

Approved: March 21, 1994  
Date

## MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 3:30 p.m. on March 9, 1994 in Room 527-S of the Capitol.

All members were present except: Representative Darlene Cornfield

Committee staff present: William Wolff, Legislative Research Department  
Bruce Kinzie, Revisor of Statutes  
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Senator Don Steffes  
Dave Hanson, Domestic Insurance  
Roger Viola, Security Benefit  
Jerry Banaka, Farm Bureau  
Lee Wright, Farmers Group  
Danielle Noe, State Farm  
Derenda J. Mitchell, Alliance of American Insurers  
David Ross, KALU  
Anita Larson, Security Benefit Life  
Jim Maag, Kansas Bankers Association  
Bill Caton, KDFA  
Bud Grant, KCCI

Others attending: See attached list

### **HEARING ON SB 677: Penalties for fraudulent insurance acts**

This bill imposes criminal sanction for committing a fraudulent insurance act. The bill specifies penalty levels which are patterned after the penalties currently imposed for arson and workers' compensation fraud. Covers all lines of insurance including property-casualty, life, and health insurance.

Senator Steffes stated that Kansas already has an insurance fraud statute but it fails to specify any penalty for committing a fraudulent insurance act (Attachment 1). This provision addresses the penalty provision and also requires restitution.

Dave Hanson, National Association of Independent Insurers, expressed support of the amendments which would impose criminal penalties and require restitution for insurance fraud (Attachment 2). They also recognize the legislative intent that insurance should not be required to cover or pay for claims involving such criminal acts. Several states have adopted such legislation but at this time there are no available statistics. It does appear that it has stopped escalation but insurance rates have not been lowered.

Roger Viola, Security Benefit Life, stated that the cost of insurance in all lines is significantly driven by fraudulent activity (Attachment 3). This bill should reduce the likelihood of fraud and its negative impact on insurers and policyholders.

Lee Wright, Farmers Insurance Group, stated their support for the bill and presented the Committee with printed material being used by Farmers Group in their fight against insurance fraud (Attachment 4).

Derenda J. Mitchell, state counsel for Alliance of American Insurers, reviewed surveys conducted by the Insurance Research Council which show that Americans are considering insurance fraud an acceptable conduct more and more (Attachment 5). This attitude is causing consumers and insurers both to pay the price through higher policyholder premiums and lower company profits.

## CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,  
Room 527-S Statehouse, at 3:30 p.m. on March 9, 1994.

Danielle Noe, State Farm, reiterated the seriousness of insurance fraud and its impact on insurers and policyholders (Attachment 6). Fraud accounts for at least 10 percent and perhaps as much as 30 percent of property-casualty insurance claims. Approximately 1/3 of respondents to a survey considered it personally acceptable to misrepresent some kinds of information when completing an auto insurance application and 14% replied that they were willing to misrepresent the facts when filing an auto insurance claim. The passage of this proposed legislation would assist in sending a message to the public that insurance fraud is a serious problem which costs every policyholder.

Jerry Banaka, Farm Bureau, supported the bill which would add restitution into the formula to fight insurance fraud saying it was a much needed deterrent (Attachment 7). This bill should help control the cost of insurance in the state.

### **HEARING ON SB 239: Uniform transfer on death security registration**

The bill would allow individuals whose registration of a security shows sole ownership by one individual or multiple ownership by two or more with right of survivorship, to obtain registration of the security in beneficiary form. The term "beneficiary form" is defined to mean a security which indicates the owner of the security and the person who will be the owner (beneficiary) of the security upon the death of the owner.

David Ross, Kansas Association of Life Underwriters, stated that owners of securities that are not considered tax qualified are not permitted a beneficiary designation to transfer the security upon their death of a named beneficiary (Attachment 8). To accomplish transfer of the security upon their death, the security owner must be a joint tenant with the person they desire to receive the security prior to their death. Enactment of the bill would permit security owners to designate a beneficiary for their securities to effect transfer upon their death. Certificated or non-certificated securities refers to stocks, bonds, and mutual funds.

Anita Larson, Security Benefit Life, urged the passage of this legislation as transfer on death (TOD) beneficiary designations are beneficial to owners of securities, their beneficiaries, and registering entities (Attachment 9). The TOD beneficiary designation is revocable unless expressly made irrevocable. The beneficiary has no rights until the death of the owner. The proposed legislation would reduce the number of requirements with which a person must comply in order to transfer the security after the owner's death as well as reducing the time and administrative efforts that a registering entity must expend in making the transfer. The TOD designation would keep the securities from going through probate though they are still subject to inheritance taxes. Currently credit unions and banks have transfer on death abilities.

Jim Maag, Kansas Bankers Association, appeared in support of the bill which has already been adopted in most states (Attachment 10). He reviewed the complicated procedure now required to transfer a security that is registered to a deceased owner. He urged the passage of this legislation which would be of tremendous help to Kansas citizens.

### **DISCUSSION AND ACTION ON SB 504: Bank or trust company received remuneration for services to investment trust may invest therein**

This bill would allow a bank or trust company to receive a fee for services provided to its own investment company or investment trust (mutual fund) even if fiduciary account funds are also invested in the investment company or trust. It also adds disclosure requirements for same. Technical cleanup would be required in the bill.

Representative Cox moved that the bill be passed out favorably. Motion was seconded by Representative Minor. Motion carried.

### **DISCUSSION AND ACTION ON SUB SB 540: Regulation of branch banks and branch trust companies**

This bill would require approval from the State Banking Commissioner instead of the State Banking Board for the establishment of a trust service desk, trust service office, or trust branch bank. It also allows for appeals to be made to the State Banking Board. It removes prohibition of branch trust offices in communities under 20,000 and prohibits interstate trust establishments.

Representative Sebelius moved for the approval of technical amendments to SB 540 and 508. The motion was seconded by Representative Dawson. Motion carried.

Representative Allen moved that the bill be passed as amended. Motion was seconded by Representative Cox. Motion carried.

## CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,  
Room 527-S Statehouse, at 3:30 p.m. on March 9, 1994.

### **DISCUSSION AND ACTION ON SB 508: Limits on life insurance on bank officers and directors**

This bill allows banks to purchase more than current limit of 15% of bank's capital stocks, etc., on an executive officer or director with prior approval of the State Banking Commissioner. It also allows banks to invest in community development corporation and community development projects.

Bill Caton, Kansas Development Finance Authority, presented an amendment which he said was critical to the state tax credit equity fund (Attachment 11). The state anticipates pooling several small projects, especially in rural areas, that possibly would not materialize with the assistance of selling the tax credits associated with the projects.

Representative Phil Kline moved to accept the Caton amendment. Motion was seconded by Representative Sebelius. Motion carried.

Representative Sebelius moved to strike "company" in the definition of trust company on Page 9, Line 32 of the bill. Motion was seconded by Representative Cox. Motion carried.

Representative Sebelius moved that the bill be passed out favorably as amended. Motion seconded by Representative Gilbert. Motion carried.

### **DISCUSSION AND ACTION ON SB 567: Delinquency charges on UCCC consumer credit transactions**

The existing delinquency charge in installment payment is 5% of unpaid amount or \$25, whichever is less. This bill would provide an alternative charge not to exceed \$10, however, if the scheduled payment is \$25 or less, the maximum delinquency charge shall be \$5.00.

Bud Grant, KCCI, presented Committee members with currently assessed credit card late fees charged in Texas and a list of states that authorize late payment fees (Attachment 12).

Representative Correll moved that the bill be passed out favorably. The motion was seconded by Representative Crabb. Motion carried. Representative Neufeld wished to be recorded as a "NO" vote.

The meeting adjourned at 5:09 p.m. The next meeting will be held on March 10, 1994.



## GUEST LIST

COMMITTEE: \_\_\_\_\_

DATE: 3/9

[illegible]



March 8, 1994

Representative Bill Bryant, Chairman  
House Financial Institutions and Insurance Committee  
Capitol Building  
Topeka, Kansas

Re: Senate Bill 677

Chairman Bryant and Members of the Committee:

I am pleased to appear before you as one of the sponsors of Senate Bill 677. Insurance fraud is increasing nationwide and results in honest policyholders having to pay higher premiums. To give you an idea of the size of this problem, recent national estimates indicate that health care fraud is costing us about \$80 billion dollars and property-casualty insurance fraud is between \$17-22 billion. In order to address this problem and effectively fight insurance fraud in Kansas, we need to impose criminal sanctions as a deterrent to the more than 20% of the public who think insurance fraud is acceptable. Kansas already has an insurance fraud statute, but fails to specify any penalty for committing a fraudulent insurance act. This Bill specifies the levels of penalties, which were patterned after the penalties currently imposed for arson and workers' compensation fraud. I understand that 22 other states have passed laws specifically addressing the crime of insurance fraud.

Our existing general criminal code provisions are obviously not sufficient. We need this specific provision addressing insurance fraud, not only to punish offenders and to provide a deterrent, but also to require restitution. We have therefore proposed this change in K.S.A. 40-2,118 in the general insurance code provisions, so that it will apply to everyone involved in all lines of insurance, including property-casualty, life and health insurance.

We need to send a message that insurance fraud will not be tolerated in Kansas and I would appreciate your favorable consideration of this bill.

Respectfully,

Senator Don Steffes

*Don Steffes*  
Attachment 1  
3-9-94

March 8, 1994

Representative William Bryant, Chairman  
House Financial Institutions & Insurance Committee  
Capitol Building  
Topeka, Kansas

Re: Senate Bill 677

Mr. Chairman and Members of the Committee:

I am David Hanson and appear on behalf of the domestic insurance companies here in Kansas to support Senate Bill 677.

According to FBI estimates, health care fraud costs us about \$80 billion nationwide and, based upon estimates reported by the National Insurance Information Institute, property-casualty insurance fraud costs us between \$17-22 billion more. According to information from the National Association of Insurance Commissioners, 10%-30% of all automobile and property claims are inflated or totally fraudulent. A recent Roper poll conducted on behalf of the Insurance Research Council revealed that the general public is very concerned and over 75% of those questioned want insurers to look more closely for fraud before paying claims. Policyholders recognize that payment of fraudulent claims ends up costing honest insureds more in premiums. And yet, polls indicate that 20%-22% of the public thinks it is acceptable to pad insurance claims.

We need your help in fighting insurance fraud. Insurers' efforts to combat fraud are enhanced by statutory provisions that adequately punish perpetrators of fraud. Kansas law currently addresses insurance fraud in the general insurance code provisions, but fails to specify any criminal penalty or punishment. We therefore support the proposed amendments in Senate Bill 677 that impose criminal penalties and require restitution. We also support the expression of legislative intent that insurance should not be required to cover or pay for claims involving such criminal acts. We feel that these are essential elements to deterring fraudulent insurance acts, not only in claims, but also in applications. For these reasons, the National Association of Independent Insurers, a non-profit organization of over 550 insurance companies, also supports this Bill.

