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PENNSYLVANIA'S BATTLE AGAINST INSURANCE FRAUD AND AUTO THEFT: A SUCCESS STORY

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In 1994, the Pennsylvania Legislature created two authorities to battle the mounting problem of insurance fraud in the Commonwealth. The authorities, the Pennsylvania Insurance Fraud Prevention Authority ("IFPA") and the Pennsylvania Automobile Theft Prevention Authority ("ATPA"), are funded solely by assessments paid by insurers that conduct business in the state. The authorities have developed comprehensive strategies to combat insurance fraud and automobile theft in Pennsylvania since their creation. The strategies include funding special units in various geographic areas within the state designated as "hot spots" and conducting media campaigns to increase public awareness of fraud and auto theft. The purpose of this article is to update the reader on the progress Pennsylvania has made in its fight against fraud and auto theft and the methods used to battle it.

In its brief four year history, the IFPA has waged an aggressive media campaign against insurance fraud. The media campaign is the first of its kind in the nation and has become a model for the nation. Initially, the focus of the campaign was to generate awareness that insurance fraud is indeed a crime. Most of the public would not walk into a convenience store, reach across the counter and take money out of a cash register. However, approximately 25 percent of Pennsylvanians believe it is okay to pad an insurance claim to cover the cost of a deductible.¹ Presently, the campaign emphasizes that those who commit fraud will suffer the consequences. Billboard messages, such as "Commit insurance fraud. Meet new friends," with accompanying photos of police officers and criminals behind bars drive home the message that insurance fraud is a crime with consequences. Several types of fraud have been highlighted in television spots. For example, one public service announcement featured a portly man, who could be anyone's neighbor, diving into his backyard pool and swimming laps. The announcer informs viewers that the man is receiving worker's compensation benefits because he is allegedly unable to work due to a work-related injury. The announcer continues further that the swimmer is committing insurance fraud and thinks he is getting away with it. The spot closes with the swimmer caught by police and invites viewers to report suspected fraud cases. The number of calls to the IFPA's toll-free tip line has doubled since the public service announcement aired.

In addition to its campaign to increase public awareness that insurance fraud is a crime, the IFPA gives grants to investigative and prosecutorial units across Pennsylvania dedicated to prevention, investigation, and prosecution of insurance fraud of all types. With the advent of the IFPA, law enforcement and prosecutorial units receive funds to staff elite units and target forces that are working full time to investigate and prosecute insurance fraud. In the initial years of the IFPA, it fulfilled its statutory mandate by funding units devoted to investigating and prosecuting fraud in the Philadelphia District Attorney's Office and the Pennsylvania Attorney General's Office.

Law enforcement and insurance fraud experts have long referred to Philadelphia as the "insurance fraud capital of the United States." According to the Insurance Information Institute, Philadelphians annually file \$300 million worth of fraudulent claims. While nationally, an average of 15 cents of every premium dollar pays for insurance fraud; in Philadelphia, that figure is estimated at 25 cents per dollar.² Clearly, Philadelphia was an obvious choice for IFPA funding and in 1995, the IFPA awarded the district attorney of Philadelphia a grant totaling over \$5 million to be paid over three fiscal years. The district attorney created a highly specialized and unprecedented insurance fraud law enforcement capability with the grant from the IFPA. The prosecutorial success of this unit has been very encouraging and the Insurance Fraud Unit commands significant media attention. The district attorney created and implemented a wholly unique public awareness program and prosecutorial attack on the pervasive issue of automobile rate evasion. The Authority approved a special grant of \$200,000.00 to be used towards a media blitz that illuminated a "no tolerance" attitude towards insurance rate evasion. The goal of this special project was to create a greater public awareness that rate evasion is illegal and that it ultimately causes higher automobile

project was to create a greater public awareness that rate evasion is illegal and that it ultimately causes higher automobile rates for honest citizens. Following a 30-day amnesty period, the district attorney's office in Philadelphia began prosecuting rate evasion offenders, a first in the city's history. In addition, the Unit coordinates its insurance fraud efforts with the Federal Insurance Task Force and the attorney general's Fraud Section. The Unit concentrates on the smaller fraud cases which were not investigated in the past. The Probation Office has dedicated a full-time probation officer to follow up on all the Unit's prosecutions to verify that all fines and penalties are collected.

