Don’t Let Insurance Fraud Devastate Your Financial Plans

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You’re probably familiar with the concept of insurance fraud, since it has been around for a long time. ***The earliest recorded instance involves a merchant intentionally sinking his ship in 300 B. C.!*** The merchant drowned in the process.

You might be surprised at the negative effects insurance fraud can have on your financial future and that of your loved ones. This type of fraud affects policyholders, insurance companies, and investors.

It’s not always easy to protect yourself from insurance fraud. ***This guide explains some of the most common fraud scenarios*** so you can beware of anything that looks suspicious in your insurance dealings.

While fraud exists in every type of insurance, this discussion is about life insurance.

Insurance fraud exists in two basic forms: buyer fraud and seller fraud.

Buyer Fraud

1. **False medical information.**This occurs when the insured give false information about pre-existing medical conditions or health habits, like smoking, for example. The applicant is then able to obtain a policy with lower premiums or obtain a policy that might have been denied otherwise.
    - If the insured dies, ***their family might be denied the proceeds of the policy.***

2. **Post-dated policy.**This is much more difficult to successfully pull-off now and usually requires the knowledge and assistance of an insurance agent. A policy is

issued after a person's death but is made to appear to have been issued before that death.

- Paying fraudulent claims hurts the insurance company and their investors.

3. **Lack of insurable interest.**This occurs when someone insures another person that they have no business insuring, like if you insured your neighbor, for example. ***Insurance exists to protect someone from financial loss.*** If you wouldn't suffer a financial loss from someone's death, you can't insure them to your eventual benefit.

4. **Suicide.**It's against the law to obtain a life insurance policy with the intention of committing suicide. It's also against the law to commit suicide with the intention of making it look like an accident so an insurance policy can be collected upon.
   - While many policies do pay in the event of suicide, it's only after a specified period of time has passed since the policy was issued.

5. **Faking Death.**This is largely self-explanatory. The insured fakes his death so the insurance payout can be collected and enjoyed by loved ones or the insured. It's difficult to hide these days, but some still attempt this type of fraud.

Seller Fraud

1. **Fake companies.**In this type of fraud, a company portrays itself as an insurance company. It issues policies and collects premiums, but never intends to pay on any insurance claims.They simply pocket the premiums and continue doing so for as long as possible.
   - Do your research before purchasing any policy to ensure that the company is legitimate. ***Check the website of your State Board of Insurance*** to determine if the company is licensed to do insurance business in your

state and the company's status in other areas, like claims complaints.

2. **Churning.**Churning can be common in any industry where commissions are at stake. An insurance agent encourages his clients to buy a policy, cancel it, and repurchase. The agent can collect greater commissions this way.

3. **Premium theft.**This is less common with the automated payment systems in use now, but can still occur. The insurance agent pockets the premium and never gives the money to the company underwriting the policy. The agent gets the premiums, and the policy is cancelled for non-payment.
    - To protect yourself from an unsavory agent like this, ***make your check payable only to the insurance company and check to see who cashes it.***

4. **Over coverage.**Here the agent encourages the client to purchase more insurance than they need. The intention is to collect larger commissions at the client's expense.

Insurance fraud has varying effects, depending on the type of fraud:

- Buyer fraud tends to affect everyone associated with the insurance company, since the costs are spread to everyone. This includes policyholders, investors, and even the company's employees.

- Seller fraud typically affects individual policyholders and their families or other beneficiaries.

Researching any insurance company or agent you do business with is always in your best interest. Be smart with insurance transactions and you can be confident that your insurance will be there to help protect you and your loved ones.