*David F. Hanson*  
*Attachment 2*  
*3-9-94*

Representative William Bryant, Chairman  
March 8, 1994  
Page 2

As reflected in a recent editorial opinion appearing in the Lyons Daily News, a copy of which is attached, this legislation is clearly important to us all in fighting crime. We commend this proposed legislation and urge your favorable consideration.

Respectfully,

A handwritten signature in cursive script, appearing to read "David A. Hanson".

DAVID A. HANSON

DAH:klb

bryant.ltr\kristi\david





## EDITORIAL OPINION

The Lyons Daily News

### A bill with a future

Kansans may be transfixed by the death penalty issue, but those choosing to look around the corner will see that the final measure of vindication is only a part of law-and-order considerations.

Two senators, one of whom is Don Steffes of McPherson, representative for Rice County, have jointly presented a bill imposing criminal penalties for insurance fraud, apparently in an area where they haven't existed.

Pretty mundane stuff, compared to a public thumbs-down, thumbs-up on a person's life, but on the other hand the attention to such a detail may represent a root in the criminal justice system. If death penalty proponents can argue successfully that incarceration is more than the state can afford, then Steffes and co-signer Sandy Praeger have a monumental argument, from the other angle.

The Legislature can hardly afford not to pass their bill, in light of research showing that Kansans are losing \$400 million annually to insurance frauds. The senators say the figure represents twice the annual expenditure on the department of corrections and all of the correctional facilities.

Even cutting fraud losses a quarter, through legislation suggested by the two, would represent \$100 million that might be directed to helping young minds see crime as their poorest choice for a future. Is this so far-fetched?

JLS



**The Security Benefit  
Group of Companies**

Security Benefit Life Insurance Company  
Security Benefit Group, Inc.  
Security Distributors, Inc.  
Security Management Company

700 Harrison St.  
Topeka, Kansas 66636-0001  
(913) 295-3000

Roger K. Viola  
Senior Vice President,  
General Counsel and Secretary  
913-295-3137

March 9, 1994

Subj: Senate Bill 677; Fraudulent Insurance Acts

Dear Chairperson and Committee Members:

As Senior Vice President and General Counsel of the Security Benefit Group of Companies, I would like to express Security Benefit's support of Senate Bill 677 which applies to personal insurance including life insurance.

The Security Benefit Group of Companies is a diversified financial services organization offering life insurance, mutual funds, annuities and retirement plans. The parent company, Security Benefit Life Insurance Company, has been in business for over 100 years. Security Benefit Group has nearly \$4 billion in assets under management.

The cost of insurance in all lines is significantly driven by fraudulent activity. Fraudulent insurance activity should be a concern to legislators and regulators because it increases the cost of insurance for the honest insurance consumer. Senate Bill 677 promotes the type of public policy that our legislature should be encouraging by reducing the likelihood of fraud and its negative impact on insurers and policyholders.

I hope that you will vote in favor of Senate Bill 677. Thank you for your time and consideration.

Very truly yours,

ROGER K. VIOLA

RV/ucaa

*Handwritten signature*  
Attachment 3

3-9-94

SECRET

James F. I. & I  
March 9, 1994  
Attachment 4

James F. I. & I  
March 9, 1994  
Attachment 4



1

Fraud Costs You Money!  
It Hurts Your Business and It Costs  
Policyholders.  
We Can All Do Something to Help  
Fight Fraud Today.  
Here's the Ammunition to Begin  
the Fight!  
You and Policyholders Will Want to  
Join the Battle Now!

## We're Going to Fight Fraud

We're now waging a war against insurance fraud in a big new way. The campaign is aimed at insurance fraud, a growing problem that's sweeping the country and making victims of all of us at Farmers, of our industry and of the people we serve.

It's a hard fact that insurance fraud—staged auto accident "kicks," false medical claims, auto theft and arson for profit schemes—is costing you money and hurting your business. How much money? A bundle: about \$23 billion to the industry and \$721 million to Farmers alone in 1991. What does it cost your customer? About 10 cents of every Property/Casualty premium dollar. In some big cities, it's as much as 25 or 35 cents.

There are other costs, too: fraud takes a toll on human life and accelerates the already rising crime rate. When your customers, employees, friends and neighbors ask how we can control rising crime and insurance costs, you'll have a good answer:

"Fight Fraud."

"Fight Fraud" is more than a promotion or a program. It's a real campaign. Like all successful campaigns, winning will take time, strategy, ideas—and most of all communication. That's where you come in. Read up on fraud. Your "Fight Fraud" packet is your ammunition to fight insurance crime at every level from application to claim. Most of all, get the public to join the fight. Together, we'll win the battle.



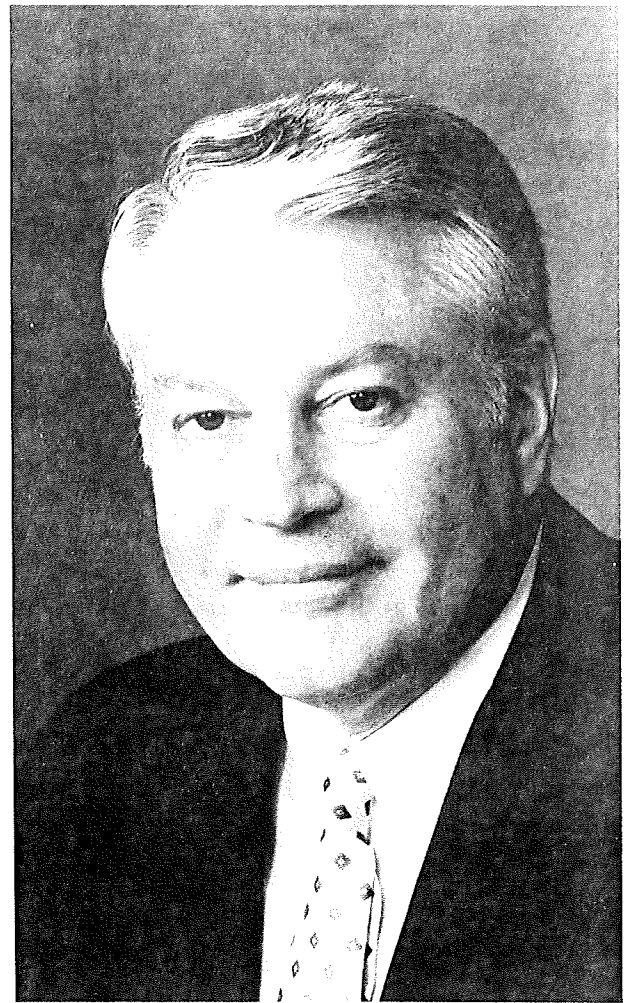
Nobody likes to be a victim. I sure don't like it when I go to the store and know I'm paying an inflated price because the retailer is paying for the costs of shoplifting and theft. So it stands to reason that our customers don't like it that they're victims of an enormous crime, a crime they pay for every time they write a check for their insurance premium.

Yet, massive insurance fraud has made victims of our policyholders, of the industry and all of us at Farmers.

As a Farmers Agent, you see victims all the time. You can identify with your clients—often they're as close as family—who become theft victims, coming home from work or vacation and finding their home broken into and their possessions stolen. You've seen it, so you know that theft isn't just a crime, it's a violation, a violation of people's rights and privacy.

In the case of fraud, your privacy—your right to do business and make a profit—is also being violated by the criminals who commit insurance fraud and are pulling profits out from under you. False claims, litigation costs and increased costs of regulation and law enforcement are not only affecting our customers and the public, they're having a direct effect on you: on your loss ratio and your profitability.

Our "Fight Fraud" campaign is a new major step in combating insurance fraud. The materials in this packet introduce you to the problem and give you the tools to join the fight. We would like you to keep this packet in your office. Since we plan to wage an ongoing campaign, "Fight Fraud" materials will be added in the future.



Your role in fighting fraud couldn't be more important. When you communicate to our policyholders—your customers and the people who live and work in your community—that there's a real way they can help control the cost of insurance, you're helping win the fight against fraud. When you work with Claims and Underwriting personnel to identify potential fraud, you're again part of the solution.

Insurance fraud is a crime that's gotten out of hand. Our new "Fight Fraud" campaign demonstrates that we're going after fraud aggressively. It will take all of our efforts to combat it effectively.

A handwritten signature in dark ink, appearing to read "Leo E. Denlea, Jr.".

Leo E. Denlea, Jr.  
Chairman and Chief Executive Officer



## What Is It?

You probably see it all the time and half the time you don't know it's there. When your client is in an accident and every passenger in the other car makes a claim for the same "soft tissue" injuries and goes to the same doctor . . . when they use the same body shop or attorney . . . you might be seeing fraud in action.

The "official" definition: a fraudulent act committed by applicants for insurance, by policyholders or third-party claimants, or professionals who provide services to claimants. This can include the doctors who treat those "soft tissue" injuries, the lawyers who file the lawsuits . . . or the "cappers" who hang around unemployment offices and college campuses recruiting people who act as injured parties.

Fraud is real. It's no gimmick. Insurance fraud can range from inflating or "padding" actual claims, to misrepresenting the facts to induce an insurance company to issue a policy or establish a lower premium rate, to submitting claims for injuries or damages that never occurred.

We often hear the phrase, "Everybody does it." Well, studies show that many people have an "everybody-does-it" attitude about fraud. One of the best services you can perform is to help the public be aware of indicators of criminal fraud, from seemingly "innocent" claims "padding" to major crimes, and to know that when "everybody does it," everybody pays.

## What Does Fraud Cost?

A piece of the dollar here, a piece there: claims investigation, fraudulent claims, arson-for-profit, insurance scam schemes and staged accident "rings." Pieces of dollars that add up to huge chunks that affect loss ratio, profitability and the cost of insurance to your clients.

Fight fraud? We can't afford not to.

Here's a look at overall Property and Casualty business:

### 1991 Premium Distribution Industrywide Property and Casualty

\$229,452,227,000	Total Direct Premium*
22,945,223,000	Estimated Fraud

### Estimated Fraud Cost to Farmers 1991 Farmers Group

\$ 7,214,885,103	Direct Premium Earned
721,488,510	Estimated Fraud

\* Source: A.M. Best Company database

## There Oughta Be a Law . . .

The old phrase, "there oughta be a law . . ." couldn't apply more to insurance fraud. Growing recognition of the incidence of insurance crime is causing legislators, regulators and law enforcement agencies to give a higher priority to fighting fraud. The trend is toward tougher law.

