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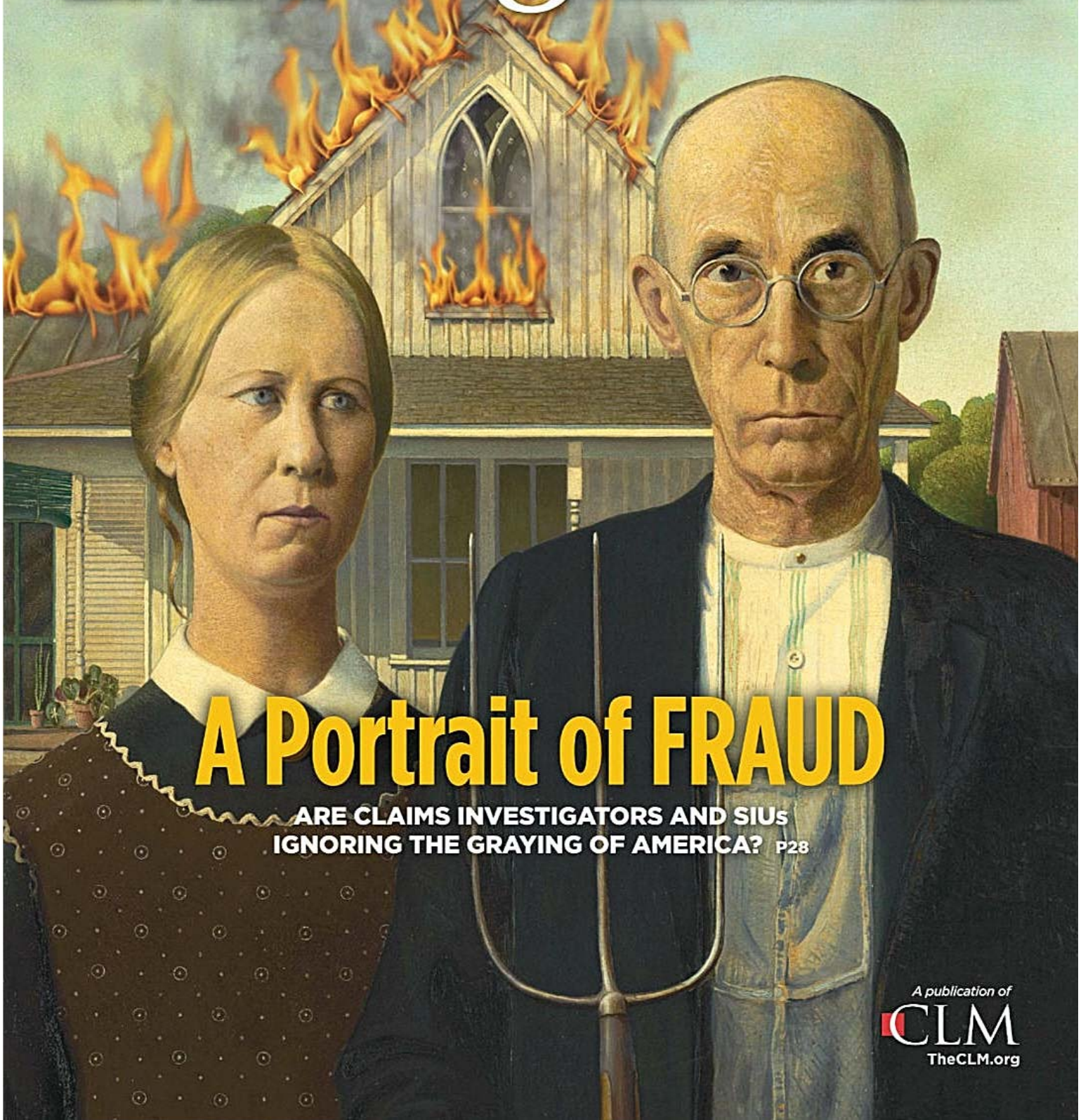
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# Claims Management

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STRATEGIES FOR SUCCESSFUL RESOLUTION



## A Portrait of FRAUD

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# A Portrait of **FRAUD**

## **ARE CLAIMS INVESTIGATORS AND SIUs IGNORING THE GRAYING OF AMERICA?**

By Matthew J. Smith, Esq.

**N**o matter your age, the entirety of your life you've heard that America is becoming older and our demographics are changing. Between 1946 and 1964, 77 million Americans were born, shattering all records for previous population growth. Known as "baby boomers," this generation is said to be the most studied in American history. Headlines following baby boomers have ranged from their first days in kindergarten to graduation from high school and college to the start of careers and beginning families to current headlines about their dramatic effect on retirement. News stories on this one generation have spanned the days of radio and early television in the 1940s to Twitter posts in 2013.