To combat fraud on a statewide basis, the IFPA approved a grant request of the Office of the Attorney General in February of 1996. The grant, which totaled over \$2 million for a two-fiscal-year period, facilitated the creation of a special Insurance Fraud Section. The Insurance Fraud Section established offices in Harrisburg, Pittsburgh, and Norristown. The Norristown office is staffed with three prosecutors, seven investigators, and two support staff. This office investigates referrals for the five counties surrounding Philadelphia. The Harrisburg office is staffed with one prosecutor and two investigators. This office covers the counties of central Pennsylvania. The Pittsburgh office is staffed with two prosecutors, three investigators, and one support staff. This office investigates referrals from the counties surrounding Pittsburgh and the western part of the state. The Insurance Fraud Section investigates all types of fraud involving multi-county jurisdictions or cases within a county at the request of the district attorney.

The IFPA recently approved funding for the Pennsylvania State Police Fire Marshal's Fire Investigator Response Enhancement program. As with many governmental offices, the state police have incurred budget constraints that inhibit its ability to meet service needs. One area of particular concern to the insurance industry involves anti-arson investigatory efforts of the Fire Marshal's Division. Regrettably, financial constraints negatively impacted the Division's ability to conduct timely and complete investigations of incendiary scenes. This loss of an early investigation can cause valuable evidence to be destroyed, which can negate a complete fire analysis and sometimes lead to the payment of arson-inspired claims. As a result, the IFPA awarded a grant to the Division that covered its entire overtime expenditures for a fiscal year and allowed it to purchase several pieces of specialized arson identification equipment. Additionally, the grant covered the training of municipal and volunteer fire fighters in the science of arson identification and incendiary analysis.

In addition to funding an arson unit on the state level, the IFPA funded an arson investigation unit on the county level. In 1998, the Montgomery County District Attorney's Office received a grant from the IFPA to establish a special unit to investigate arson. A retired Pennsylvania state trooper (and former fire marshal) was hired to head the unit. His salary, plus the entire cost of running the unit, is funded by the IFPA grant. Insurance fraud and vengeance are the two primary reasons behind arson. There are approximately 120 arson fires a year in Montgomery County affecting everything from cars to structures. A handful of the arson fires are detected and almost none are prosecuted. With the creation of the new unit, the district attorney hopes to increase the detection of arson fires and, consequently, their prosecution.³

In addition to the public awareness campaign and funding special fraud units, the IFPA plays an active role in the community by meeting with members of the insurance industry and general community to discuss fraud issues. The IFPA sponsored an insurance industry advisory group meeting. Special investigative unit managers whose companies represented major insurance sectors of property and casualty, workers' compensation and life insurance lines attended the meeting. The purpose of the meeting was to obtain information from the industry that would assist the IFPA in identifying and prioritizing specific areas of concern within the Commonwealth. The IFPA shared the information with the Attorney General's Insurance Fraud Section to assist the unit with its program development, staffing decisions, and investigative initiatives. In addition, the IFPA and the attorney general's office held several meetings throughout the state to openly discuss fraud-related needs, concerns, and shared responsibilities.

Alongside the IFPA, the Automobile Theft Prevention Authority works to eliminate a specific type of theft that often involves insurance fraud. One of the growing trends in the Commonwealth is "owner give-ups" and vehicle arson. The "owner give-up" typically involves either leased vehicles with very high mileage whose turn-in costs are high or, to a lesser degree, purchased vehicles whose owners no longer desire to make the monthly payments. The owner arranges to have the vehicle stolen or abandons it in a known, high-theft area. In other cases the owner may simply hide the vehicle somewhere and report it stolen to the police and insurance company. To ensure that the car is a write-off, the owner may actually burn the vehicle.⁴ While initially investigated as a vehicle theft, this criminal act is also insurance fraud.

To combat auto theft, and similar to the IFPA, the ATPA funds investigative units throughout the state with surcharges collected from insurers that conduct business in the state. Presently, the ATPA funds 14 investigative units. Since the densely populated areas in the southeastern region of the state are a haven for illegal commercial operations, the ATPA's strategy is to fund specialized units in that area. Almost 70 percent of reported vehicle thefts in the state occur in Philadelphia and its

to fund specialized units in that area. Almost 70 percent of reported vehicle thefts in the state occur in Philadelphia and its surrounding counties. The city of Philadelphia historically has represented approximately 50 percent of the state's vehicle theft problem.⁵ The Philadelphia Police Department received over \$4 million for a four-year grant that doubled the resources of the auto theft units within the police department. The department created a unit to concentrate on chop shops and salvage yard investigations, while another unit investigated all other auto theft cases. Also, the Philadelphia District Attorney's Office received a grant from the ATPA to create a unit within the office to support the specialized units in the Philadelphia Police Department dealing with auto theft.