But as you know, laws and regulations vary from state to state. The same goes for insurance fraud. In some areas of our territory, insurance fraud laws are on the books—sometimes as misdemeanors, sometimes as felonies. In other areas, there are no fraud laws. In addition, several State Departments of Insurance have fraud investigation bureaus who work with insurance companies and law enforcement to bring about arrests and convictions of people who commit insurance fraud. Find out what's going on in your state. Work with your local and state legislators to enact legislation that will crack down on fraud across the board.

## Join the Fight!

You're the best fraud fighter around. You're on the front lines of fraud every day in the best position to fight it. Read up on fraud. Educate your employees, your family, friends and community. We can win the fight. You've got the ammunition right here, in your "Fight Fraud" packet. Begin your battle today.

# FRAUD

It's a fact: fraud's too big a problem for anybody to take on alone. It's going to take teamwork—a partnership of everyone in the Farmers family—to wage a winning battle. You're a major player in the fight against fraud. Your Farmers teammates include Branch Claims Office personnel, Regional Underwriters, and Claims Investigators in every Region who are trained to ferret out fraud.

Together we can defeat fraud. Here's a few of the ways:

Practicing sound underwriting procedures and carefully assessing risks can go a long way toward stopping fraud before it begins

Change public perception regarding the acceptability of fraud

- Give "Partners in Pride" speeches in your community
- Take "Fight Fraud" materials along on presentations and Farmers Friendly Reviews

Join, organize or provide information on community Neighborhood Watch organizations

Use technology to enhance our investigation efforts

- For Agents with access to an Agency Computer System, register your concerns using the AILR reporting function

Your local Claims Investigation Staff is there to help. Solicit their participation, and take advantage of their skills and expertise

Work with local law enforcement and State Departments of Insurance to report suspected fraud

Work with state and local legislators to "beef up" existing laws

## ACKNOWLEDGEMENTS

Insurance Information Institute (III)

Western Insurance Information Institute (WIIS)

National Insurance Crime Bureau (NICB)

# **STATEMENT**

from the



by

**Derenda J. Mitchell  
State Counsel**

to

**The Kansas House Committee on  
Financial Institutions & Insurance**

**Regarding Senate Bill 677**

**At the Capital  
Topeka, Kansas**

**March 9, 1994**

*House F&I  
Attachment 5  
March 9, 1994*



**My name is Derenda Mitchell. I am State Counsel for the Alliance of American Insurers.**

**The Alliance is a national trade association representing 213 property and casualty insurance companies doing business in all fifty states and the District of Columbia. In 1991 -- the most recent year for which complete data are available -- Alliance member companies wrote approximately \$147 million in insurance premiums in Kansas.**

**We appreciate the opportunity to speak today regarding Senate Bill 677 and to offer a flavor of our experience in other states across the country. The Alliance, along with most of the insurance industry, would like to see some tightening of Kansas' Fraudulent Insurance Act.**

**Does the following statement bother you? "Insurance fraud is perfectly acceptable. After all, policyholders pay a lot of money for coverage, they deserve to get something in return -- something they can take to the bank. It's not like the insurance companies can't afford to part with some of their excessive profits." Well, it bothers me.**

**Surveys by the Insurance Research Council show that Americans are considering insurance fraud an acceptable conduct more and more. The common view is "who is it hurting?" Well, it hurts you and me, the consumer. Insurers pay more than \$200 million a year to detect, deter, investigate and prosecute fraudulent claims. This does not include monies paid out for undetected fraudulent claims.**

**Consumers and insurers both pay the price through higher policyholder premiums and lower company profits.**

The percentage of insurance premiums or claims dollars which is attributable to fraud is impossible to determine. Fraud by its very nature defies quantification. It is much like trying to ascertain the number of people driving while intoxicated. Records will reflect the number of persons charged and convicted of that offense, but we will never know how many people drove while intoxicated without being apprehended.

Those of us in the business know that law enforcement involvement is crucial; fraud is far from being a "victimless" crime. It takes on many forms, ranging from lying on insurance applications to inflating claims or burning homes and business for profit. From a financial standpoint, policyholders and insurers unfairly pay the price, but others pay as well, and sometimes by tragic means. There are those who are injured or killed in arson-for-profit scams and "arranged" auto accidents.

Many policyholders believe they deserve to get something tangible in return for their premium payment. This is not entirely difficult to understand. Normally, when a person spends money, they receive something they can hold, wear, eat, drive, live in or play with. Not so with insurance. Insurance offers something just as important, but much less visible.

Insurers are trying to change public attitude through educational campaigns, a measure which individual companies can assist with through various policyholder communications.



**If any progress is to be made in combatting insurance fraud, it will only result from the cooperation and aggressive participation of all those affected. Changes in public attitude and perception, increasing vigilance on the part of insurers, increased consumer awareness, and legislative support such as Senate Bill 677 are all essential to solving the problem.**

**Finally, insurance fraud is a consumer issue that is costing policyholders hard earned dollars to fight. Public acceptance of insurance fraud not only aids and abets the perpetrators, but also "steals" policyholder dollars to support unsubstantiated fraudulent claims.**

**The Alliance of American Insurers strongly support Senate Bill 677. Thank you for the opportunity to present our views.**

**7689RG**



Central Region

1501 Woodfield Road, Suite 400 West  
Schaumburg, Illinois 60173-4980

Date: February 18, 1994

Tel: 708/330-8632

Fax: 708/330-8602

To: Members of the Kansas Senate Committee on Financial Institutions  
and Insurance

From: Raymond M. Blacklidge *Ray*

Subject: Senate Bill 677

Information Provided: On behalf of the Alliance of American Insurers  
I wish to express my appreciation for the opportunity to address your  
Committee on February 16, 1994 regarding our support of S.B. 677.

Like drunk driving, insurance fraud is a crime and those who commit it should be considered and treated as criminals. The industry spends a great deal of time and money working with legislators to alert them of that fact. Insurers and their trade associations were successful in introducing insurance fraud reforms in 21 of the 43 states that did not have acceptable statutes in place. In addition, there are commitments for sponsorship in the District of Columbia, Michigan and Delaware. Work has already begun for early introduction in 1994 of legislation in Maine, Minnesota, Nebraska, Tennessee, Texas, Washington and Wisconsin. Some states, like Kansas, already have some antifraud statutes in place but need stronger language.

Many people who, if they received change for a \$20.00 bill when they tendered a cashier at a store \$5.00, would return the incorrect change to the cashier; however, many of those same people believe that it is acceptable to defraud an insurance company and take their policyholders' money. This is especially true in metropolitan areas. However, we have seen evidence of this attitude all across the country. Insurers are trying to change this public attitude through educational campaigns, a measure which individual companies can assist with through various policyholder communications. However, if any progress is to be made in combatting insurance fraud, it will only result from cooperation and aggressive participation of all those effected. Changes in public attitude and perception, increasing diligence on the part of insurers, increased consumer awareness and support for legislation such as S.B. 677 are all essential to solving the problem.

I have also attached for your reference my written comments presented to you on February 16, 1994. If you have any questions or comments, please feel free to contact me (708/330-8633), or Bill Schroeder (708/330-8582).

ENB:krr

7685RG35

✓ Enclosures

cc: Rodger Lawson  
Bill Schroeder  
Derenda Mitchell

Working to Make Insurance Work Better

\*\* TOTAL PAGE.006 \*\*

5-5



## MEMORANDUM

TO: The Honorable Bill Bryant, Chairman  
House Financial Institutions and Insurance Committee

FROM: William W. Sneed  
Legislative Counsel  
The State Farm Insurance Companies

DATE: March 9, 1994

RE: S.B. 677

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Mr. Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for The State Farm Insurance Companies. Please accept the following as our testimony in regard to S.B. 677.

As a preliminary comment, insurance fraud is a serious problem in Kansas, as it is in every state. The National Insurance Crime Bureau ("NICB") has estimated that fraud accounts for at least 10 percent and perhaps as much as 30 percent of property-casualty insurance claims.

One of the most important problems is the high level of public acceptance of insurance fraud. When padding claims or falsifying information on an application is acceptable behavior, premiums increase for everyone. In a survey of public attitudes on insurance fraud reported in the 1991 Public Attitudes Monitor ("PAM"), the Insurance Research Council found that almost one-third of the respondents considered it personally acceptable to misrepresent some kinds of information when completing an auto insurance application and as many as 14 percent replied that they were willing to misrepresent the facts when filing an auto insurance claim. The survey also showed that people support

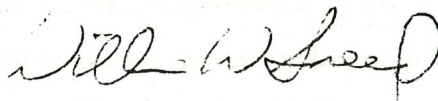
*House F&I  
Attachment 6  
3-9-94*

measures to right insurance fraud. More than half of the respondents to the 1991 survey reported they were willing to take measures to reduce dishonest auto claims.

The 1993 PAM found that people were even more supportive of efforts to crack down on insurance fraud. The 1993 PAM included regional analysis of public attitudes. In the "West North Central" region, which includes Kansas, people are less likely to approve of padding claims to cover deductibles or make up for past premiums, and they strongly endorse prosecution for fraudulent activities. Since the people of this region support prosecution as a way to deter fraud, it seems appropriate to enact tougher laws to deal with it. By passing a bill like S.B. 677, the legislature could go at least part way in sending a message to the public that insurance fraud is a serious problem which costs every policyholder. This bill increases penalties and requires persons who commit fraud to pay restitution to an insurer for their action. We contend that this is a step in the right direction.

Attached to my testimony is a copy of the 1991 and 1993 PAM articles and an information piece produced by my client. We appreciate the opportunity to testify on S.B. 677 and will be happy to respond to questions.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Will W. Sneed", written in a cursive style.

William W. Sneed





JUL 6 1992

## Insurance Fraud: Policyholders Pay the Price

False and inflated insurance claims cost billions of dollars a year.

Who pays? Policyholders. They pick up the tab by paying higher premiums.

- The property-casualty insurance industry estimates at least \$17.5 billion in false claims for 1990. But fraud may cost insurers as much as \$100 billion a year, says Arnold Schlossberg Jr., president, National Insurance Crime Bureau (NICB).

- According to the NICB, fraud accounts for at least 10 percent and perhaps as much as 30 percent of property-casualty insurance claims.

- The U.S. Chamber of Commerce says fraud adds 25 percent to property-casualty insurance rates.

- Of every claim dollar, at least 10 cents go to fraud, according to the Insurance Information Institute.

- A Cambridge Reports survey reveals most Americans believe at least 50 percent of insurance claims are dishonest.

