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## **Automobile Accident Fraud**

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## Automobile Accident Fraud

### Executive Summary

Automobile accident fraud is one of the most widespread and lucrative fraud schemes in the United States. Each year, the National Insurance Crime Bureau (NICB) receives more than 60,000 questionable claims-half of which are associated with automobile accidents. The effects of this fraud are significant for both property/casualty insurance companies and consumers nationwide. Using data from the Insurance Research Council's (IRC) 2004 Study of Fraud and Buildup in Auto Injury Insurance Claims, it is estimated that 24% of auto injury claims contain fraud or buildup, adding approximately \$4.5 billion annually to auto injury settlements.

While all consumers are affected by automobile accident schemes through higher premiums, the consequences are even greater for those who are victims of fraudulent accidents. Their insurance records are affected and can lead to the cancellation of their policies. Aside from the economic losses, victims may spend countless hours dealing with their insurance companies, body shops, auto repairs, the police, lawyers, and possible lawsuits.

Unfortunately, for Alice Ross, 71, of Queens, NY, the consequences were much graver. Ross was on her way to visit her daughter in Floral Park, NY, in March of 2003 when her 1985 Buick was intentionally struck from behind by another vehicle carrying three men. The impact forced her off the road and into a tree killing her. Ross was the victim of a caused accident gone awry. The three men had planned the accident and on that day they were driving around looking for an unsuspecting motorist. After the accident occurred, the three men were taken to a medical center where they feigned an assortment of neck, back, and other injuries in order to collect on phony injury claims.

Two of the men later admitted they were recruited by the third man to participate in the accident that ultimately killed Alice Ross. Ward Demoliere of Brooklyn, NY was charged with 2<sup>nd</sup> degree manslaughter, criminally negligent homicide, and fraud. Jean Carobert of Hollis, NY was charged with forgery in the 2<sup>nd</sup> degree, criminal possession of a forged instrument in the 2<sup>nd</sup> degree, and hindering prosecution in the 2<sup>nd</sup> degree.

In an ominous trend, automobile accident schemes are becoming more violent. Improved efforts by law enforcement to detect them and increased competition among participants are creating more aggression among cappers (key individuals of organized accident rings) to secure business. For example, New York has experienced territorial disputes between rival rings, a number of homicides of cappers, and shootings in medical clinics by cappers seeking payment.

Automobile accident fraud generally occurs in large metropolitan areas, especially in states with no-fault laws, such as Florida, New Jersey, and New York. In no-fault states, parties involved in accidents submit property damage and bodily injury claims to their own insurance companies, regardless of fault. Consequently, no-fault states have the highest incident of automobile accident fraud problems.

An NICB major case called “Exchange” involves a large-scale staged accident ring that commits medical insurance fraud in the Los Angeles, CA area. The case started when a member company noted a pattern of activity among the claims it received from participants of the group. The extent of the ring was uncovered in May of 1999 when a capper admitted his involvement in the ring to an NICB agent. The ring was operated by members of an organized criminal enterprise.

“Exchange” cappers recruited individuals to participate in staged accidents. They were then directed to attorneys and medical providers, who submitted fraudulent medical claims to insurance companies. The group operated in a number of states including: Arizona, California, Colorado, Florida, Louisiana, Maryland, Nevada, North Dakota, Ohio, Oregon, Pennsylvania, Texas, and Washington. It is estimated that fraudulent claims submitted in this ring exceed \$35 million.

NICB’s Strategic and Tactical Information (STI) Department researched and produced this report as a benefit for NICB member companies. It examines the extent of automobile accident fraud and its financial impact, the common schemes used and the participants involved, and provides member companies with useful tips for fighting back.

## **Automobile Accident Schemes**

Automobile accident schemes are varied and are only limited by the imaginations of the individuals involved in them. The NICB has identified three general types of automobile accident schemes affecting the insurance industry:

### Staged Accident

A staged accident is orchestrated among the participants involved in the accident. All of the involved parties are willing participants in the act.

### Paper Accident

A paper accident is an accident that never happened. The “accident” only exists within the claim file. The perpetrator falsifies the circumstances to get paid for pre-existing damage to the vehicle. Paper accidents include hit and runs, which occur when a perpetrator uses a damaged vehicle, drives it to a public location, and claims to be the victim of a hit and run. The police are often called to verify the vehicle damage.

