



NEW YORK STATE SENATOR

Stephen M. Saland

Senate Passes Tough Auto Insurance Fraud Measures

STEPHEN M. SALAND March 21, 2012

| ISSUE: **INSURANCE, INSURANCE FRAUD**

The New York State Senate today passed three bills to combat auto insurance fraud, which costs New Yorkers more than \$1 billion a year, as well as legislation that would impose stronger criminal penalties for staging auto accidents. Recent cases of auto insurance fraud have uncovered massive crime rings, including doctors, lawyers and scam artists who staged accidents and used New York's no-fault insurance program as their own giant state-sponsored, ATM machine.

Senate action on the bills came on the ninth anniversary of the tragic death of Alice Ross, a 71-year-old wife and grandmother who was killed as the result of a fraud-related, staged auto accident in Queens.

The longest-running auto insurance rip-off scam in history ended last month, when federal authorities broke up an alleged crime ring that operated in the New York City metropolitan region. The scam artists are accused of stealing more than \$279 million in accident benefits over five years. Three dozen people were charged with defrauding auto insurers. The fraud scheme involved doctors, lawyers and patients who were coached to fake injuries in staged accidents.

Federal authorities said the ring exploited New York's "no-fault" auto insurance law, which requires vehicles registered in the state to carry insurance that lets drivers and passengers obtain up to \$50,000 for accident injuries, regardless of fault.

A separate auto fraud ring in Brooklyn was recently shut down when 16 people were arrested and charged with intentionally causing a dozen accidents involving unsuspecting motorists between 2009 and 2011. The suspects then submitted fraudulent insurance claims, ripping off insurance companies for \$400,000.

The state Financial Services Department responded to red flags indicating the possibility of even more incidents of auto-fraud when it sent letters to 135 doctors in the metropolitan area after finding their billing practices "raised concerns regarding possible no-fault fraud." The agency ordered them to provide documents supporting billed treatments or be banned from the no-fault system.

CRACKING DOWN ON INSURANCE FRAUD

The Senate passed legislation (**S.4507B**) that would enable insurance companies to retroactively cancel policies taken out by people who commit auto fraud.

People that plan to commit auto fraud often take out auto insurance policies and pay for the initial premium with a bad check, an unauthorized bank account or stolen credit card. Once the policy is obtained, they commit fraud through a staged accident or other means. Under current law, the insurance company cannot cancel the coverage despite the fraud. This bill would allow an insurance company to retroactively cancel an automobile insurance policy in the first sixty days if the initial premium payment is not honored by a bank due to insufficient funds, non-existence of a bank account, or unauthorized use of a bank account.

This measure would bring New York in line with the other large no-fault states and remove any incentives for staged accidents. In fact, only seven other states (AZ, CO, KS, ME, MD, NC and SD) do not allow for retroactive cancellation. Innocent victims of uninsured drivers would be covered under their own policy or the Motor Vehicle Accident Indemnification Corporation.

NEW, TOUGHER PENALTIES FOR STAGING AUTO ACCIDENTS

The Senate also passed a bill (**S.1685**) that would establish a new felony-level crime of staging a motor vehicle accident. A person who operates a car and intentionally causes a collision with intent to commit insurance fraud would now face the charge of staging a motor vehicle accident. It would be a class D felony, punishable by up to seven years in prison.

MAKING USE OF INSURANCE FRAUD “RUNNERS” ILLEGAL

The Senate also passed legislation that would make the use of "runners" illegal in New York. A “runner” is a person who receives money for obtaining clients or patients to participate in insurance fraud. The bill (**S.2004**) is another measure designed to cut down on insurance fraud.

Runners are commonly used in the New York City metropolitan area to steer accident victims towards unnecessary medical treatments. Insurance companies have to pay the fraudulent claims and must make up the cost through higher auto insurance premiums. Medical mills submit fraudulent medical claims for unnecessary tests for phony accident victims. Under the state’s no-fault insurance law, accident victims can build up \$50,000 worth of medical bills that must be paid by insurance companies. Sometimes clinics steal identities and policy numbers to commit fraud, even using information of people who are

deceased.

The legislation makes it a class E felony, punishable by up to four years in prison, to act as a runner or hire another person to act as a runner.

The bills have been sent to the Assembly.

SENATE PASSES TOUGH AUTO INSURANCE FRAUD MEASURES

The New York State Senate today passed three bills to combat auto insurance fraud, which costs New Yorkers more than \$1 billion a year, as well as legislation that would impose stronger criminal penalties for staging auto accidents. Recent cases of auto insurance fraud have uncovered massive crime rings, including doctors, lawyers and scam artists who staged accidents and used New York's no-fault insurance program as their own giant state-sponsored, ATM machine.

