

Tips For Preventing Premium Fraud In Workers' Compensation

BY: JODI WILLIAMS

TAKE A moment to picture the ideal workers' compensation insurance policyholder. What are the qualities this business owner would possess? It's likely you would visualize a policyholder who pays insurance premiums on time, cooperates with audit requests, assists claim adjusters during investigations, and meets with injury prevention and wellness consultants to gain important knowledge about safe worksite and employee practices. You may also picture a business owner who is honest, hardworking, agreeable, and who inherently strives to do the right thing.

While most of our policyholders meet most or all of these criteria, we unfortunately encounter some policyholders who do not. In the worst situations, policyholders are committing insurance fraud by intentionally misconstruing information on their new business applications in one or more of the following ways:

- Misclassifying employees by assigning employees lower-risk class codes or identifying employees as 1099 subcontractors instead of as employees
- Underreporting payroll
- Misrepresenting the true nature of their business

While such a policyholder may be saving money up front by paying a

lower premium, the repercussions of this dishonesty have lasting effects for the policyholder's employees, the insurance broker, the insurance carrier, and the policyholder. An employee's claim may become more complicated to investigate and take longer to close if the employee was misclassified by the policyholder. The focus for claim adjusters should be getting injured workers the medical care they need and getting them back to work, not playing detective to determine the employee's status at the policyholder's workplace. Brokers may lose out on commission they are rightly owed as a result of premium fraud. The bottom lines for both brokers and insurers are negatively impacted. An unfair business advantage is created in the marketplace because the fraudulent business has reduced its operating costs relative to an honest business. Premium fraud is illegal and the policyholder's dishonesty may result in fines or imprisonment.

The Massachusetts Attorney General (currently Maura Healey) and the Insurance Fraud Bureau of Massachusetts (IFB) investigate deceptive business practices such as premium fraud and prosecute those who are out to avoid paying the true amount of money owed for their workers' compensation policies.

For instance, on December 29, 2016, the *Stoughton Patch* reported that a Stoughton, Massachusetts, business owner was "indicted on charges of workers' compensation fraud in connection [with] allegedly making misleading statements during audits of his workers' compensation policies and failing to disclose the true size of his company payroll." This business owner avoided paying approximately \$40,000 in workers' compensation insurance premiums. At the time of this publication, the business owner is awaiting arraignment.

Insurance brokers can play an active role in preventing this type of fraud from occurring in the first place. Here are some common warning signs of business owners that may be attempting to commit workers compensation premium fraud, according to an article titled, "6 Red Flags for Work Comp Premium Fraud" by Ranney Pageler on Insurance Thought Leadership's website:

- "The business address is a mail drop or P.O. Box, or the business is physically located in another part of the state from its mailing address.
- A prior insurance carrier has dropped the business or the business frequently changes

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carriers.

- An excessive number of certificates of insurance are issued on a small policy.
- Reported injuries are not consistent with purported job titles or duties.
- There is an unusual ratio of clerical to nonclerical staff for the type of business.
- The business avoids audits or has never been audited.¹

Pageler advises that the presence of two or more of these warning signs should cause concern to a broker.

Additionally, it is important for brokers to protect themselves from false accusations in the event their client is charged with engaging in fraudulent practices. Pageler recommends the following:

- Maintain detailed records of your interactions with policyholders, including all e-mails. In the event a policyholder is charged criminally, your correspondence (including e-mail) could be seized by subpoena or search warrant.
- Verify the identity of the

policyholder or contact person at the policyholder's business with a driver's license or other valid form of identification.

- Obtain original signatures on all signed applications.

If you suspect your client may be engaging in workers' compensation premium fraud, do not hesitate to contact A.I.M. Mutual Insurance Companies so we can take action. As a broker, you provide a crucial link between policyholders and insurance companies. We have a process in place to report suspected incidents of fraud to the IFB for further investigation. Or, if you would prefer to report fraud directly to the IFB (and even do so anonymously), you may submit an online form that can be found at www.ifb.org/ContentPages/Public/Hotline.aspx.

Workers' compensation premium fraud is a costly and growing problem. However, by taking the steps mentioned above and working together, the hope is that we can decrease the occurrence of premium fraud in the workers' compensation industry and deter business owners from engaging in fraud in the first place. ■



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1. "6 Red Flags for Work Comp Premium Fraud," Ranney Pageler, InsuranceThoughtLeadership.com, Sept. 15, 2015, <http://insurancethoughtleadership.com/6-red-flags-for-work-comp-premium-fraud/>.