### Caused Accident

A caused accident is different from a staged accident in that the innocent insured is an unwitting victim to the fraudulent activity, as was Alice Ross in her unfortunate case. A caused accident tends to occur on surface streets<sup>1</sup> or in slow moving traffic because the perpetrator does not want to suffer actual injury. Most often, it takes place in an upscale neighborhood because individuals who live there are perceived to have better insurance coverage.

Perpetrators target new, rental, or commercial vehicles because of the likelihood that these vehicles are insured. Additionally, women driving alone and senior citizens are often sought by the perpetrators because they are perceived to cause fewer problems and are less confrontational.

There are five sub-types of caused accidents:

#### *Panic Stop*

This is the most basic type of the caused accidents. In this scenario, the insured is driving a vehicle of better quality than the perpetrator. The perpetrator positions his vehicle in front of the insured’s vehicle and slams on the brakes, causing a rear-end collision. Perpetrators involved in a panic stop intentionally damage the light bulbs on their vehicle’s brake lights so they do not function, although the lens appears to be fine. Therefore, the insured driver has no warning that the accident is about to occur. The insured driver states that the perpetrator’s vehicle “suddenly stopped for no apparent reason”.

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<sup>1</sup> A surface street is any street in an urban area that is not a freeway

### *Drive Down*

In a drive down, the insured vehicle merges into traffic after being motioned in by the perpetrator. Once the insured begins to merge, the perpetrator speeds up and collides with the insured's vehicle. When questioned, the perpetrator denies motioning the insured's vehicle into traffic. The perpetrator might even give an excuse, saying that "I was shooing away a fly". A drive down works well where vehicles have to merge into other traffic, such as: four-way stop signs, T-intersections, merge signs, yield signs, lane reductions, lane closures, enter/exit freeway ramps, and when pulling out of parking spots.

### *Side Swipe*

The side swipe occurs at high traffic intersections with dual left turn lanes. The perpetrator positions the vehicle in the outer turn lane. As soon as the victim's vehicle drifts into the outer turn lane, the perpetrator collides with it. Perpetrators conduct surveillance to identify heavily-traveled intersections where vehicles routinely drift over the lane divider lines into the outer left turn lane.

### *Swoop and Squat*

This is the most common caused accident and occurs on surface streets. A swoop and squat involves three vehicles, two of which are driven by the perpetrators and the other by the victim. The driver of the squat vehicle positions his vehicle in front of the victim's car. The driver of the swoop vehicle speeds up, pulls ahead of the squat vehicle, and cuts it off, causing the squat vehicle driver to slam on his brakes. The victim is unable to react in time and usually rear-ends the squat vehicle. The swoop vehicle takes off and is never seen again. The victim states that the swoop vehicle caused the accident, but because that vehicle cannot be found, the victim's insurance company has to pay the vehicle damage and personal injury claims.

### *Freeway Swoop and Squat*

Similarly, a freeway swoop and squat occurs when four vehicles are involved. Three of the vehicles are driven by the perpetrators and the fourth by the victim. The third vehicle, driven by the perpetrator, blocks the victim so they cannot change lanes when the swoop vehicle cuts off the squat vehicle. This is also known as the "box-in" effect. After the accident, the swoop vehicle and "box-in" vehicle depart from the scene and are not seen again.

## **The Players**

Automobile accident schemes vary in complexity. The smallest and simplest involve one perpetrator claiming vehicle damage from a side swipe. The largest and most complex involve hundreds of people operating in an organized ring. The organized ring is more significant because many insurance carriers are targeted with multiple phony claims adding up to significant dollar amounts. The following are common players in an organized automobile accident fraud ring:

### *Victim*

The victim becomes an unwitting participant in the caused accident. It is the victim's insurance company that usually pays the claim as a result of the accident. The victim is sometimes lured by a capper to seek expensive phony treatment from a specified doctor or receive legal representation from a specified attorney.

### *Accident Participant*

An accident participant is knowingly involved in the accident. The NICB has determined that in most instances, the participants involved in the accident know one another. It is not uncommon to see family members, friends, co-workers, and neighbors working side by side to commit the fraud.

