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Fraud and Buildup Add 13 to 18 Percent in Excess Payments to Auto Injury Claims

MALVERN, Pa.— A new study by the Insurance Research Council (IRC) estimates that claim fraud and buildup added between \$4.8 billion and \$6.8 billion in excess payments to auto injury insurance claims closed with payment in 2007. The excess payments amount to between 13 percent and 18 percent of total payments under the five main private passenger auto injury coverages. Excess payments have increased from 2002, when they were estimated at between \$4.3 billion and \$5.8 billion, or between 11 and 15 percent of total payments.

The percentage of claims that appeared to involve fraud, defined as specific material misrepresentation of the facts of a loss, increased from 9 percent of bodily injury (BI) claims closed with payment in 2002 to 11 percent of closed claims in 2007. The percentage of personal injury protection (PIP) claims with apparent fraud rose slightly, from 5 percent in 2002 to 6 percent in 2007.

The more common type of claim abuse was buildup, defined as the inflation of an otherwise legitimate claim, such as through unnecessary medical treatments or diagnostic procedures. Twenty percent of BI claims appeared to involve buildup in 2007, up from 18 percent in 2002. Apparent buildup was found in 14 percent of PIP claims, up from 12 percent in 2002.

The study also examines differences in claiming behavior between claims with apparent fraud or buildup and claims without apparent fraud or buildup. Claims with apparent fraud or buildup were more likely than other claims to involve sprain and strain injuries and periods of disability. In addition, the study found that claimants in apparent fraud and buildup claims were more likely than other claimants to receive treatment from physical therapists, chiropractors, and other alternative medical providers.

"Claim abuse continues to be a significant problem. The excess payments attributable to fraud and buildup help drive up the costs of insurance for everyone," said Elizabeth Sprinkel, Senior Vice President of the IRC. "On the positive side, this report shows some of the ways that insurers are working to combat the problem and ensure that every claim is paid according to its merits."

The study, *Fraud and Buildup in Auto Injury Insurance Claims: 2008 Edition*, is based on data from more than 42,000 auto injury claims closed with payment under the five principal private passenger coverages. Twenty-two insurers, representing 58 percent of the private passenger auto insurance market in the United States in 2006, participated in the study. The IRC closed claim study collected detailed data on injury, medical treatment, claimed losses and total payments, claim handling techniques, and attorney involvement. In addition, claim file reviewers were asked to indicate whether specific elements of fraud or buildup appeared in the claims. Because the study involves only claims closed with payment, it likely understates the incidence of fraud and buildup in all claims filed.

For more detailed information on the study's methodology and findings, contact David Corum by phone at (610) 644-2212, ext. 7506; or by e-mail at irc@cpcuiia.org. Or visit IRC's Web site at www.ircweb.org. Copies of the study are available at \$300 each in the U.S. (\$315 elsewhere) postpaid from the IRC, 718 Providence Road, Malvern, Pa. 19355-0715. Phone: (610) 644-2212, ext. 7569; Fax: (610) 640-5388.

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NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute for CPCU. The Institute is an independent, nonprofit organization dedicated to providing educational programs, professional certification, and research for the property and casualty insurance business. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.