### What Is Fraud? Who Commits Fraud?

Insurance should put a person or property back into the condition he, she or it was in before a loss occurred. Insurance fraud usually means someone uses insurance unfairly to make a profit.

Career criminals, often working with crooked lawyers and doctors, commit about half of all insurance fraud.

These people "get up every morning and make their living by stealing millions," says Schlossberg.

Motorists and homeowners trying to make a quick buck by padding claims commit the other half. And many of them don't think they're committing crimes. The Insurance Research Council's 1991 Public Attitude Monitor survey shows 23 percent of respondents believe nothing's wrong with padding an auto insurance claim to cover collision deductibles. And 20 percent saw nothing wrong with inflating claims to make up for premiums paid in years they had no claims.

"The attitudes revealed in this survey indicate that cheating and misrepresentation have become serious problems for the insurance industry and the insurance-buying public," says Donald Segraves, executive director of the council.

"It seems to be very clear that there is a change in claimant behavior. It's the difference between looking at an accident as an opportunity to get back some of the premiums you've paid versus the good of policyholders as a group."

### Common Fraud Schemes

The most common types of fraud include:

- Listing an adult as the primary driver of a car when it's actually for someone under 21.
- Withholding information about past accidents, traffic tickets and claims.
- Describing a stolen car as having higher than its actual value on an insurance claim.
- Including previously existing damage to a car when submitting a claim.
- Continuing to go back to a doctor or chiropractor for treatment after a crash-related injury has healed.
- After being injured, agreeing with a doctor's or lawyer's suggestion to stay out of work for a longer time to get a higher insurance settlement.
- Lying about the way an accident occurred.
- Abandoning a car and then reporting it stolen.

Other forms of fraud:

**Auto accidents.** Sometimes a driver stages an accident by deliberately stopping in front of a car traveling at low speed. That driver claims to have suffered injuries and seeks payment from the other driver's insurance company.

Other cheaters report accidents that never happened. One man would spot a truck on the highway, take down all pertinent information, then tell the trucking company one of its trucks had forced him off the road and damaged his car. He would submit fraudulent repair bills and, at times, photos of a damaged car to the trucking firm's insurance company.

Officials indicted this man on 24 felony charges and 76 misdemeanors, saying he made more than \$70,000 on fraudulent claims.

Another scam involves lawyer-doctor conspiracies. A "runner" prowls the streets listening to a police radio and looking for accidents. His job is to bring victims into the fraud mill.

A lawyer takes the victim's case while a doctor builds up medical bills, giving needless treatment or charging for treatment never given.

Defrauders then exploit hard-to-diagnose injuries such as whiplash. Their goal: an insurance settlement much greater than actual damages.

**Auto theft.** NICB estimates 15 to 20 percent of auto theft claims involve fraud. Often the vehicle owner takes part in the fraud.

A common scheme: Using vehicle identification numbers and titles from wrecked cars, crooks get insurance on "paper" cars, report them stolen, then file an insurance claim.

One man bought the salvage of a car that sank in a Florida bay. He took it to the Midwest, burned it and reported it stolen. Investigators caught him when they found sand and salt water in the carburetor — clear signs of the car's origin. Had investigators not found fraud, the insurance company would have paid the claim — with honest policyholders' premium dollars.

**Arson for profit.** Fraud artists often buy property and inflate its value by selling it to each other before having it torched. Then they collect the property's inflated value from the insurance company.

Small businesses in financial trouble are extremely "flammable." Owners often remove valuables or the entire inventory before starting a fire.

Homeowners also commit arson, and even accidental fires provide opportunity for fraud. People sometimes pad the list of lost items and get paid for property they never owned.

**Health insurance.** A common scheme: Someone buys several health insurance policies, fakes illness or injury, then collects on them. In some cases, people have bought up to 30 different policies. (But insurers can deny a claim if they discover the applicant lied about other policies.)

In California, a fraud ring used medical examination vans to give tests at various sites. Using inflated expense reports, ring members cheated some 1,400 insurers out of more than \$50 million.

And a federal grand jury indicted a chiropractor on six counts of mail fraud for allegedly submitting 26 false health insurance claims. The doctor sent bills to an insurance company for treatment of two people injured in a car accident. The victims claim the doctor never treated them but offered to split the insurance proceeds from padded bills and false claims.

**Life insurance.** Some people will do anything to cash in on life insurance. Even murder. A Michigan businessman received life in prison without parole for faking a car crash to cover up the slaying of his partner. Prosecutors claim he staged the crash to get \$288,000 in insurance.

## Increased Emphasis On Fighting Fraud

The public, police and government officials have traditionally looked at insurance fraud as a "victimless" crime. And today's crowded courts and prisons don't keep criminals from committing insurance fraud.

But recent developments offer encouraging signs.

The Insurance Research Council study shows 76 percent of respondents think it's a good idea to encourage insurance companies to look more thoroughly for fraud before paying claims — even if that delays payment.

About half those surveyed said they would be "very willing" to reduce insurance fraud by:

- Showing their car title to prove ownership when buying auto insurance.

- Taking their car to an insurance office for a photo and inspection when buying a policy.

- Undergoing an independent medical exam when filing an injury claim.

And an Insurance Information Institute survey finds insurance companies and law enforcers making greater efforts to fight fraud at all levels.

In January 1992, for example, insurance industry leaders announced all-out war on auto theft and insurance fraud. The NICB, which represents 700 insurance companies, will have more than 1,000 agents to work with the FBI, the U.S. Customs Service and postal inspectors to arrest those who commit insurance fraud. The goal: cut insurance fraud in half during the next decade.

"The effort is going to be a great deal broader in reaching out to law enforcement agencies and state and federal legislatures," said Schlossberg.

"Everybody who buys insurance pays for insurance crime. We're fighting back to stop that cost."

To fight back, the public can call 1-800-TEL-NICB to report cases of insurance fraud. Callers are eligible for rewards.

Several states have also started anti-fraud campaigns. Working with the insurance industry, Colorado Attorney General Gale Norton launched a campaign to publicize the auto fraud problem and encourage people to help solve it.

"We must fight insurance fraud the way we do other crimes," said Norton. "It is only with the help of consumers that we can uncover major insurance abusers."

One way: Call Colorado's insurance fraud hotline — 1-800-888-8043 — to report suspected fraud.

California passed a law giving the Insurance Department's Fraud Bureau and county district attorneys more resources to fight fraud. Thanks to a consumer tip, a Fraud Bureau investigation led to the arrest of four suspects and the issuance of arrest warrants for five others connected with a complex auto, legal and medical insurance fraud ring.

Insurance Commissioner John Garamendi said, "[These] arrests should send a chilling message to anyone contemplating or engaged in fraud, whether — as in this case — they be attorneys, body shop operators, doctors or insurance adjusters: no matter how smart or shrewd you think you are, you are going to get caught."

After a New Jersey sting operation revealed widespread fraud within the auto body repair industry, Governor Jim Florio set up an anti-fraud task force.

"Insurance fraud is a sophisticated and evolving business, and we need to enlist the help of consumers, the auto body business, the insurance industry and law enforcement in our fight," Florio said.

After a 1991 law made insurance fraud a felony in Texas, the state Board of Insurance created an Insurance Fraud Unit.

"We have declared war against fraud and do not intend to retreat or lose," said Claire Koriath, chairwoman of the board.



## What Are Insurers Doing?

As fraud drives up the cost of insurance, consumers ask what insurers are doing to solve the problem.

Critics say insurers encourage fraud by paying fraudulent claims instead of fighting to block payment.

Not so, say insurers. There are no obvious or simple ways to separate legitimate claims from fraudulent ones. No matter how much a claim adjuster may suspect fraud, denying payment without solid proof involves substantial risks of facing lawsuits and having to pay punitive damages on top of actual losses. And if claimants offer to settle within policy limits, denying the claim and proceeding to trial may require the insurer to agree to pay more than the policy limits if the verdict is in the policyholder's favor. Potential losses suddenly multiply.

Also, prosecutors and law-enforcement agencies, often dealing with more pressing crimes, lack resources to fight fraud. Only eight states have insurance departments with fraud bureaus.

And despite its efforts, the insurance industry can't solve the fraud problem when so much of the public seems to accept fraud.

To fight fraud, many insurers work with and support organizations like the NICB. By investigating insurance fraud independently, NICB helps protect insurers from lawsuits.

NICB and others investigating fraud rely on several insurer-operated services, including records of auto injury claims and property losses. Checking claims against computerized records, investigators look for signs of fraud. Examples include someone collecting several times for the same type of loss.

State Farm fights to take the profit out of insurance fraud. The company trains its agents and claims people to recognize potentially fraudulent claims. Certain claim representatives receive extra training to develop the skills to recognize, investigate and evaluate unusual claims. And fraud investigation divisions look for suspicious claims throughout the

United States. If they find fraud patterns that might involve many insurers, they may share information with organizations that can take actions — such as NICB or state insurance fraud bureaus.

## What Can The Public Do To Fight Fraud?

The public can also join the fight against fraud. Here's how:

- Report all accidents and losses. A witness's account could help prove fraud.
- Keep records. Get names, addresses, phone numbers and license plate numbers of those involved. Make notes on who said what. This information could help prosecute an insurance fraud artist.
- Watch out for possible fraud schemes. Be suspicious of a doctor or lawyer who offers to "make you some money" or a body shop that offers to inflate the damage estimate.
- Tell the authorities. A tip from one person could start an investigation that ends in arrest and prosecution. Call the police, an insurance representative or 1-800-TEL-NICB.

