INSURANCE FRAUD
DISASTER AND
CATASTROPHIC LOSSES

• Amy Bach, United Policyholders
• John Chavez, FEMA
• Matthew Smith, Coalition Against Insurance Fraud

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POST-DISASTER FRAUDULENT ACTIVITIES
CONSUMER ADVOCATES

FEMA

United Policyholders
Empowering the Insured

Coalition Against Insurance Fraud
John Chavez, Voluntary Agency Liaison Group Supervisor, Individual Assistance | Recovery | FEMA Region IX
DISASTERS LARGE AND SMALL

• House fire – common hazard causing over 200,000 injuries per year

• Category 5 hurricanes

• Flooding events

• “The Big One” (New Madrid), Loma Prieta, Northridge (CA)

• Wildfires in CA, CO, AZ, NM, OR, WA
EMERGENCY DECLARATION

• A governor may declare a state of emergency and invoke the state's emergency plan

• A governor may determine that the recovery appears to be beyond the combined resources of both the state and local governments

• The Governor must certify that the severity and magnitude of the disaster exceed state and local capabilities;
  • Federal assistance is necessary to supplement the efforts and available resources of the state and local governments, disaster relief organizations, and compensation by insurance

• confirm execution of the state’s emergency plan

• certify adherence to cost sharing requirements
DAMAGE ASSESSMENT

- Determine impact and magnitude of damage caused by a disaster
- Federal & State emergency management and Agencies, county, local, & Tribal officials
- Summarize damage to homes, businesses, the public sector, and community as a whole
- Reviews the types of damage and emergency costs incurred by the State, and the impact on critical facilities
• Factors assessed to determine the severity, magnitude, and impact of a disaster event.
  • Amount and type of damage (number of primary residences destroyed or with major damage)
  • Impact on the infrastructure of affected areas or critical facilities
  • Imminent threats to public health and safety
  • Impacts to essential government services and functions
  • Insurance coverage in place for homeowners and public facilities
  • Assistance available from other sources
  • State and local resource commitments
  • Frequency of disaster events over recent time period
SEQUENCE OF EVENTS FOR INDIVIDUAL ASSISTANCE IN FEDERALLY DECLARED DISASTER

• Local Government & Voluntary Agencies engage

• **Personal Insurance**: Owner, Renter, NFIP, Earthquake

• FEMA, SBA, other Federal – VA, IRS, USDA

• Long Term Recovery Groups

• Disaster Case Managers, “Navigators”
REGISTER FOR ASSISTANCE
(INSURED OR NOT)

• Federal/State programs may provide financial assistance or direct services to eligible individuals who, as a direct result of a major disaster, have expenses and needs and are unable to meet such expenses or needs through other means.

• Must be Primary Residence

• Programs help towards recovery and are not intended to return all homes to pre-disaster condition.
REGISTRATION FRAUD

• Identity MUST be verified (Risk Status Warnings)
• Applicant MUST submit documents to satisfy identity proofing requirements
• Proof of ownership/occupancy may be requested
• Funds cannot be used to pay for exact item from another source of funding – Duplication of Benefits
  • (Case Managers and Recovery Groups also look for this)
  • (Clothing is expendable and NOT considered duplication of benefits)
• Fraud & Price Gouging stopfemafraud@fema.dhs.gov (202) 212-4926
RESPECTIVE ROLES OF THE “TEAM”

• Government:
  • Local
  • County
  • Tribal
  • State
  • Federal

• Private Sector
  • Voluntary Agencies
  • Faith-Based Community
  • Social Service agencies
  • Service Providers
  • Business/Industry
VOLUNTARY/FAITH BASED AGENCIES

- First to Arrive…
  Last to Leave

- Community-based
- Community sensitive/trusted
- Mobilize quickly providing immediate response
- Often on the scene prior to declaration
LONG-TERM RECOVERY GROUPS

• Establish a coordinated method of addressing the unmet recovery needs of individuals and their families:
  • Provide Case Work/Case Management
  • Prevent duplication of benefits
  • Access ALL possible resources
  • Screen fraudulent requests
  • Ensure confidentiality
  • Empower those affected
COMMON CHALLENGES

Lack of desire to accept responsibility for recovery process:

- “Not our problem”
- “It’s FEMA’s responsibility”
- “It’s some other agency’s job”
- Uninsured or Underinsured
- Most in need receive the largest awards but are often the very ones that may have difficulty formulating effective individual recovery plans
- Scam artists and bogus ‘Assistance Groups’

- Hurricane Harvey caused an estimated $125 billion in damage. Available information estimates that funds from insurance, philanthropy, and federal assistance totaled $26.5 billion, about 21 percent of the total estimated damage
UNINSURED, UNDERINSURED

- Uninsured Owner or Renter should register if Primary Residence
- Assistance NOT given for losses covered by insurance
- Underinsured may appeal
- If maximum settlement received and still have needs, one must send a letter to FEMA and documentation from insurance company for review
- Insured applicant has up to 12 months from date of registering with FEMA to submit insurance information for review. Money cannot be given for losses covered by insurance.
SCAMS AND REMEDIES

• Fake Contractors, Aggressive Adjusters
• Scammers claiming to be with FEMA, Insurance Company or a State or Federal employee (Check I.D.s!)
• Scammers who try and collect a fee for applying for assistance from FEMA or State (no such thing)
• False Charities, Recovery Support Groups
• Checks stolen (use Direct Deposit)
• Opportunistic Fraud – padding a claim
• If it sounds too good to be true, it probably is!
FEMA’S ANTI-FRAUD EFFORTS

• At the point of registration FEMA has data points for identifying potential duplicate/fraudulent applications. Same SS#, co-reg SS, # duplicated, same Damaged Dwelling (DD) address; same DD phone #; same Electronic Funds Transfer; and also same Deceased person’s name or Social Security# which was mostly used for COVID disasters.

