STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

JOHN ELIAS BALDACCI
GOVERNOR

ERIC A. CIOPPA
ACTING SUPERINTENDENT

July 9, 2007

Senator Nancy Sullivan
Representative John Brautigam
Joint Standing Committee on Insurance and Financial Services
100 State House Station
Augusta, ME 04333-0003

Re: Year 2006 Insurance Fraud Report

Dear Senator Sullivan, Representative Brautigam, and members of the Committee:

Pursuant to 24-A M.R.S.A. §2186, this letter and accompanying information constitutes the Bureau's Annual Report on Insurance Fraud to the Joint Standing Committee on Insurance and Financial Services.

Although the Bureau has collected fraud information since 1999, industry compliance for filing the required report was considerably less than 100% prior to 2003. Therefore, since no meaningful comparison can be done regarding years before 2003, this report covers the years 2003 through 2006.

Aggregate information of suspected cases of fraud for 2003 through 2006 is shown in the first chart of this report. This four year summary shows an overall increase of 53% in the number of suspected cases of fraud reported in 2006 compared to those reported in 2003. Although the total number of suspected fraud cases by line spiked in 2005, the 2006 data reflects an aggregate slight increase of 3%. Modest increases appear in several lines of insurance; however, there is a noticeable decrease in suspected health insurance fraud (which includes Medicare/Medicaid) for 2006. Reports of suspected health fraud cases have decreased 10% since 2005. In comparison, between 2003 and 2005 reports of suspected cases of health fraud doubled; however, the reasons for the decrease in the number of cases reported in 2006 are unknown to the Bureau.

Nationally, there are many articles and reports discussing the cost of fraud in the United States. The September 2006 online Federal Bureau of Investigation Report "Financial Crimes Report to the Public"[1] noted that estimates of fraudulent billings to health care programs, both public and private, are estimated to be between 3% and 10% of total health care expenditures. The health care estimates in 2006 were predicted to be $2.16 trillion, which represents 16.5% of the Gross Domestic Product. The FBI Report indicates that the Centers for Medicare and Medicaid Services (CMS) projects that health care costs in the United States are expected to exceed $3.3 trillion by 2012.

[1] www.fbi.gov/publications/financial/fcs_report2006/financial_crime_2006.htm

According to the Insurance Information Institute (III), nearly 10% of property/casualty claims are fraudulent[2]. The National Insurance Crime Bureau (NICB) reports that insurance fraud costs Americans billions of dollars each year which in many cases is equivalent to an insurance premium increase of $300 for the average household[3]. Reporting categories that show considerable increases in fraud for 2006 include providing inaccurate or incomplete information either to obtain coverage or to reduce insurance premiums, inflating the amount of financial loss, and staged accident/injury. The Coalition Against Insurance Fraud website[4] cites multiple studies that show large numbers of persons say it is okay to defraud insurers or to "game" the system. The areas in the report that show dramatic increase in fraud appear consistent with those attitudes.

The Bureau's fraud survey shows that Maine's most common form of workers' compensation fraud is a faked or exaggerated injury. The overall number of cases in that category in 2006 moderately increased from 349 to 366. It should be noted, however, that previously there was a significant decrease in reported cases from 2004 to 2005. Other forms of reported workers compensation fraud include employers who misrepresent or misclassify the nature of their employees work or under report the number of employees or payroll figures in order to reduce their insurance premiums, and medical providers who bill for more expensive products or procedures than those that were provided.

Property insurance had the third highest fraud and abuse count by line of business with 293 reported cases in the 2006 survey. Nationally, arson and suspected arson are the largest causes of property damage. According to the National Fire Protection Association (NFPA), arson or suspected arson account for nearly 31,500 intentionally set structure fires in 2005, down 13.7% from those reported in 2004. The NFPA reports that in 2005, arsonists caused $777 million in property damage in the U.S., a 12% decrease compared to the $879 million in destroyed property reported in 2004.[5]

The Bureau of Insurance will continue to collect information on suspected fraud claims. In the coming years, additional data will help us to gain a better understanding of the extent of insurance fraud and abuse in Maine.

If you have any questions concerning this report, do not hesitate to contact me.