“Recent, highly-publicized incidents of auto insurance fraud illustrate the critical need to enact legislation to address this widespread problem,” Senate Majority Leader Dean G. Skelos said. “The real victims of auto insurance fraud are every taxpayer and every driver that must pay some of the highest insurance premiums in the country. The bills passed by the Senate today will address the problem by helping to prevent fraud and putting in place stronger criminal penalties for those who commit auto insurance fraud.”

Senate action on the bills came on the ninth anniversary of the tragic death of Alice Ross, a 71-year-old wife and grandmother who was killed as the result of a fraud-related, staged auto accident in Queens.

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CRACKING DOWN ON INSURANCE FRAUD

The Senate passed legislation (S.4507B) sponsored by Senator Martin Golden (R-C, Brooklyn) that would enable insurance companies to retroactively cancel policies taken out by people who commit auto fraud.

People that plan to commit auto fraud often take out auto insurance policies and pay for the initial premium with a bad check, an unauthorized bank account or stolen credit card. Once the policy is obtained, they commit fraud through a staged accident or other means. Under current law, the insurance company cannot cancel the coverage despite the fraud. This bill would allow an insurance company to retroactively cancel an automobile insurance policy in the first sixty days if the initial premium payment is not honored by a bank due to insufficient funds, non-existence of a bank account, or unauthorized use of a bank account.

"New York State must toughen laws so to make every effort to prevent incidents of auto insurance fraud here in New York State. The effects of such fraud are being felt by all New Yorkers as the cost of insurance premiums continue to increase," Senator Golden said. "We must create a framework to allow our insurance companies to protect their legitimate customers and enhance penalties so that law enforcement personnel can prosecute those breaking the law."

This measure would bring New York in line with the other large no-fault states and remove any incentives for staged accidents. In fact, only seven other states (AZ, CO, KS, ME, MD, NC and SD) do not allow for retroactive cancellation. Innocent victims of uninsured drivers would be covered under their own policy or the Motor Vehicle Accident Indemnification Corporation.

NEW, TOUGHER PENALTIES FOR STAGING AUTO ACCIDENTS

The Senate also passed a bill (S.1685) sponsored by Senator James L. Seward (R,C,I- Oneonta) Chairman of the Senate Insurance Committee, that would establish a new felony-level crime of staging a motor vehicle accident. A person who operates a car and intentionally causes a

collision with intent to commit insurance fraud would now face the charge of staging a motor vehicle accident. It would be a class D felony, punishable by up to seven years in prison.

“These 'accidents' are arranged and intentionally committed by criminals who then file fraudulent insurance claims for fake crash injuries and rob insurance companies and their policyholders,” Senator Seward said. “While the economic cost of such activity is staggering with no-fault insurance fraud estimated to cost insurance companies and their policyholders \$1 billion per year, staged accidents also pose a serious public safety risk.”

Senator Seward said that women and elderly drivers are in particular danger because they are often targeted for these accidents because they are less likely to be confrontational after an accident, thereby making it easier for criminals to engage in this activity. This bill would impose tough penalties on those who stage accidents, thereby deterring individuals from engaging in this dangerous crime.

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The Senate also passed legislation that would make the use of "runners" illegal in New York. A “runner” is a person who receives money for obtaining clients or patients to participate in insurance fraud. The bill (S.2004), sponsored by Senator Dean Skelos, is another measure designed to cut down on insurance fraud.

Runners are commonly used in the New York City metropolitan area to steer accident victims towards unnecessary medical treatments. Insurance companies have to pay the fraudulent claims and must make up the cost through higher auto insurance premiums. Medical mills submit fraudulent medical claims for unnecessary tests for phony accident victims. Under the state’s no-fault insurance law, accident victims can build up \$50,000

worth of medical bills that must be paid by insurance companies. Sometimes clinics steal identities and policy numbers to commit fraud, even using information of people who are deceased.

“Auto insurance fraud is a serious crime that costs drivers across New York State over a billion dollars in higher premiums each year,” said Senator Skelos. “Tough new penalties are needed to prevent 'runners' and other street-level criminals from taking advantage of our no-fault system -- jeopardizing the availability of affordable insurance coverage and denying seriously injured victims the quality care they deserve.”

The legislation makes it a class E felony, punishable by up to four years in prison, to act as a runner or hire another person to act as a runner.

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