In addition to funding special units, the ATPA launched an education and prevention effort to increase public awareness of the frequency of auto theft and its cost to the consumer. The ATPA distributed brochures offering consumers useful tips on auto theft prevention, funded unit representatives, visited local car dealers to invite them to help spread the ATPA's message, and representatives spoke at community organizations and worked with the media to localize their auto theft prevention and prosecutorial efforts. Through public service announcements, billboards, and newspaper ads, the ATPA urged the public to watch its cars and to take simple prevention measures such as locking the car to prevent auto theft. The campaign focuses on educating the public that car theft is not a victimless crime and steps can be taken to prevent it.

The most impressive accomplishment of the ATPA has been the draft of legislation that unanimously passed the Pennsylvania State Senate in June 1998.⁶ Senate Bills 1372 and 1373 were created to combat chop shop activity in the state. The legislation was in development for nearly a year by the ATPA's legislative committee. Numerous agencies and interested groups, including the Pennsylvania Office of the Attorney General, the Pennsylvania District Attorney's Association, the Pennsylvania State Police, the Philadelphia District Attorney's Office, and the Pennsylvania Automotive Recycling Trade Society, provided input for the legislation. Until the introduction of this legislation, Pennsylvania was without any criminal penalties for specifically operating a chop shop. This legislation makes the violation of it a felony crime of the second degree. While the legislative committee considered a number of legislative areas, chop shop legislation was the central focus of its efforts because 64 percent of the 1997 arrests made by the ATPA grantees were chop shop related arrests.⁷

Under the proposed legislation, anyone who knowingly operates a chop shop, provides parts or resells vehicles from such an operation could face fines of up to \$100,000 and prison sentences of up to ten years.⁸ Anyone who alters or destroys a vehicle's identification number ("VIN") or purchases a vehicle knowing that the VIN has been altered could face fines of up to \$50,000 and seven years in prison.⁹ The Bills also allow for the forfeiture of all property and assets seized from illegal chop shops by law enforcement officials.¹⁰ Such property includes tools, equipment, books, real estate, and assets. The State House of Representatives is scheduled to vote on the Bills in late 1998.

The ATPA funded over \$3 million in grant requests in the 1997 fiscal year. However, the grantee funded units generated over \$13 million in recovered vehicles and parts.¹¹ In 1996, the units had over 1,300 open investigations, made over 200 arrests, and obtained four convictions. However, in 1997, the units had close to 3,000 open investigations, made over 600 arrests, and obtained 101 convictions.¹² The IFPA grantees opened more than 1,800 investigations, made 513 arrests, and obtained 664 convictions in it brief, but productive history. Additionally, the IFPA's effort was key in collecting nearly \$1.5 million in restitution, fines, and civil penalties.¹³ Although insurance fraud and auto theft are still problems in the Commonwealth, the consumer, the Legislature, and the insurance industry have fought back through programs initiated and funded by the IFPA and ATPA.

Endnotes

1. Sara McLin, "Authority's Campaign Targets Insurance Fraud," Inside Business, April, 1998.
2. Insurance Fraud Authority 1995-1996 Report to the Governor and General Assembly, page 9.
3. Daniel Nephin, "County DA Adds Arson Investigation Unit," Norristown Times Herald, June 1, 1998.
4. Pennsylvania Automobile Theft Prevention Authority Annual Report 1997, pages 4-5.
5. *Id.* at page 3.

6. The Pennsylvania Senate voted on June 8, 1998 on Senate Bill 1372.
7. Pennsylvania Automobile Theft Prevention Authority Annual Report 1997, page 8.
8. Senate Bill 1372 (Printer's #1782), Section 3, 1998.
9. Senate Bill 1372 (Printer's #1782), Section 4, 1998.
10. Senate Bill 1372 (Printer's #1782), Section 7, 1998.
11. Pennsylvania Automobile Theft Prevention Authority Annual Report 1997, page 9.
12. *Id.* at pages 11-12.
13. Patrick McEarly, "Pennsylvania Program Battles Insurance Fraud," ProAgent, May, 1998.