In an organized ring, accident participants are recruited by a capper, for a fee, to be involved in the accident. Organized rings often employ "jump-ins", people who were not involved in the actual accident, but report fake injuries to the insurance company in order to inflate the fraudulent claim. Although no injury is reported at the scene, treatment is later sought by the claimant(s). A police report might even state no injuries on behalf of the insured or refusal to receive an examination from ambulance personnel.

### *Witness*

A witness is involved in the fraudulent activity and is positioned near the accident site. The sole purpose of the witness is to support the perpetrator's account of the accident and to contradict the victim's testimony.

### *Capper/Chaser/Runner*

The capper is the key individual of the organized ring at the street level, and is known as the "street boss" of the ring. Cappers can even be the senior managers of the organized ring. It is the capper's job to recruit individuals, who eventually fake injury, to participate in the accident. Cappers target individuals for participation in an accident who appear to need money. They also lure in real accident victims who have no idea that the expensive treatment received from the doctor is phony and is billed to their insurance company. The capper will get accident victims' names from police reports and solicit them by phone or letter.

The capper might also provide the target car or the insurance policy to be used during the accident. Additionally, the capper acts as "director" by providing scripts for each of the perpetrators including: diagrams, names, seating positions, etc. Cappers also keep

elaborate records of insurance policies, claims filed as a result of the accident, names and addresses of the participants, phone numbers, and diagrams.

After the accident has occurred, the capper “sells” it to a medical clinic. The role of capper is quite lucrative because payment is based on the number of individuals referred to a physician or attorney involved in the conspiracy. The size of the ring increases as the capper tries to recruit as many participants as possible. Generally, cappers are paid anywhere from \$100 to \$1000 per individual referred, usually in cash, in order to conceal it from law enforcement. Often, cappers receive money based on a percentage of the final settlement received from the insurance company.

A wide range of individuals assume the role of capper in the organized automobile accident ring. A capper can be an individual off the street, a tow truck driver, an ambulance driver, or even a police officer. Cappers can also be the owner or office administrator of the medical clinic or law office. As an office administrator, the capper plays a more functional role because they process the accident’s paperwork and employ the doctor or attorney for an appearance of legitimacy. The capper, instead of the doctor or attorney, deals directly with the insurance company.

#### *Doctor/Chiropractor/Medical Clinic/Chiropractic Clinic*

In an organized ring, the clinic “buys” the accident from a capper. Often, the clinic hires the capper to recruit the patients. Additionally, the clinic might be a shell operation that does not employ any medical personnel and is utilized only as a billing source.

The medical provider “treats” the “injured” who are referred by the capper. The medical provider at the clinic may see the patient for as little as 10 to 15 minutes, or not at all. Unqualified, unlicensed individuals might perform tests on patients. This becomes an issue when the clinic bills the insurance company because there is the likelihood of up-coding, or billing for a service not provided.

It is common to see soft tissue injuries because it is hard to diagnose this type of injury. It is subjective in nature, and a physical examination does not reveal it. The clinic or insurance company relies on the word of its customer, the insured. The clinic recommends a long treatment period including a number of tests which are excessive or unnecessary, especially when only minor injury, if any, was sustained or there was minimal vehicle damage. Additionally, in an organized ring, the medical provider tends to diagnose all patients from a vehicle with similar injury and treatment.

The clinic role is even more lucrative than that of a capper. The clinic can afford to pay a capper \$1000 per individual referred because it bills the insurance company at least \$5000 in phony medical bills. The clinic then “sells” the accident to an attorney.

#### *Attorney/Attorney Office*

In organized rings, an attorney is also often involved in the scheme and “buys” the accident from the medical clinic. In some instances, an attorney is the coordinator of the accident ring. The attorney represents the insured, and most of the time, all of the involved participants from a specified vehicle. Often, the attorney submits the injury claim to the insurance company on behalf of the insured and pushes for a quick settlement.

## *Others*

Dishonest body shops can also play a role in organized accident rings. They supply previously damaged vehicles to inflate the property damage or injury claims. The vehicles provide evidence to the insurance company that a supposedly legitimate accident has occurred. Unscrupulous body shops also intentionally damage vehicles to inflate the claim, perform unnecessary repairs, bill for repairs not performed, and bill for repairs on previous damage to vehicles.