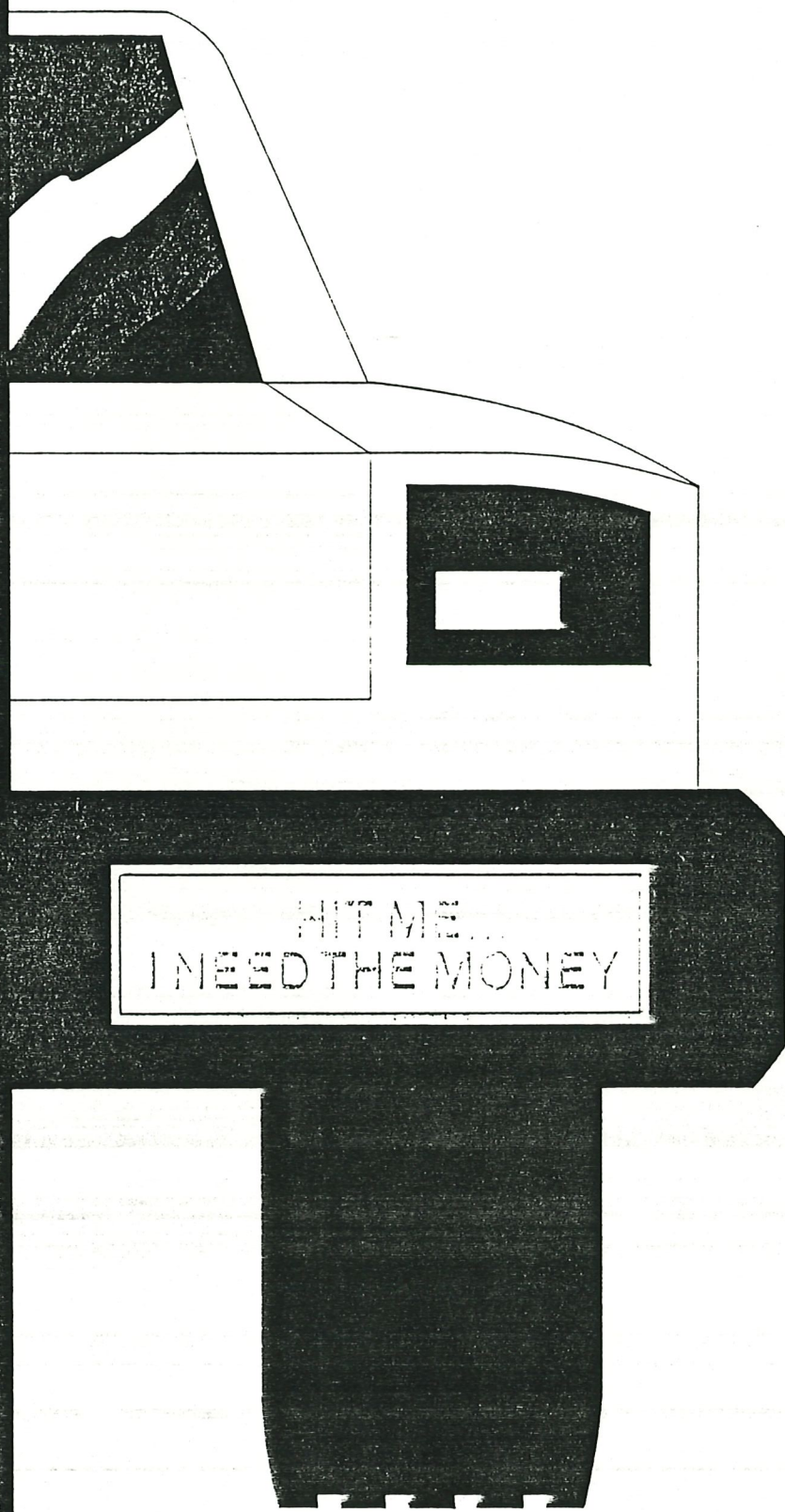
## Anti-Fraud Efforts Need Public Support

Fraud will always tempt some people. Whether one person or a group commits fraud, it raises insurance premiums and drains legitimate funds into criminal activity.

To succeed, the fight against fraud needs a national agenda involving all parties — insurers, law enforcers, legislators, regulators and the public. In addition to the encouraging efforts of several states, the NICB and insurance companies, the anti-fraud battle requires broad public support. That can happen only when the public realizes insurance fraud is a crime that hurts insurance companies and honest policyholders who pay for fraud. Until then, insurance fraud criminals will keep picking consumers' pockets.



**A Survey of Public  
Attitudes on  
Insurance Fraud,  
Workers' Compensation,  
Traffic Violations  
and Driver  
Improvement Courses,  
Financial Stability  
and Insolvency, and  
Other Insurance  
Topics**





## INSURANCE RESEARCH COUNCIL

The Insurance Research Council was formed by the property-casualty insurance industry to provide the public and the industry with timely, reliable research on public policy issues affecting risk and insurance. The Council does not lobby nor advocate any point of view on policy matters.

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# **PUBLIC ATTITUDE MONITOR 1991**

**A Survey of Public Attitudes on Insurance Fraud,  
Workers' Compensation, Traffic Violations and  
Driver Improvement Courses, Financial Stability  
and Insolvency, and Other Insurance Topics**

**Insurance Research Council  
October 1991**

This report, *Public Attitude Monitor 1991*, is available from the Insurance Research Council, 1200 Harger Road, Suite 310, Oak Brook, Illinois 60521, telephone (708) 572-1177. In the United States copies are \$5 each, postpaid. Copies to other countries are \$10 each, postpaid. A listing of other Insurance Research Council reports is provided in Appendix 4.

## ACKNOWLEDGEMENTS

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Brian W. Smith  
Chairman, Public Attitude Monitor  
1991 Committee

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# CHAPTER 1

## EXECUTIVE SUMMARY

This edition of the Public Attitude Monitor (PAM) series reports findings from the Insurance Research Council's twelfth annual survey of public opinion on issues affecting the property-casualty insurance industry. The 1991 edition surveyed the public's attitudes regarding a variety of insurance issues, including fraudulent or controversial auto insurance application and claim activities, awareness of workers' compensation policies and likelihood of hiring a lawyer for a workers' compensation claim, acceptability of speeding and effectiveness of driver improvement courses, and consumer confidence in the financial stability of a variety of industries. In addition, PAM 1991 continues to follow trends in the number of licensed vehicles, the percentage of vehicles reported uninsured, and attitudes toward the cost of auto insurance. A copy of the 1991 PAM questionnaire is contained in Appendix 1.

The Roper Organization, Inc., an independent survey research firm, drew a sample representative of households in the continental United States and conducted in-home interviews with 1,987 adults age 18 or older. Interviews were completed during the period May 11-18, 1991. For a description of the sampling methodology used by the Roper Organization, see Appendix 2.

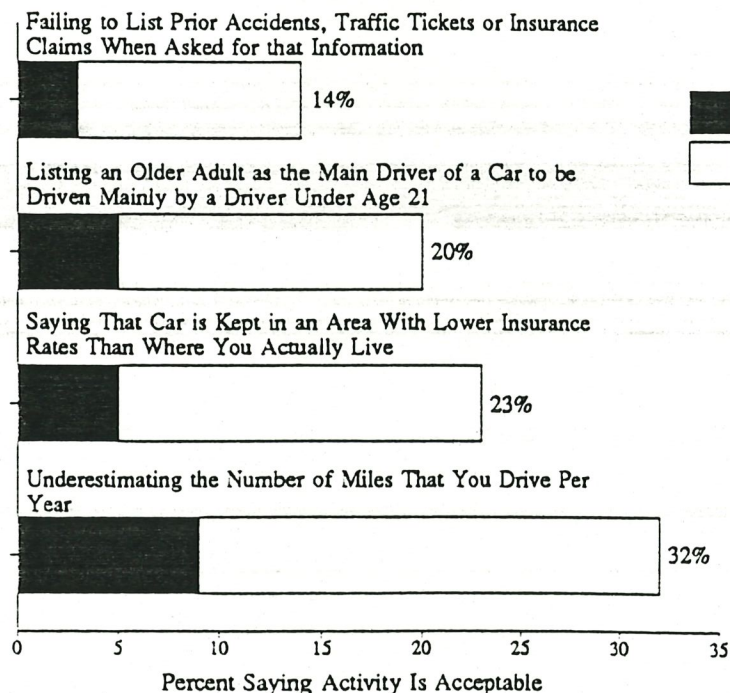
Major findings of the study are as follows:

### Insurance Fraud

Almost one-third of the respondents considered it personally acceptable to misrepresent some kinds of information when completing an auto insurance application, and as many as 14% were willing to misrepresent the facts when filing an auto insurance claim. Respondents rated the acceptability of fourteen activities, each falling into one of three categories: things people might do when filling out an insurance application, to get a lower rate; things people might do when they have a vehicle damage claim, to increase the amount they can collect from the insurance company; and things people might do to collect more money when they have a car insurance claim for injuries. The results show that activities associated with completing an auto insurance application are generally considered more acceptable than those associated with filing a claim.

Underestimating the number of miles driven per year on an application is the activity most frequently rated personally acceptable, with 32% of the respondents saying this is almost always or usually acceptable (Figure 1). About 23% said it is acceptable to say

FIGURE 1  
ACCEPTABILITY OF APPLICATION FRAUD



that the car is kept in an area with lower insurance rates where they actually live, and 20% approved of having an older adult as the main driver of a car driven mainly by someone under age 21. The application activity least often found acceptable is failing to list prior accidents, traffic tickets or insurance claims when asked for that information. Fourteen percent regarded this an acceptable activity.

Fourteen percent thought it personally acceptable to describe a car that was stolen and not found as having a higher value or more equipment than it actually had (Figure 2). Nine percent said it is all right to describe an accident differently than how it actually happened, to reduce their own degree of fault, and six percent said it is acceptable to abandon a car and report it stolen in order to collect an insurance settlement.

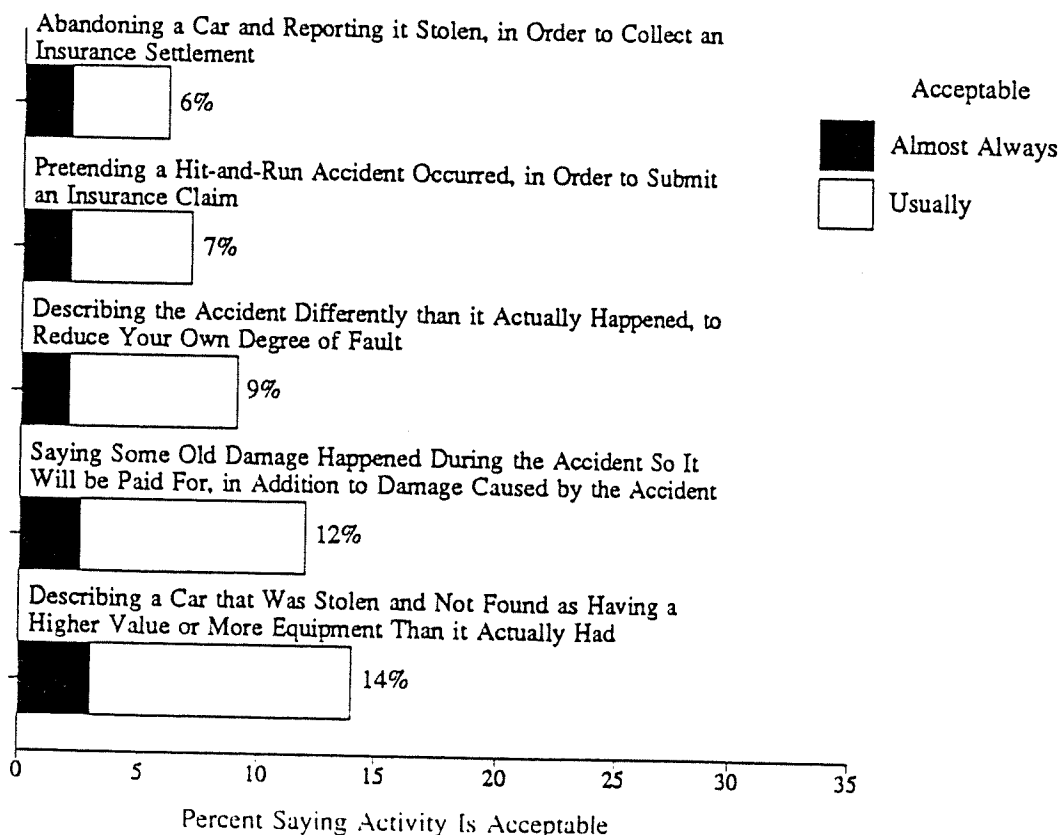
Of the three types of activities, those associated with claims involving injuries were least often considered personally acceptable, but 4% to 11% of the respondents still rated them almost always or usually acceptable (Figure 3). Eleven percent of the respondents said it is acceptable to go along with a suggestion by a doctor or lawyer to stay out of work for a longer period of time to get a higher insurance settlement, and 11% also said it is all right to incur unneeded medical treatment in order to build up the loss and get a higher settlement.