• Then after someone is registered there are scripts that run for Risk Status Warnings.

• National Processing Service Center staff are assigned to review potential fraud cases.
PREPARE FOR A DISASTER

• Pre-disaster, become familiar with established
  • Response programs
  • Recovery programs
  • CERT
  • VOAD
• Community should have Emergency Operation Plan
  • Channeling and disseminating Donations
  • Managing Unaffiliated volunteers
  • Long Term Recovery/Unmet Needs Committee
• Review NAIC Insurance Disaster Response Plan

• Be Prepared and be insured!
Matthew Smith
Executive Director, Coalition Against Insurance Fraud

Amy Bach
Executive Director and Co-Founder, United Policyholders
THE CONSUMER IMPACT OF NATURAL DISASTERS
THE COST OF NATURAL DISASTER FRAUD – INSURED LOSSES ONLY

$551 Billion over 10 years

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<th>Year</th>
<th>In dollars when occurred</th>
<th>In 2020 dollars (2)</th>
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Conservative estimates* put P&C insurance fraud at 10% of all claims paid. For natural disasters the number is generally considered to be far higher.

Using the $551B figure:

- 10% = $55.1 B
- 12% = $66.1 B
- 15% = $82.6 B
- 18% = $99.1 B

*Battelle Seattle Research Center
HOW NATURAL DISASTER FRAUD OCCURS

Contractor and Repair Scams
CONTRACTOR AND REPAIR SCAMS

• Requiring an up-front advance then not showing up to do the work

• Promising to “absorb” the policyholders’ deductible then cutting corners on the job

• Substandard work/incomplete work
CONTRACTOR AND REPAIR SCAMS

• People who claim to be FEMA Housing inspectors but aren’t

• Fake offers of local or federal assistance/People who seek your FEMA # or other personal financial info

• Adjusters/Contractors/Attorneys that take an assignment of insurance benefits or contingent fee on insurance benefits but don’t do any work to adjust loss/settle claim

• Restoration/Remediation vendors who charge to clean items that should be discarded/can’t be cleaned
“STORM CHASER”
SCAMS
STORM CHASER
SCAMS

• Postcard/door-to-door/email marketing campaigns promising a new roof, new windows, etc.

• “Shingle rippers” who damage undamaged items to increase the scope and cost of work
How Natural Disaster Fraud Occurs

Insurer actions
• Employing inexperienced adjusters without adequate training
• Standing firm on an Xactimate estimate when it doesn’t match up with local pricing on materials and labor
• Applying excessive depreciation when calculating Actual Cash Value
• Discouraging policyholders from hiring professional help
• Pressuring policyholders to use insurer preferred contractor that doesn’t have a good track record or references
• Bulk contracts with engineering firms that aren’t adequate to cover thorough inspections, resulting in “cookie cutter” reports
How Natural Disaster Fraud Occurs

Consumer Fraud
INTENTIONAL CONSUMER FRAUD
INTENTIONAL CONSUMER FRAUD

- Claiming items not owned or damaged
- Inflating condition or value of property
- Intentionally causing damage
- Referring others to known fraudsters
- Inflated ALE claims
- RCV abuses by returning items
UNINTENDED OR CLAIM MOTIVATED FRAUD

• Contractor or adjuster intentionally or unintentionally inflates inventory, scope or estimate w/out property owners knowledge
WHERE PROPERTY OWNER ASSUMES INSURER WILL LOWBALL/UNDERVERVALUE, THEY MAY INFLATE TO COUNTERACT

• Value and/or condition of items on contents inventory

• Pushing for a settlement based on the highest dwelling repair/ replacement estimate when there’s a mid-range that’s more reasonable
DISPARATE IMPACT OF NATURAL DISASTER FRAUD
DISPARATE IMPACT – FRAUDSTERS & SCAMMERS
INSURER RESPONSES

- SIU UNITS
- EUOS
- DELAYED/DENIED CLAIMS
DOI ACTIONS TO PROTECT CONSUMERS
DOI ACTIONS TO PROTECT CONSUMERS

• Advance Planning:
  • Disaster plans in place to address fraud.
  • Emergency approval plans for adjusters and contractors.
  • CSLB coordination.
DOI ACTIONS TO PROTECT CONSUMERS

• Consumer Warnings
  • In advance
  • Post disaster
DOI ACTIONS TO PROTECT CONSUMERS

Insurer response plans and anti-fraud plans.
DOI ACTIONS TO PROTECT CONSUMERS

Prosecution of disaster fraudsters
ACTIONS TAKEN

Legislation
- AOB reform
- Solicitation bans (7 day dark CA)
- Tort reform pros and cons