Tow-truck drivers are sometimes involved in the ring and will provide the capper with an accident victim's information.

NICB investigations have also identified instances where insurance company employees were participants in organized rings.

## **Organized Ethnic Groups**

Organized ring participants are frequently from the same ethnic group. Ethnic groups are targeted and easily recruited by cappers because of their limited English language skills. The ethnic group feels a sense of cultural trust and familiarity if recruited by a capper of the same ethnicity. Moreover, the group is attracted by the money and has no knowledge that their activities are illegal because of their unfamiliarity with U.S. insurance laws.

NICB research indicates that the largest organized group involved in automobile accident fraud is of Russian origin. At the street level, they take the role of accident participants, witnesses, and cappers. They are medical providers, attorneys, and financial backers in the highest tiers of the ring. In many instances, these individuals own and manage physical therapy, chiropractic, and medical clinics.

## **Connection to Identity Theft**

Identity theft is increasingly associated with automobile accident fraud within the United States. Insurance policies are purchased with stolen drivers licenses, social security numbers, and other forms of identification. The stolen identification is also used to avoid detection by insurance companies or law enforcement.

Identities are stolen in several ways. Some are stolen when exchanging information at the scene of the accident, while others are stolen after applying for a job which involves driving. In these instances, the perpetrator uses the driver's license to obtain the stolen identity which is used over and over again.

An NICB Top 25 case, "Maxroy", involved the use of identity theft in staging/causing accidents in Texas, Louisiana, and California. The investigation revealed that the perpetrators used fake or stolen identities to purchase insurance policies, and then insisted on obtaining personal injury protection of \$10,000 on their insurance policies. One victim stated that his identity was stolen by the perpetrators after he lost his wallet several years earlier.

The vehicles insured in “Maxroy” were older high-end vehicles, such as BMW, Infinity, and Lexus. The perpetrators filed claims within thirty days of the policy inception. Most of the accidents were one-car hit-and-runs. All vehicle occupants used fake or stolen identities, claimed injury at the scene, and were taken to area emergency rooms. The perpetrators then stated that they received additional treatment at a medical clinic and received numerous tests.

### **Why It Works**

Automobile accident schemes work for a number of reasons. First, it is the responsibility of insurance companies to ensure timely payment on claims; therefore, the insurance company may not have the time or resources available to effectively investigate a questionable claim. Insurance companies also want to protect themselves against “bad faith” claims. These occur when an insurance company refuses to pay a claim that should be paid, settles a claim for less than it knows the claim is worth, or denies a claim without adequate investigation.

Without a doubt, no-fault laws are the largest hindrance in fighting automobile accident fraud. In no-fault states, all involved parties submit property damage and bodily injury claims to their own insurance companies, regardless of fault. Currently, 12 states and Puerto Rico have no-fault insurance laws: Florida, Hawaii, Kansas, Kentucky, Massachusetts, Minnesota, Michigan, New Jersey, New York, North Dakota, Pennsylvania, and Utah<sup>2</sup>. Consequently, Florida, New Jersey, and New York are among the states with the worst automobile accident fraud. Certain conditions (thresholds) that relate to the severity of the injury must be met in order for motorists to sue under current no-fault laws<sup>2</sup>.

Additionally, laws are lax for certain players involved in an automobile accident scheme. Only a few states have laws that specifically target runners, including: California, Florida, Minnesota, Nevada, New Jersey, and Utah. These states have “anti-runner” laws, which make it a felony to solicit clients or patients for fraudulent purposes, or to hire anyone to solicit clients or patients for fraudulent purposes.

Nonetheless, perpetrators have found ways to evade “anti-runner” laws. Cappers will pose as reporters, who are allowed quicker access to police reports, and will even go so far as to invent newspapers so that they receive the reports by fax or e-mail. Cappers review the police reports and have a pretty solid idea of who would likely become a participant and which insurance companies will pay quicker without investigations. Additionally, cappers will partner with tow-truck drivers, who have access to an accident victim’s information. Since telephone solicitation is illegal, cappers use cellular phones, which are virtually untraceable, to seek accident victims.

