

INDICATORS OF APPLICATION FRAUD

Business/Classic Car/Workers Comp Prem Fraud Detection—The First Line of Defense

PART 2 OF 2

MOST claims are legitimate, but some are fraudulent.

Therefore, it is appropriate to review all claims for possible fraud. Detecting fraud is aided by familiarity with industry identified fraud indicators.

INDICATORS assist in the identification of claims which merit closer scrutiny. The presence of an indicator (or several indicators) do not prove fraud. Indicators of possible fraud are not actual evidence, they only “indicate” the need for further investigation.

SOME claims, although questionable, may be paid due to a lack of conclusive evidence of fraud. However, they should be submitted as questionable claims to NICB for further review.

DOUBLE asterisk (**) indicates the possibility of organized group activity.

For additional information on the following indicators, please see the NICB’s Interactive Indicator Guide. This Guide is a software application providing the concern associated with each indicator as well as suggested resolution steps. The Interactive Indicator Guide is

available from the NICB Document Download Center (nicbdocs.org).

Initial Indicators: Usually identified in the initial/early processing of the application or claim.

Subsequent Indicators: Usually identified as the application or claim

processing continues. May also suggest areas of additional inquiry.

When viewed as a PDF, utilization of the bookmark function will provide the ability to choose an indicator topic or Control F can be used to rapidly locate specific key words within the indicators (e.g. address, receipts, police, etc.).

Classic Car – Vehicle and/or Vessel Indicators (Initial)

- Appraisal for the classic car is not signed.
- Appraisal supporting the insured's requested value (over current classic car market value) is not from a certified appraiser, body shop, auto dealer or accessory dealer and/or is from a person who is a relative, friend, business associate, etc., of the insured.
- Cannot provide proof the vehicle is not a "kit" or a "rebuild" (also known as tribute vehicles, replicas, reproductions or clones).

- Classic vehicle is never driven or displayed (what is the purpose of the insured owning it?).
- Does not have a daily use vehicle (may have been driving the insured vehicle daily which is not normal for the owner of an authentic high value classic vehicle).
- Does not know the exact mileage on the classic vehicle (this is an important consideration in the value of the vehicle and normally the owner would know this).
- Driven frequently (normally authentic classic cars are driven normally only on weekends, holidays, to car shows, etc.).
- Not stored/parked in a locked, secure location (normally classic vehicle owners take measures to prevent theft).
- Registered in a "business name" (normally classic vehicles are owned by private individuals).
- Title history showing a "corrected title" was issued changing the VIN (altering select digits in the VIN such as the engine symbol, can significantly increase the value of a classic car).
- VIN Plate/Fender Tag have a history of being sold via the internet (vehicle builders will purchase these to make a more valuable model from a "plain stock" version).
- VIN has 17 characters (most high value classic cars were manufactured prior to the use of the current VIN structure).
- VIN identifies an early model (e.g. 1966), however the vehicle has factory installed late model options (air conditioning, air bags, etc.).
- VIN starting with the first letters of the state the vehicle is registered/titled in (indicating a state issued number for a rebuilt, reproduction, etc.)
- Vehicle is insured with/for an "agreed value" over the current classic car market value.
- Will not admit to even the slightest problem (defect) with the classic vehicle (almost every older car/classic car has some minor body damage or worn out part).

Classic Car – Vehicle and/or Vessel Indicators (Subsequent)

- Application for classic car coverage states the vehicle is a complete vehicle, however a subsequent investigation/inspection shows it was/is in the process of being rebuilt.
- License plate is not assigned to a vehicle designated as a classic or antique vehicle in the registering state (if applicable - some states assigned special plate numbers to classic/antique vehicles).
- Pictures are provided as proof of ownership (often taken at a car show), but the applicant doesn't own the vehicle.
- Pictures submitted during the application process do not accurately depict the true condition of the classic vehicle.
- Registered after a long duration of not being registered (a vehicle not worth registering has been cloned or rebuilt and is now being registered/insured as an original classic car).

Workers Comp Premium Fraud Indicators – Agent involvement (Subsequent)

- Additions and cancellations of coverage on a frequent basis, especially if several business entities appear to be owned or controlled by the same person or group.
- Agent requests to be present at an audit or to have the audit conducted in the agent's office.
- Application information provided is inaccurate.
- Audit or negotiable instrument review indicates premium dividend checks or premium refund checks were endorsed or negotiated by someone other than the payee.
- Classification of individual employees is changed to a lower classification.
- Leasing firm reports a lower payroll than reported on previous applications/documentation.

Workers Comp Premium Fraud Indicators – Application Audit (Initial)

- Business/Insured cannot be located in published directories.
- Insurer review of alternative information sources (e.g. insured's website) reveals information that conflicts with the application or audit.
- Much larger premium paid for the previous year's policy.
- Primary address of the business is a P.O. Box.