In terms of acceptability, respondents found insurance claim padding comparable to not reporting your income to the IRS in order to lower your taxes. More than one-fifth (21%) of the survey participants said it is all right not to report some income to the IRS, while 20% said it is all right to increase an insurance claim by a small amount to make up for premiums paid when no claims were made. Twenty-three percent said it is all right to increase an insurance claim to make up for the deductible. More respondents considered it acceptable to say current income is higher than it really is on a job interview (32%) and to withhold some information about debts when applying for a bank loan (28%).

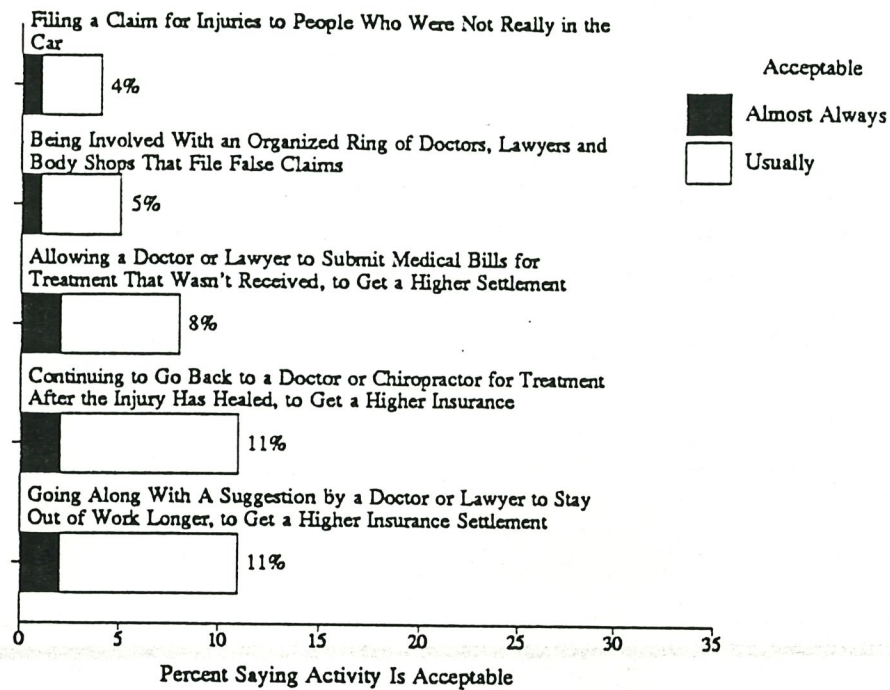
About half or more of the respondents said they would be very willing to take certain measures that might help reduce dishonest auto claims. More than 6 in 10 respondents indicated they would be very willing to provide a copy of the title to their car at the time a policy is taken out. Fifty-six percent would be very willing to bring their car to the insurer's office for a picture and inspection when taking out a policy. About half (47%) said they would be very willing to make it easier for the insurance company to get an independent medical examination when making a claim for an injury.

Other topics covered in this chapter include penal-

FIGURE 2  
ACCEPTABILITY OF CLAIM FRAUD



**FIGURE 3**  
**ACCEPTABILITY OF INJURY CLAIM FRAUD**



ties for fraud, actions by insurance companies against fraud, and additional ideas to reduce dishonest auto claims.

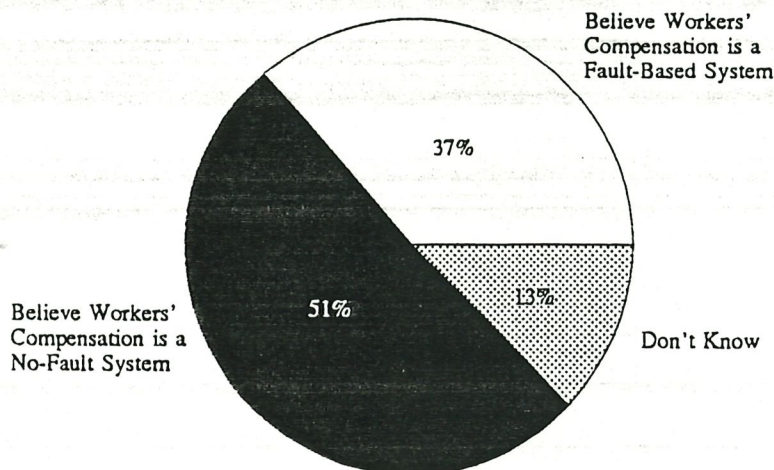
#### Workers' Compensation

More than one-third (37%) of the respondents mistakenly believed that injured workers must prove inju-

ries are not their fault in order to receive workers' compensation benefits (Figure 4). The survey also found that one in four respondents (25%) would be very likely or somewhat likely to hire a lawyer in the event of a workers' compensation claim.

Other workers' compensation topics presented in this chapter include who would pay medical bills for

**FIGURE 4**  
**BELIEFS REGARDING THE WAY IN WHICH THE WORKERS' COMPENSATION SYSTEM OPERATES**





on-the-job injury, whether the respondent has been injured at work, and whether the respondent's employer has provided information on workers' compensation.

### **Traffic Violations and Driver Improvement Courses**

More than half (53%) of all respondents believed that driver improvement courses are either very effective or somewhat effective in creating safer drivers. Thirty-six percent thought drivers with speeding violations should be able to get their tickets dismissed by taking a driver improvement course, and 6% said that drivers with more serious violations (such as drunk driving or leaving the scene of an accident) should have the same privilege.

The 1991 percentage of respondents saying it is acceptable to speed on local roads increased significantly from the 1990 figure. Almost one-third (31%) of the 1991 participants think it is acceptable, compared with one-fifth (20%) of the 1990 respondents. One-half (50%) of the 1991 respondents considered speeding on highways acceptable, approximately the same share found by the 1990 PAM survey.

### **Auto Insurance Issues**

At least 40% of the respondents considered each of eight suggestions for reducing the cost of auto insurance a good idea. The idea most frequently judged to be a good one to reduce the cost of auto insurance is encouraging insurance companies to look more thoroughly for fraud before paying claims, with 76% expressing that view. Encouraging more competition in the manufacture of "crash parts," the next most popu-

lar choice, was considered a good idea by 72% of the respondents.

This year, 21% of all respondents said that paying for auto insurance presented a major problem, compared with 20% in 1990 and 16% in 1989. Another 39% said that paying for auto insurance was something of a problem for their household budget in 1991.

Other topics covered in this chapter include the percentage of respondents who were licensed drivers, number of licensed vehicles and the percentage of vehicles reported uninsured.

### **Financial Stability**

Consumers were most confident in the financial stability of their banks, followed by that of their insurance companies, and less confident in the financial stability of their department stores, savings and loans, and airlines. More than half (57%) of all respondents who use a bank said they were very confident in its financial stability. Forty-five percent were very confident in their automobile insurance company's financial stability, while 44% felt the same about their life insurance company, and 43% about their health insurance company. People felt less secure about the financial stability of the department store they frequented, with 35% saying they were very confident. Thirty-four percent were very confident in the financial stability of their savings and loan, and just 23% were very confident in the financial stability of the airline they frequently fly.

Other topics examined in this chapter include awareness of bankruptcy and how serious a problem a bankruptcy in each industry would create.

## CHAPTER 2

### INSURANCE FRAUD

People who misrepresent the facts when applying for insurance or when filing an insurance claim create costly problems for insurers and consumers alike. This portion of the PAM survey examines public acceptability of various kinds of misrepresentation with regard to auto insurance, and examines attitudes about measures that might be taken to reduce the incidence of auto insurance fraud.

When questioned about the acceptability of specific auto insurance activities, respondents were divided into two samples. In one sample the respondents were asked how acceptable they *personally* considered the behavior in question; in the other sample they were asked how acceptable they thought the behavior would be to *most people*. This approach was used so that perceptions about the general climate of opinion could be compared to personal attitudes regarding fraud. Respondents were consistently more likely to say the activities would be acceptable to most people than to themselves. Fraudulent and questionable behaviors were presented using neutral terminology so the matter of acceptability could be determined entirely by the respondent (i.e., activities were not characterized as "wrong" or "improper").

#### Acceptability of Auto Insurance Application Activities

Respondents were first asked to rate the acceptability of providing insurers with false information when filling out applications, in order to get a lower insurance rate. About 32% of the respondents in the "you personally" sample said they believed underestimating the number of miles driven per year on an insurance application is almost always or usually acceptable. Somewhat fewer respondents (23%) said it is acceptable to say a car is kept in an area with lower insurance rates than its actual location. Slightly less acceptable is the practice of listing an older adult as the main driver of a car to be driven mainly by a driver under age 21. One-fifth of all respondents said this is acceptable to them. Of the various activities presented, the one found least acceptable is failing to list prior accidents, traffic tickets or insurance claims when asked for that information. Fourteen percent of respondents found this personally acceptable.

A pattern similar to the one described above can be found when analyzing responses from those in the "most people" sample. The notable difference is that the percentage of respondents reporting an activity acceptable is typically higher when respondents are

describing the views of most people than it is when they describe their own views. For example, 38% said it would be acceptable to most people to underestimate the number of miles driven per year on an auto insurance application, compared with 32% considering it personally acceptable (Table 1).