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<sup>2</sup> Insurance Information Institute (III) – July 2005. Florida, Michigan, New Jersey, New York, and Pennsylvania have verbal thresholds (no specified dollar amount; described in words). Hawaii, Kansas, Kentucky, Massachusetts, Minnesota, North Dakota, and Utah use a monetary threshold (dollar amounts of medical bills) Kentucky, New Jersey, and Utah have a “choice” no-fault law – “motorists may reject the lawsuit threshold and retain the right to sue for any auto-related injury.”

## **Fighting Back**

The NICB has made enormous progress in identifying the scope of automobile accident schemes. While automobile accident schemes are varied and changing, there are actions that NICB members can take to fight these crimes. The NICB suggests that member companies:

- Identify and photograph all individuals included on the policy before inception
- Verify personal identifiers in public databases
- Photocopy the drivers licenses of all individuals included on the policy
- Prior to insuring, pre-inspect and photograph all vehicle(s) included on the policy
- Advise policyholders to carry a disposable camera in their vehicles, and take photos of all vehicles and occupants should they get involved in a suspected caused accident
- After an accident, ask about the relationships among the involved parties from all vehicles
- Interview each individual separately so that their stories can be compared
- Search the ISO database for additional claims/information on all involved parties in the accident, including medical providers, attorneys, body shops, etc.
- Perform a vehicle history on the vehicle(s) involved in the accident: prior/current owners, claims activity, salvage records, theft records, etc.
- Refer questionable accident claims to the NICB, including referral text stating the specifics as to the identity of individuals and the details which generated the claim
- Contact their local NICB office if they suspect a staged/caused accident

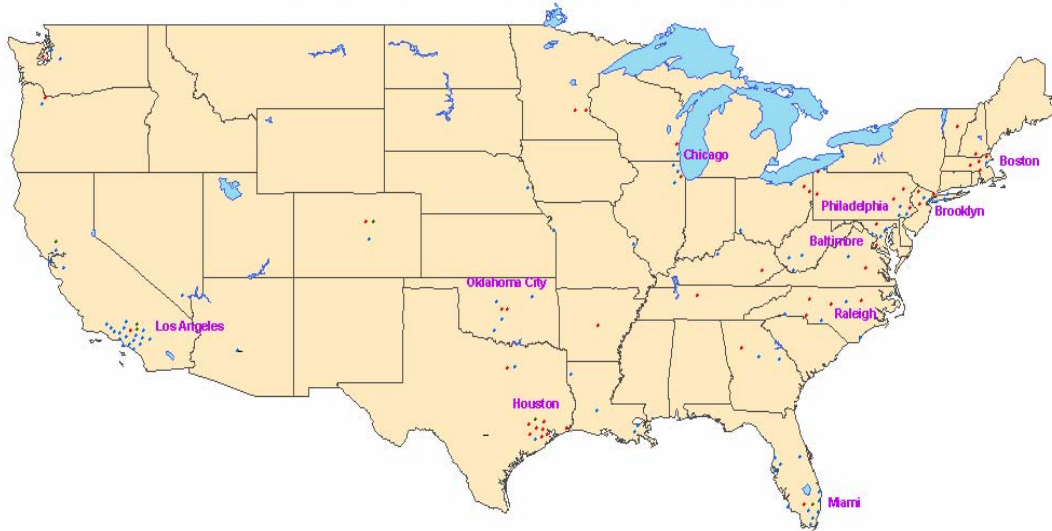
Finally, greater communication among the NICB, member companies, and law enforcement agencies can play a key role in reducing the impact of automobile accident fraud. There are many communication resources available to member companies, including the ISO database, various public databases, and the NICB ForeWARN Alerts. Member companies must capitalize on these resources when identifying and analyzing questionable claims.

The attached map identifies areas where the NICB has active staged/caused accident investigations. The areas with the most significant automobile accident fraud are:

- Pennsylvania/New Jersey/New York
- Southeastern Texas
- Southeastern Florida
- Southern California



## Active Staged/Caused Accident Investigations



Legend

- Multi-Claim Case
- Major Case
- Top 25 Case

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