Workers Comp Premium Fraud Indicators – Application Audit (Subsequent)

- Address has multiple businesses operating from it.
- Audit findings result in employer paying a large premium assessment.
- Documents (of the corporation) are poor quality photocopies which should be originals or bear original signatures.
- Documents (of the corporation) which have been obviously altered without proper forms.
- Documents (of the corporation) with entries in improper places or completed in a manner that does not make sense.
- Ownership of business has unusual changes.

Workers Comp Premium Fraud Indicators – Claim (Initial)

- Address of the employee's home is a significant distance from the accident location.
- Address of the employee's work location is different from location shown in the employer's records.
- Classification codes that are not on the application and have not been added by endorsement are present in submitted claims.
- Documentation concerning the injury has cross-outs and eraser marks.

- Employee disputes information supplied by the employer on the first injury report concerning location of the accident and/or the type of duties the injured worker has.
- Employee disputes the average weekly wage due to additional income (e.g. cash, per diem and/or 1099 income).
- Employee files for benefits in a state not endorsed on the policy.
- Employee states his/her employer is different from the employer listed on the claim form.
- Employer has a history of "fighting" claims.
- Employer refuses to cooperate in the claims investigations (e.g. refuses to provide employee with claim form).
- Employer will not confirm wage information shown on documentation.
- Employer's version of the accident is inconsistent with employees' version concerning the type and location of the employees' duties.
- Employer's witnesses to the accident are generally management personnel.
- Injuries of the employee are not consistent with job classification or the nature of business.
- Neither the employee nor the employer can be contacted at the listed location.
- Occupation of the employee is inconsistent with the employer's stated business.

Workers Comp Premium Fraud Indicators – Claim (Subsequent)

- Employer's "independent" doctors routinely allege fraud (in an effort to avoid filing a claim).
- Witnesses to the accident are pressured, threatened or intimidated by the employer.

Workers Comp Premium Fraud Indicators – Classification (Subsequent)

- Equipment and vehicles in yard without operator/mechanic classifications listed in application or policy.
- Independent contractor status use is excessive when experience rating worksheets indicate large payroll exposures.
- Industrial or construction enterprise with a work force reported primarily in low rate categories.
- Information received from workers or other insiders that employees are misclassified.

Workers Comp Premium Fraud Indicators – General Audit (Initial)

- DBAs (Doing Business As names) are numerous for a small policy.
- Employer claims "independent contractor" status of employees.
- Non-compliance with the audit process.
- Phone number listed on the application is not the number of the insured business.

Workers Comp Premium Fraud Indicators – General Audit (Subsequent)

- Address visited is the same address as a different risk.
- Business has no or only short history (e.g. long time address, several years' tax records, etc.).
- Certificate of Coverage displayed/presented by the business contains inaccurate data.
- Certificates of Insurance requested on a small policy are numerous or claims reported on a Certificate of Insurance policy only.
- DBA other than the exact business name on the license is used to obtain a policy.
- Employer is routinely cited for safety violations.
- Employer refuses or delays access to the premises for safety inspection or audit.
- Literature, publications, pictures or online information appear inconsistent with the represented operations.
- Loss history shows a minimal amount of losses when compared to the expected losses.
- Loss history shows an unusually long lag time for numerous claims.
- Medical bills are paid by the employer and the employer is not reporting injuries.
- Multiple letterheads.
- Number of injury claims (in total or for specific classification codes) indicate the employer has more employees than are being stated on the application.
- Records are kept at a location other than the location where the auditor is asked to perform the audit.
- Records provided are excessive in number and volume.
- Sign with logo or company name is not present at physical location.

Workers Comp Premium Fraud Indicators – Payroll Audit (Initial)

- Payments including cost of travel or downtime for construction crews in a permanent yard.

Workers Comp Premium Fraud Indicators – Payroll Audit (Subsequent)

- Checks from business checkbook are voided or missing or cash disbursement journal entries missing or incomplete.
- Names of injured workers are not listed on W-2 forms.
- Payroll audit reveals payroll exceeds estimates on the application.
- Payroll audit substantially exceeds estimated payroll or vice versa.
- Payroll decrease reported by the business while revenues remain stable or increase, leading to questions of the payroll being under reported.

- Payroll figures reported disagree with payroll reported to other entities (e.g. local, state, federal government for tax purposes).
- Payroll for quarter results exceeds estimated payrolls.
- Payroll is inconsistent with certificates issued.
- Payroll record accuracy cannot be verified by the insured.
- Payroll records are not disclosed for employees who file claims.
- Payroll submitted by large contractor or employee leasing operation is smaller than estimated.