As shown in Table 2, respondents in the Northeast were most likely to say it is acceptable to underestimate the number of miles driven per year, while respondents in the Midwest were least likely to express that view. Forty percent of Northeast respondents thought the practice personally acceptable, compared with 32% in the South and West and 26% in the Midwest. Similarly, the percentage of respondents saying it is acceptable to misrepresent the location of a car is substantially higher in the Northeast than in other regions of the country.

Table 3 shows that misrepresenting information on auto insurance applications is considered more acceptable among those reporting major difficulty paying for auto insurance. Of those respondents reporting a major problem paying for auto insurance,<sup>1</sup> 36% personally regard underestimating the number of miles driven per year as acceptable behavior. A significantly smaller percentage (27%) of those reporting no problem paying for insurance said the same behavior is acceptable. Thirty-one percent of those respondents reporting a major problem paying for auto insurance said it is acceptable to misrepresent the location of a car on an application, compared with just 15% of those respondents reporting no problem paying for auto insurance. Listing an older adult as the main driver of a car to be driven by a driver under age 21 was found personally acceptable to 25% of those saying auto insurance presented a major problem for their budgets, but was acceptable to only 15% of those saying it presented no problem at all. Finally, 15% of those reporting a major problem paying for insurance considered failure to list prior accidents, tickets, or claims to be acceptable, compared with just 5% of those reporting no problem paying for insurance.

Responses regarding the attitudes of most people followed a similar pattern. The greater the problem paying for auto insurance represented for the budget, the more likely the respondents were to say a listed behavior would be acceptable to most people.

1. Survey participants were asked whether they owned or leased any licensed vehicles and if so, how many. Respondents with one or more licensed vehicles were asked to provide further information, including the degree to which paying for auto insurance represented a problem for their household (see Chapter 5).

**TABLE 1**  
**ATTITUDES TOWARD FRAUD IN AUTO INSURANCE APPLICATIONS**

Q. We are interested in people's attitudes about buying car insurance and making car insurance claims. I'm going to show you a list of things that some people might do when they fill out an application for car insurance, in order to get a lower rate. (HAND RESPONDENT CARD) For each one, please tell me how acceptable:  
 you think it would be to *most people* (one-half of sample)  
 it would be to *you personally* (one-half of sample)  
 Would it be almost always acceptable, usually acceptable, usually not acceptable, or almost never acceptable?  
 (ASK ABOUT EACH)

	Underestimating the Number of Miles that You Drive Per Year		Saying that the Car is Kept in an Area With Lower Insurance Rates Than Where You Actually Live		Listing an Older Adult as the Main Driver of a Car Which is Really Going to be Driven Mainly by a Driver Under Age 21		Failing to List Prior Accidents or Traffic Tickets or Insurance Claims When Asked for that Information	
	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>
Almost always acceptable	9%	11%	5%	8%	5%	8%	3%	5%
Usually acceptable	23	27	18	23	15	18	11	14
<b>Total acceptable</b>	<b>32</b>	<b>38</b>	<b>23</b>	<b>31</b>	<b>20</b>	<b>26</b>	<b>14</b>	<b>19</b>
Usually not acceptable	28	26	30	30	28	29	28	31
Almost never acceptable	36	31	43	36	48	43	54	47
<b>Total not acceptable</b>	<b>64</b>	<b>58</b>	<b>73</b>	<b>66</b>	<b>76</b>	<b>72</b>	<b>83</b>	<b>78</b>
Don't know	4	5	4	3	3	3	3	3

Number = 995 for "Most people" sample, 992 for "You personally" sample  
 Note: Due to rounding, subtotals may not equal sum of individual percentages.

**TABLE 2**  
**ACCEPTABILITY OF APPLICATION FRAUD BY REGION**

<u>Region</u>	Underestimating the Number of Miles Driven Per Year		Saying Car is Kept in Area With Lower Insurance Rates Than Where Car is Kept	
	<u>Acceptable for You Personally</u>	<u>Acceptable for Most People</u>	<u>Acceptable for You Personally</u>	<u>Acceptable for Most People</u>
Northeast	40%	43%	35%	41%
South	32	42	23	31
West	32	36	20	26
Midwest	26	28	17	24



**TABLE 3**  
**ACCEPTABILITY OF APPLICATION FRAUD BY DIFFICULTY PAYING FOR AUTO INSURANCE**

	Underestimating the Number of Miles that You Drive Per Year		Saying that the Car is Kept in an Area With Lower Insurance Rates Than Where You Actually Live		Listing an Older Adult as the Main Driver of a Car Which is Really Going to be Driven Mainly by a Driver Under Age 21		Failing to List Prior Accidents or Traffic Tickets or Insurance Claims When Asked for that Information	
Paying for Auto Insurance is:	You Personally	Most People	You Personally	Most People	You Personally	Most People	You Personally	Most People
A major problem	36%	47%	31%	32%	25%	31%	15%	26%
Something of a problem	34	43	21	36	22	26	15	19
Not much of a problem	30	38	21	30	17	25	14	21
No problem at all	27	25	15	26	15	24	5	11

#### Acceptability of Auto Insurance Claim Activities

Next, respondents were asked to rate the acceptability of things some people might do when they have a car insurance claim, in order to increase the amount they can collect from the insurance company. Fourteen percent of the respondents said it is almost always or usually acceptable to exaggerate the value of a car that was stolen and not found. Including previously existing damage when submitting an insurance claim was considered personally acceptable by 12% of the respondents, while 9% of respondents said it is acceptable to describe an accident differently than it actually happened in order to reduce their own degree of fault. Pretending a hit-and-run accident occurred was reported personally acceptable by 7% of the respondents. Six percent found it acceptable to abandon a car and report it stolen.

When the same list of behaviors was presented regarding the attitudes of most people, a similar pattern of responses was found. The percent of respondents reporting a listed activity almost always or usually acceptable ranged from two to ten percentage points higher in the "most people" sample than in the "you personally" sample (Table 4).

#### Acceptability of Auto Insurance Injury Claim Activities

Survey participants were given a card listing various methods people might use to get higher settlements for auto insurance claims involving injuries. Eleven percent found it acceptable to go along with a suggestion by a doctor or lawyer to stay out of work for a longer period of time, to increase the settlement value of the claim. The same percentage (11%) considered it acceptable to continue treatment with a doctor or chiropractor after an injury has healed, to build up the dollar loss and the settlement value. Fewer respondents (8%) think it's acceptable to allow a doctor or lawyer to submit medical bills for treatment that wasn't received. Five percent of survey participants said they consider it acceptable to become involved with an organized ring of doctors, lawyers and body shops that file false claims, while 4% said it is acceptable to file a claim for injuries to people who were not really in the car.

When the other half of the sample was asked how acceptable these activities would be to most people, the results paralleled those from the question about claims that did not involve injuries. The respondents in

**TABLE 4**  
**ATTITUDES TOWARD FRAUD IN AUTO INSURANCE CLAIMS**

Q: Now I'm going to show you a list of things that some people might do when they have a car insurance claim, in order to increase the amount they can collect from the insurance company. (HAND RESPONDENT CARD) For each one, please tell me how acceptable:

you think it would be to *most people* (one-half of sample)

it would be to *you personally* (one-half of sample)

Would it be almost always acceptable, usually acceptable, usually not acceptable, or almost never acceptable? (ASK ABOUT EACH)

	Describing a Car that Was Stolen and Not Found as having a Higher Value or More Equipment than it Actually Had		Saying that Some Old Damage to the Car Happened During the Accident, to get the Insurance Company to Pay for Old Damage as Well as Damage Actually Caused by the Accident		Describing the Accident Differently than it Actually Happened, to Reduce Your Own Degree of Fault		Pretending a Hit-and-Run Accident Occurred, in Order to Submit an Insurance Claim		Abandoning a Car and Reporting it Stolen, in Order to Collect an Insurance Settlement	
	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>	<u>You Personally</u>	<u>Most People</u>
Almost always acceptable	3%	5%	3%	5%	2%	5%	2%	2%	2%	3%
Usually acceptable	11	15	10	17	7	15	5	7	4	5
<b>Total acceptable</b>	<b>14</b>	<b>20</b>	<b>12</b>	<b>21</b>	<b>9</b>	<b>19</b>	<b>7</b>	<b>9</b>	<b>6</b>	<b>8</b>
Usually not acceptable	24	29	30	31	28	30	18	25	17	23
Almost never acceptable	60	48	57	46	61	48	74	64	75	67
<b>Total not acceptable</b>	<b>83</b>	<b>78</b>	<b>86</b>	<b>77</b>	<b>89</b>	<b>78</b>	<b>92</b>	<b>88</b>	<b>92</b>	<b>90</b>
Don't know	3	3	2	2	2	2	2	2	2	2

Number = 995 for "Most people" sample, 992 for "You personally" sample

Note: Due to rounding, subtotals may not equal sum of individual percentages.

**TABLE 5**  
**ATTITUDES TOWARD FRAUD IN CLAIMS INVOLVING INJURIES**

Q. Now I'm going to show you a list of things that some people might do when they have a car insurance claim for injuries, in order to increase the amount they can collect from the insurance company. (HAND RESPONDENT CARD) For each one, please tell me how acceptable:

you think it would be to *most people* (one-half of sample)

it would be to *you personally* (one-half of sample)

Would it be almost always acceptable, usually acceptable, usually not acceptable, or almost never acceptable? (ASK ABOUT EACH)

	Going Along With a Suggestion by a Doctor or Lawyer to Stay Out of Work for a Longer Period of Time, to get a Higher Insurance Settlement		Continuing to Go Back to a Doctor or Chiropractor for Treatment After the Injury has Healed, to Get a Higher Insurance Settlement		Allowing a Doctor or Lawyer to Submit Medical Bills for Treatment that Wasn't Received, to Get a Higher Insurance Settlement		Being Involved With an Organized Ring of Doctors, Lawyers and Body Shops that File False Claims to Get Money from Insurance Companies		Filing a Claim for Injuries to People Who Were Not Really in the Car	
	<u>You</u> <u>Personally</u>	<u>Most</u> <u>People</u>	<u>You</u> <u>Personally</u>	<u>Most</u> <u>People</u>	<u>You</u> <u>Personally</u>	<u>Most</u> <u>People</u>	<u>You</u> <u>Personally</u>	<u>Most</u> <u>People</u>	<u>You</u> <u>Personally</u>	<u>Most</u> <u>People</u>
Almost always acceptable	2%	6%	2%	5%	2%	4%	1%	2%	1%	2%
Usually acceptable	9	15	9	14	6	10	4	5	3	5
<b>Total acceptable</b>	<b>11</b>	<b>21</b>	<b>11</b>	<b>19</b>	<b>8</b>	<b>13</b>	<b>5</b>	<b>8</b>	<b>4</b>	<b>6</b>
Usually not acceptable	23	27	25	29	21	27	14	17	16	22
Almost never acceptable	63	50	61	50	69	57	79	73	78	70
<b>Total not acceptable</b>	<b>86</b>	<b>77</b>	<b>86</b>	<b>79</b>	<b>90</b>	<b>84</b>	<b>93</b>	<b>90</b>	<b>94</b>	<b>92</b>
Don't know	3	2	2	2	2	2	2	2	2	2

Number = 995 for "Most people" sample, 992 for "You personally" sample

Note: Due to rounding, subtotals may not equal sum of individual percentages.

the "most people" sample were more likely to say a listed behavior is acceptable. The difference between the frequencies in the two samples again ranged from 2 to 10 percentage points (Table 5).

