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Insurance Fraud and Buildup Add Approximately \$400 Million to California Auto Injury Claims, IRC Study Finds

MALVERN, Pa.—A recent Insurance Research Council (IRC) study of auto injury insurance claims puts a price tag on the cost of claim abuse in California. In 2002, between \$319 and \$432 million in bodily injury liability (BI) payments in the state were attributable to claim fraud and buildup, the IRC estimates. Those amounts represent approximately 11 to 15 percent of all California BI payments that year.

The appearance of fraud, or the misrepresentation of key facts of claims, was found in almost one in ten paid California BI claims (9 percent). The appearance of buildup was more common and was found in more than one in five paid California BI claims (22 percent). The term “buildup” refers to the inflation of otherwise legitimate auto injury claims. Buildup can occur through the exaggeration of injuries, the application of excessive medical treatment, or the intentional inflation of lost wages.

This report follows the release of a national IRC research publication on fraud and buildup in auto injury insurance claims; selected states were later analyzed as part of this study. While this report shows that claim abuse in California is a significant financial problem, the percentage of claim fraud found among California BI claims was comparable to the percentage found countrywide. The prevalence of BI claim buildup in the state was four percentage points higher than the corresponding national percentage.

Los Angeles demonstrated even higher percentages of BI claim fraud and buildup: increased claim abuse is typical in many large metropolitan areas in the United States. More than one in ten BI claims in Los Angeles (12 percent) contained the appearance of fraud, compared to 8 percent in the rest of the state. Also, nearly three in ten BI claims in Los Angeles (29 percent) contained the appearance of buildup, compared to 19 percent in the rest of the state. The percentage of BI claim buildup in Los Angeles was 7 percentage points higher than the percentage found among all metropolitan areas countrywide.

Insurance Research Council

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“Auto insurance buildup may seem harmless when it is thought of as just a few extra dollars tacked on to individual claims. The reality is that claim padding collectively adds up to significant amounts of money,” said Elizabeth A. Sprinkel, senior vice president of the IRC. “Unfortunately, the insured public pays the cost in the form of higher insurance premiums.”

The recently released IRC study *Fraud and Buildup in California Auto Injury Insurance Claims* 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 U.S., participated in the study. The number of closed California BI claims in the sample totaled 4,034. The study 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; or visit the IRC’s Web site at www.ircweb.org. Copies of the study are available for \$100 each in the U.S. (\$115 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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