The United States Census Bureau, in its report on the 2010 Census, summarized the age demographics of our country succinctly by concluding:

Between 2000 and 2010, the

population under the age of 18 grew at a rate of 2.6 percent. The growth rate was even slower for those aged 18 to 44 (0.6 percent). This contrasts with the substantially faster growth rate seen at older ages. The population aged 45 to 64 grew at a rate of 31.5 percent. The large growth in this age group is primarily due to the aging of the baby boomer population.

While we may live in a world obsessed with youth, the reality is seniors are outpacing the younger generation in growth numbers by an astounding 31.5 to 0.6 percent ratio. In 2011, The New York Times noted in a key story on population demographics that "elderly people are now a greater portion of the population than at any time since the government began keeping track."

While these numbers are staggering, and we have heard about the "graying of America" for decades, those of us in the insurance claims

profession have by and large ignored this phenomenon. Underwriters have considered this information for policy premium purposes, but from a claims standpoint—and more importantly from a claims investigation and potential insurance fraud perspective—no one has seriously analyzed what effect the aging of America's population is having on insurance fraud.

Not too many years ago, claims professionals, SIU investigators, and insurance investigative attorneys would dismiss any potential fraud involving elderly claimants, assuming that seniors would not commit fraud or lie about a claim. In reality, we gave a free pass or did very little in-depth investigation of claims involving older members of the population.

This probably was done unconsciously or maybe even out of a sense of being raised on the concept of respecting your elders. However, having now handled insurance claims investigations for more than 25 years,

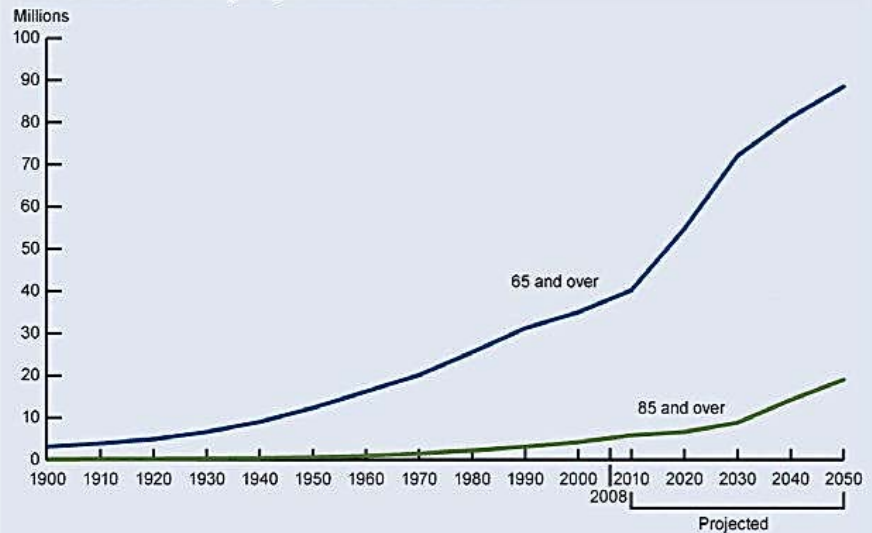
I believe that the old saying “the leopard does not change its spots” is true. The reality is, a person who will lie, cheat, and steal in their 20s, 30s, and 40s will do the same in their 60s, 70s, and 80s. And it is happening in increasing numbers across a wide variety of claims in our county. The question is whether insurers, investigators, and attorneys are recognizing or ignoring this growing trend.

### Putting on Blinders

For too long, the insurance industry simply has given this “free pass” to those older members of the population as being unlikely to commit insurance fraud. If we continue, we do so both at our own peril financially and, eventually, at the risk of our careers.

Chart 1 demonstrates graphically the dramatic rise which will occur in America as the population ages between now and the year 2050. If we in the insurance industry continue to give a pass to this ever-growing portion of the population, we will be giving away hundreds of millions of dollars paid by legitimate policyholders to fund insurance fraud. U.S. Census Bureau figures show that there is no way insurers can continue to ignore the older population as being susceptible to committing acts of insurance fraud.

**Population age 65 and over and 85 and over, selected years 1900-2008 and projected 2010-2050**



NOTE: Data for 2010-2050 are projections of the population. Reference population: These data refer to the resident population. SOURCE: U.S. Census Bureau, Decennial Census, Population Estimates and Projections.

