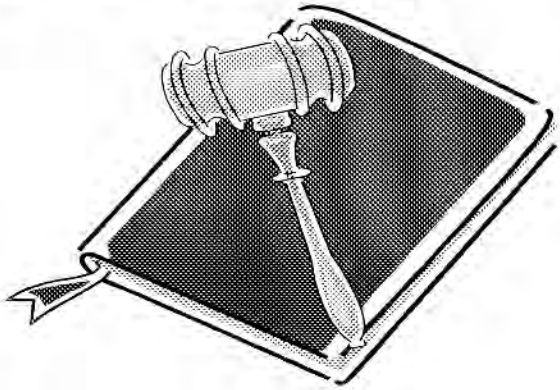
VERNON BREWER, White County. Subject made a material false representation concerning previous injury. He pleaded guilty to workers' compensation fraud (Class D felony) and received 36 months probation, a $1000 fine, court costs and 80 hours of community service.



ALBERT O'NEAL LEMKE, Craighead County. Subject accepted a settlement check from John Deere/Sentry Insurance after claiming a piece of farm equipment had been stolen. An investigation revealed the equipment had been repossessed by the lienholder. Pleaded guilty to theft of property (Class B felony) and received five years probation, 30 days in jail, $1,000 fine, restitution of $9,820 and court costs.

FARRIS MCCLAIN, Lonoke County. Subject, (a local police officer) fraudulently obtained insurance by making a false statement on his application for insurance regarding prior accidents. Pleaded guilty to attempting to commit a fraudulent insurance act and failing to have insurance (Class A misdemeanors) and received 12 months probation, ordered to pay court costs, a $1,000 fine and 250 hours of community service.

ELIZABETH HOLIDAY, Stone County. Subject used a friend's home computer to create false invoices for medical services which were submitted to her insurance carrier along with legitimate claims. Pleaded guilty to falsifying business documents (Class A misdemeanor) and received one year probation, $1,536 in restitution, $1,000 fine, court costs and 60 hours of community service.

MEET OUR NEW ATTORNEY

Clay Simpson grew up in Searcy, Arkansas and began working with us in November of 1999. He was employed by the Pulaski County Prosecuting Attorney's Office for two years and engaged in private practice for one year. Clay is married to Jenny and now resides in Maumelle where they both enjoy participating in various sporting activities. They are also huge Razorback fans and enjoy traveling around the country.