August 2020

COVID-19 OPENS NEW DOORS FOR FRAUD

The global COVID-19 pandemic turned the world upside down.

But for criminals, the crisis threw open new doors and new opportunities to commit insurance fraud. Historically, when the economy weakens, the insurance industry experiences an uptick in fraudulent activity – and the resulting impact is much broader than the cost of insurance premiums. **Fraud scams waste the precious emergency and health care resources that the pandemic has already stretched past capacity.** Some schemes – like staged collisions - also present a real risk to public safety.

ABOUT INSURANCE FRAUD IN CANADA

Insurance fraud is a multi-million dollar societal problem that leads to higher premiums, wasted law enforcement resources and victimization of Canadians.

IBC works with and for its member companies to detect, deter, prevent and disrupt insurance fraud.

IBC | Insurance Bureau of Canada

7 Insurance fraud scams to watch for

Since the beginning of the COVID-19 pandemic, investigators in the Property & Casualty (P&C) insurance industry have been closely monitoring on-line activity and exercising heightened vigilance for signs of insurance fraud. Canada's home, auto and business insurers are experiencing lower aggregate claims volume, however, the proportion of cases being sent to insurer Special Investigation Units for referral is growing.

So what kind of scams are fraudsters pulling? Here's a list of some of the ways criminals are trying to lure Canadians into costly and potentially risky insurance fraud schemes.

1. Ghost Brokers

Buy-and-sell websites are rich hunting grounds for "ghost brokers." They sell fake auto and health insurance online to unsuspecting Canadians. This bogus insurance isn't worth the paper it's printed on. If victimized drivers are in an accident, they'll soon discover they have no insurance coverage - precisely when they need it most.

2. False Vehicle Identification Numbers

In Alberta, IBC Investigators worked with Calgary law enforcement officers on a scam that involves re-registering trucks with false Vehicle Identification Numbers (VINs) and then switching coverage to a new insurer. Over the decade, about $350,000 in false insurance claims were filed, but Calgary police have recently been able to lay fraud charges.

3. Staged Collision Facilitation

Online, criminals have been known to advertise staged collision facilitation for drivers who want to dispose of their car and/or cash-in on a fake injury claim. Insurance investigators found ads that brazenly promise to help make a vehicle disappear. That way you can tell your insurer that your car was stolen and get a cash settlement.

The COVID twist here is that policyholders could cite fear of contracting the virus as the reason they failed to remain at the scene, go to the hospital or promptly report the "accident."

4. Vehicle Cleaning, Rental & Storage

In the early days of the pandemic, IBC and industry investigators identified that unscrupulous auto body shops, preying on consumers' fear of contracting COVID-19, were charging exorbitant fees for cleaning vehicles. Some fraudulent companies stored vehicles for days on end before commencing repairs. By holding the vehicle longer, they could inflate the storage fee.

5. Vehicle Finance Fraud

Industry investigators are seeing more finance fraud in the field. Here's how it works. An individual walks into a Mercedes dealership and buys a $140,000 vehicle by presenting fraudulent documents or assuming someone else's identity. Often, the car is shipped overseas and sold at a huge profit. IBC is working with the Canadian Bankers Association and other stakeholders on vehicle finance fraud, which can be a significant expense for both banks and insurers.

6. Telemedicine

Telemedicine involves health care services provided via phone or video, and it's proven to be an invaluable tool for doctors and patients alike during the pandemic.

Unfortunately, the list of fraud risks associated with telemedicine is long. Provider codes could be used to bill insurers for services that can't possibly be delivered remotely. Providers can claim that a five-minute diagnosis call was an hour-long session. Provider credentials also risk being stolen. With an ability to turn over clients more quickly, telemedicine offers a scalability to fraud that you don't see in person; this type of fraud could be done hundreds of times a day.

Telemedicine's vulnerability to fraud has long been limited by well thought-out regulations, but the pandemic risks changing the rules. Experts say use – and fraudulent abuse – of this service is expected to grow rapidly. Generally, online fraud can be more difficult to identify, investigate and litigate. Recently, insurers in the U.S. have been reducing and limiting telemedicine coverage.

7. Cyber Fraud & Data Breaches

Much like the coronavirus, insurance fraud scams – and cyber scams in particular - move quickly and can affect large geographic areas in a short time.

Dell noted that in the first quarter, an astounding 66% of all global phishing attacks were targeted at Canadians. The next closest country faced a mere 7% of total phishing attacks. And according to IBM, Canada's breaches are the third most costly at over 1.2 times the global average cost.

Unfortunately, despite being 15 times more likely to fall victim to a cyber incident compared to a fire or theft, the proportion of businesses with standalone cyber insurance coverage for incidents such as data breaches lags behind other, more traditional coverages.

According to an IBC survey of small to medium businesses (Fall 2019), 44% said they had no cyber crime defenses, while 37% estimated that incidents cost them more than $100,000. Nearly two-thirds of survey respondents said they had no cyber insurance coverage at all.

For more information about insurance fraud and investigation in the P&C insurance industry, please contact IBC National Director, Investigative Services, Bryan Gast (bgast@ibc.ca).