Fueling this trend further has been the dramatic change in the American economy since 2008. Most baby boomers were raised on the American dream of working, buying a home, and having a secure retirement. Those dreams have been shattered by today's realities: a collapsed real estate market; companies going bankrupt and abandoning retirement and defined benefit and health insurance programs; and the stock market crash taking away

the security of investment income for retirement living.

In a story based on polling conducted by the Associated Press in 2011, members of the baby boomer generation were interviewed. The article noted that among the baby boomer generation, “[J]ust nine percent say they are strongly convinced they’ll be able to live comfortably when they retire.” The article went on to contain a shocking comment for any property and casualty insurance company employee concerned about arson. It stated, “There’s a concern about whether people will get money out of their house. They envision the home as a problem, not an asset.” Any arson investigator will tell you that a property viewed as a problem becomes a prime target to be burned, especially when it cannot be sold for anywhere close to the value the insurance policy will pay if it is destroyed.

Law firms that assist insurers across the country in investigating insurance fraud in general, and arson fires specifically, have seen a dramatic increase in fire losses, jewelry thefts, and other highly questionable insurance claims involving an older age demographic. These claims range from arson fires involving homes in deteriorating neighborhoods to outbuilding or shed fires to pay off credit card debt. One of the more dramatic increases in losses has

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been the mysterious disappearance of jewelry items. While difficult to investigate and prove, claims involving old or outdated jewelry can become a valuable source of “retirement income supplement” instead of just wasting away in a drawer or closet.

## Finding a Motive

Motives vary in arson cases. In one case, a barn on the historic register was burned because its elderly owners wanted to sell the land underneath it for building lots to aid in their retirement. In another instance, a man in his 80s and on a fixed income claimed his housekeeper was the likely suspect in the theft of a scheduled \$50,000 aquamarine stone owned by his late wife. At his examination under oath, he was asked whether or not he owned any safe deposit boxes. At the bank an hour later, he discovered the missing stone in his box and realized he had “forgotten” that he had placed it there.

In a Midwest fire case, the wife of an insured admitted that she and her husband decided to burn down their home where they had lived for four decades and raised their sons because the husband was nearing retirement, his plant was closing and transferring jobs to Mexico, and the neighborhood had declined around them. In

a tearful EUO confession, she told how they “decided to burn the house three months before the plant closed, because we knew he would not get another good job at his age, and we hoped by doing this before the plant closed, the insurance company would not get suspicious.”

Other motives for a variety of insurance claims have included the need to pay off credit card debts incurred in the pre-Great Recession era before retiring. Sadly, a number of claims have been driven by the need to seek payment for medical and health insurance expenses and even to assist children and grandchildren in financial need.

While it may not have been insurance fraud, the story of 68-year-old Barbara Joly from Middletown, Ohio, made worldwide headlines several years ago when she was arrested as “the granny robber.” This elderly, churchgoing, model citizen of the community robbed a series of banks before being caught, all to aid her adult son who had fallen on economic hard times. The notion becomes clear: If someone is motivated enough to rob a bank, it certainly would be a lot easier to commit insurance fraud.

The problem is real, and insurance companies, claims professionals, and SIU investigators need to take into account the changing demographics in the age of

America’s population as a key concern in investigating and identifying fraudulent claim activities.

## Changing the Approach

On the positive side, this is not a difficult change to make, as it simply requires a re-thinking and re-evaluation of how we view insurance fraud and those who are likely to commit it. Especially in today’s cost-conscious economy, no insurance company has to invest millions of dollars in new technology, hardware, or equipment to do a better job of investigating these types of claims. Instead, carriers simply need to be aware of the changing age demographics of our society and stop the long-standing practice of giving seniors a free pass to get away with insurance fraud.

Fortunately, our society continues to be filled at all age levels with a majority of people who are honest and forthright in their presentation of insurance claims. No group should ever be singled out or identified as more likely to commit insurance fraud than another, but we should be willing to look at all aspects of insurance fraud equally and fairly regardless of a person’s background or age. Failure to do so is a disservice to our profession, the companies that employ us, and the policyholders who rely on us to do a thorough, complete, and accurate investigation and, where appropriate, prosecute insurance fraud to protect their interests.

The baby boomer generation may be retiring, but it will continue to have a major impact on American society for the next three to four decades. That time period includes the work-life expectancy of almost every one of us in the insurance profession today. The duty rests on us to be aware of America’s changing age demographics and to apply that knowledge to our daily work of investigating and battling insurance fraud. **CM**

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