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## **IRC Study Finds Fraud and Buildup Add Approximately \$5 Billion to Auto Injury Insurance Claims**

**MALVERN, Pa.**— The Insurance Research Council (IRC) estimates in a new report that fraud and buildup added between \$4.3 and \$5.8 billion to auto injury settlements in 2002, which represents between 11 and 15 percent of all dollars paid for private passenger auto injury insurance claims in that year. This estimate is somewhat lower than in an IRC study of claims paid in 1992. In the previous study, the IRC found that fraud and buildup added between 17 and 20 percent of total claim dollars paid in 1992.

In 2002, the appearance of fraud (the misrepresentation of key facts of a claim) was found in almost one in ten paid bodily injury liability (BI) claims and one in twenty paid personal injury protection (PIP) claims. Buildup (the intentional inflation of an otherwise legitimate claim) was more common; nearly one in five paid BI claims and one in eight paid PIP claims involved the appearance of buildup.

In 2002, buildup alone was responsible for 47 percent of the excess payments attributable to fraud and buildup among BI claims and for 57 percent among PIP claims. Although insurance fraud headlines often focus on organized fraud rings, planned fraud (that is, staged or caused accidents) accounted for just 3 percent of the excess payments from fraud and buildup. Opportunistic fraud (such as the report of fictitious injuries from legitimate accidents) and other types of fraud accounted for half of excess BI payments and 40 percent of excess PIP payments.

“This study demonstrates that a few extra dollars padded onto individual insurance claims can collectively add up to a significant amount of money,” said Elizabeth A. Sprinkel, senior vice president of the IRC. “The improvement in dollars lost to fraud and buildup since 1992 suggests that insurer fraud-fighting efforts are having an influence. However, the costs of claim abuse remain high and ultimately result in more expensive auto insurance for consumers.”

**Insurance Research Council**

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The recently released IRC study *Fraud and Buildup in Auto Injury Insurance Claims: 2004 Edition* examines detailed claim information from 72,354 claims that closed with payment in 2002. Thirty-two insurers, representing 58 percent of the 2002 private passenger auto insurance market in the United States, participated in the study. The study collected information about many aspects of the claims, including injuries, treatment, payments, and attorney involvement. In addition, the surveys asked the insurers to indicate whether any elements of fraud or buildup appeared to be present in the claims. Because the study did not include claims closed *without* payment, the results do not reflect claims that were denied payment because of clear evidence of claim abuse.

For more detailed information on the study's methodology and findings, contact Elizabeth Sprinkel by phone at (610) 644-2212, ext. 7568; by fax at (610) 640-5388; or by e-mail at [irc@cpcuiia.org](mailto:irc@cpcuiia.org); or visit the IRC's Web site at [www.ircweb.org](http://www.ircweb.org). Copies of the study are available for \$250 each in the U.S. (\$265 elsewhere) postpaid from the Insurance Research Council, 718 Providence Rd., Malvern, Pa. 19355-0725. Phone: (610) 644-2212, ext. 7569. Fax: (610) 640-5388.

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**NOTE TO EDITORS:** The Insurance Research Council is a division of the American Institute for CPCU and the Insurance Institute of America. The Institutes are independent, not-for-profit organizations dedicated to providing educational programs, professional certification, and research for the property-casualty insurance business. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurers and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty organizations.

### Fraud and Buildup in Paid Auto Injury Claims