Sincerely,

Eric A. Cioppa

Eric A. Cioppa
Acting Superintendent

cc: Members, Insurance and Financial Services Committee
Anne L. Head, Acting Commissioner
Colleen McCarthy Reid, Legislative Analyst

---

[2] http://www.iii.org/media/facts/statsbyissue/fraud/
[3] www.nicb.org/cps/rde/xbcr/SID-4031FE9A-BE1DA8CE/nicb/INSURANCE_FRAUD.pdf
[4] www.insurancefraud.org/stats.htm
[5] www.iii.org/media/hottopics/insurance/test1

Maine Fraud and Abuse Annual Report
Four Year Summary

Number of Suspected Cases of Fraud Reported by Line of Insurance

	2006	2005	2004	2003
Automobile	1,080	1,058	800	768
Workers' Compensation	291	285	366	283
General Liability	84	86	50	66
Life	25	8	1	3
Health	333	369	76	90
Inland Marine	19	16	3	5
Property	293	288	165	190
Other Lines	98	40	27	50
Total	**2,223**	**2,150**	**1,488**	**1,455**

Maine Fraud and Abuse Annual Report
Types of Suspected Fraudulent Insurance Acts Reported

Claimant May Have:

Faked Property Damage	
2003	316
2004	323
2005	343
2006	309

Inflated Financial Loss	
2003	150
2004	103
2005	146
2006	155

Faked/Exaggerated Injury	
2003	539
2004	457
2005	349
2006	366

Staged Accident/Injury	
2003	38
2004	53
2005	44
2006	75

Been Known To File Suspect Claims, Including Faking, Exaggerating, or Extending Total or Partial Disability	
2003	60
2004	67
2005	172
2006	138

Other	
2003	187
2004	157
2005	199
2006	249

Legal Provider May Have:

Hired or Paid Cappers/Chasers to Recruit Clients	
2003	0
2004	0
2005	1
2006	0

Charged Fees Inconsistent with Services Provided	
2003	0
2004	0
2005	0
2006	0

Other	
2003	1
2004	0
2005	1
2006	1

Medical Provider May Have:

Provided an Inaccurate /Incomplete History	
2003	1
2004	23
2005	33
2006	16

Billed for Services Not Provided	
2003	26
2004	27
2005	32
2006	5

Upcoded or Billed for Excessive Treatments	
2003	23
2004	12
2005	47
2006	21

Unbundled Services	
2003	1
2004	3
2005	33
2006	16

Medical Provider May Have:

Received Compensation for Referral to Medical or Legal Providers	
2003	0
2004	0
2005	11
2006	15

Hired or Paid Cappers/Chasers to Recruit Clients	
2003	0
2004	1
2005	0
2006	0

Fabricated Services	
2003	10
2004	3
2005	3
2006	0

Provided an Inaccurate/Incomplete History	
2003	0
2004	0
2005	0
2006	0

Operated Without a License	
2003	1
2004	3
2005	57
2006	15

Other	
2003	15
2004	13
2005	7
2006	5

Other Person or Entity May Have:

Received/Paid Compensation for Referral	
2003	0
2004	0
2005	0
2006	0

Fabricated Services	
2003	0
2004	0
2005	1
2006	0

Charged Inconsistent with Services Provided	
2003	17
2004	0
2005	1
2006	9

Provided an Inaccurate/Incomplete History, or Submitted False or Inaccurate Information to Obtain an Insurance Policy or to Reduce an Insurance Premium	
2003	34
2004	42
2005	368
2006	389

Other	
2003	13
2004	19
2005	2
2006	3

Total Number of Suspected Fraud Claims by Type of Insurance:

Personal	
2003	971
2004	875
2005	1,428
2006	1,317

Commercial	
2003	387
2004	533
2005	713
2006	848

Number of Cases Reported/Referred to Law Enforcement Agency:

District Attorney's Office	
2003	4
2004	8
2005	9
2006	8

U.S. Attorney's Office	
2003	7
2004	4
2005	2
2006	5

Other Law Enforcement	
2003	13
2004	57
2005	69
2006	32

Workers' Compensation Board Abuse and Fraud Unit	
2003	21
2004	27
2005	31
2006	22

National Insurance Crime Bureau	
2003	109
2004	230
2005	218
2006	126

Other, Including U.S. Postal Authorities	
2003	3
2004	2
2005	1
2006	7

Amount of Money NOT Paid on Suspected Fraudulent Cases:

Year	Amount
2003	$5,657,053 [2]
2004	$5,926,490
2005	$7,037,871
2006	$5,666,380

Notes

[1] An auto insurer with a growing market share in Maine reported that most of its suspected or confirmed fraud within the State of Maine occurs when a person applies for and receives auto coverage over the telephone and then reports a claim within 72 hours of securing coverage. Upon investigation, it is usually found that the accident occurred when the policyholder did not have coverage and lied about when the accident took place in order to have the insurance company pay for the loss. This insurer states that only 1% of its Maine claims were referred to an investigator.

[2] One insurer amended its 2003 report in 2005 to show $445,434 instead of $10,445,434 as originally reported.