#### Attitudes Toward Penalties For Fraud

Participants in the PAM survey were also asked to determine the penalties that should be imposed by a court of law for some of the questionable practices

discussed. Respondents were asked whether a jail term, revocation of driver's license, a fine, or a combination of these is the most suitable penalty. The majority (60%) said a jail term is appropriate punishment for involvement with an organized ring of doctors, lawyers and body shops that file false claims. For each of the other types of fraud listed, a fine was chosen most frequently as a suitable penalty (Table 6).

The same examples were presented again, but this



TABLE 6  
PENALTIES FOR FRAUD

Q. Suppose a person gets caught doing things like the ones we've just been talking about. As I mention a few of them again, please tell me which penalties, if any, should be handed out by a court of law. (HAND RESPONDENT CARD) Please call off all those that apply from the list on this card. (ASK ABOUT EACH)

	A Jail Term	Revocation of Drivers' License	A Fine	No Penalty	Don't Know
Being involved with an organized ring of doctors, lawyers and body shops that file false claims to get money from insurance companies	60%	16%	46%	1%	4%
Filing an injury claim for people who were not really in the car	31	21	58	3	5
Abandoning a car and reporting it stolen, in order to collect an insurance settlement	37	21	54	3	5
Allowing a doctor or lawyer to submit medical bills for treatment not received, to get a higher insurance settlement	28	13	63	4	6
Continuing to go back to a doctor or chiropractor for treatment after the injury has healed, to get a higher insurance settlement	14	10	67	10	7
Allowing a repair garage to overestimate the amount of damage caused by an accident, so the car owner won't have to pay the insurance deductible	10	8	67	14	7
Failing to list prior accidents and traffic tickets when asked for that information on an application for car insurance	6	18	48	25	8
Saying that the car is kept in an area with lower insurance rates than where the car owner keeps it	5	9	51	28	9
Number = 1,987					

time respondents were asked to determine what action, if any, should be taken by the insurance company. Table 7 shows that the overwhelming majority (69%) said that someone involved in an organized ring should be prosecuted for fraud. Prosecution was also chosen by the majority as an appropriate penalty for abandoning a car and reporting it stolen, and for filing an injury claim for people not in the car. Forty-five percent said a person should be prosecuted for allowing a doctor or lawyer to submit medical bills for treatment not received. When asked what action the insurance company should take against an individual who continues to go back to a doctor or chiropractor after the injury has healed, participants most frequently said that the company should refuse to pay the claim (40%), but 28% said the policy should be canceled, and 27% said the person should be prosecuted. Thirty-five percent said that refusing to pay the claim is a suitable action when somebody allows a repair garage to overestimate the amount of damage caused by an accident, but 26%

said the valid part of the claim should be paid in such a case.

In each of the above examples of claims involving misrepresentation, fewer than 5% of survey participants indicated that the insurance company should take no action at all. When asked about examples of applications involving misrepresentation, a slightly larger percentage said the company should refrain from taking action (9% for failing to list past accidents, tickets or claims, and 11% for misrepresenting the location of the car), but the most frequent responses indicated that some action should be taken. Thirty-three percent said that failure to list prior accidents, tickets or claims should be met with cancellation of the policy, while 28% said the false information should be corrected and the premium raised. Misrepresenting the location of a car to get lower insurance rates warrants an increase in premium according to 30% of respondents, and cancellation of the policy according to 28%.

**TABLE 7**  
**ACTIONS BY INSURANCE COMPANIES AGAINST FRAUD**

Q. Now I am going to read over this list again and would like you to tell me what action, if any, should be taken by the insurance company. (HAND RESPONDENT CARD) Please call off all those that apply from the list on the card. (ASK ABOUT EACH)

	<u>Prosecute the Person for Fraud</u>	<u>Cancel the Policy</u>	<u>Refuse to Pay the False Claim</u>	<u>Pay Only the Valid Part of the Claim</u>	<u>Correct the False Information and Raise the Premium</u>	<u>Take No Action</u>	<u>Don't Know</u>
Being involved with an organized ring of doctors, lawyers and body shops that file false claims to get money from insurance companies	69%	34%	30%	7%	2%	1%	4%
Abandoning a car and reporting it stolen, in order to collect an insurance settlement	55	36	35	4	3	*	4
Filing an injury claim for people who were not really in the car	51	37	37	9	4	1	3
Allowing a doctor or lawyer to submit medical bills for treatment not received	45	30	36	14	6	1	4
Continuing to go back to a doctor or chiropractor for treatment after the injury has healed	27	28	40	21	7	2	4
Allowing a repair garage to overestimate the amount of damage caused by an accident, so the car owner won't have to pay the insurance deductible	21	25	35	26	10	4	4
Failing to list prior accidents and traffic tickets when asked for that information on an application for car insurance	13	33	14	6	28	9	6
Saying that the car is kept in an area with lower insurance rates than where the car owner keeps it	12	28	14	6	30	11	7
Number = 1,987							

TABLE 8  
ATTITUDES TOWARD CLAIM PADDING

Q. To what extent do you agree or disagree with each of these statements? (HAND RESPONDENT CARD) Do you strongly agree, agree, not sure but probably agree, not sure but probably disagree, disagree, or strongly disagree? (GET RATING FOR EACH)

	It Is All Right to Increase the Amount of Your Insurance Claim by a Small Amount to Make Up for the Insurance Premiums You Have Paid When You Had No Claims				It Is All Right to Increase the Amount of Your Insurance Claim by a Small Amount to Make Up for the Deductible Amount Which You Would be Required to Pay Yourself			
	1991	1989	1983	1981	1991	1989	1983	1981
Strongly agree	3%	6%	2%	1%	3%	6%	3%	1%
Agree	8	8	8	9	9	12	12	14
Probably agree	10	11	12	10	11	13	15	14
<b>Total agree</b>	<b>20</b>	<b>25</b>	<b>22</b>	<b>20</b>	<b>23</b>	<b>31</b>	<b>30</b>	<b>29</b>
Probably disagree	13	15	17	14	13	14	16	14
Disagree	32	38	39	39	31	35	34	34
Strongly disagree	32	22	22	27	29	19	19	22
<b>Total disagree</b>	<b>77</b>	<b>75</b>	<b>78</b>	<b>80</b>	<b>73</b>	<b>68</b>	<b>69</b>	<b>70</b>
Don't Know	3	1	1	*	4	1	1	*
Number	1,987	1,484	1,508	1,544	1,987	1,484	1,508	1,544

\* Less than 0.5%

Note: Due to rounding, subtotals may not equal sum of individual percentages.

### Attitudes Toward Claim Padding

PAM survey participants were also asked to indicate the extent to which they agreed or disagreed that it is all right to increase the amount of an insurance claim by a small amount to make up for premiums paid when no claims were made, or to make up for the deductible. According to 20% of respondents, it is all right to increase the amount of a claim to cover premiums paid when no claims were made. This is slightly lower than the 25% reported in 1989, but over the years the percentage has remained fairly stable. The percent who disagree has also remained stable, but a shift within the disagree category has taken place since 1989. The "strongly disagree" component has increased in share, while the share of those who "disagree" has decreased (Table 8).

A similar shift in responses can be seen when respondents were asked about covering deductibles. About 23% agreed that it is all right to pad a claim for that purpose in 1991, down from about 30% in earlier years. Twenty-nine percent strongly disagreed, compared with 19% in 1989. Overall, there has been a small but notable increase in the percent disagreeing that it is all right to increase the amount claimed in order to cover deductibles. Seventy-three percent disagreed, compared with 68% in 1989, 69% in 1983, and 70% in 1981.

### Willingness to Take Steps to Reduce the Number of Dishonest Claims

The survey indicates that 76% of all respondents think it is a good idea to encourage insurance companies to look more thoroughly for fraud before paying claims and allow them more time to do it—even if that delays the payment.<sup>2</sup> In this portion of the survey, some specific ideas designed to reduce dishonest auto claims were presented and respondents were asked how willing they would be to comply with each of them. As shown in Table 9, the majority of respondents were either very willing or somewhat willing to follow each of the suggestions. More than 4 out of 5 people (82%) said they would be very willing or somewhat willing to provide a copy of the title to their car at the time a policy is taken out (to verify the existence and description of the vehicle). About the same number (83%) indicated that they would be willing to bring their cars to the insurer's office for inspections and photographs when taking out a policy. Eighty percent were willing to make it easier for the insurance company to get an independent medical examination of injured people making a claim. Respondents were somewhat less willing to pay for efforts to reduce

2. See Chapter 5.



**TABLE 9**  
**ATTITUDES TOWARD IDEAS DESIGNED TO REDUCE DISHONEST AUTO CLAIMS**

Q. (HAND RESPONDENT CARD) Next, I would like to ask for your reactions to some ideas which have been proposed to help reduce the number of dishonest auto insurance claims and to help reduce auto insurance rates. For each one, please tell me if you would be very willing to do it, somewhat willing, not very willing, or completely opposed to doing it? (ASK ABOUT EACH)

	Very Willing	Somewhat Willing	Not Very Willing	Completely Opposed	Don't Know
Provide a copy of the title to your car at the time you take out a policy	61%	21%	7%	6%	4%
	82				
Bring your car to the insurer's or insurance agent's office so that he/she can take a picture and inspect the car at the time your policy is taken out	56	27	8	5	4
	83				
Make it easier for your insurance company to get an independent medical examination of injured people who make a claim	47	34	9	5	5
	80				
Pay one extra dollar on your auto insurance policy to be used by law enforcement officials to investigate and prosecute insurance defrauders (for example, fraudulent doctors, chiropractors, lawyers, body shops, etc.)	38	29	17	13	4
	66				
Pay one extra dollar on your auto insurance policy to be used by law enforcement officials to investigate and prosecute auto theft crimes	38	27	18	13	4
	65				

Number = 1,987

Note: Due to rounding, subtotals may not equal sum of individual percentages.

**TABLE 10**  
**ATTITUDES TOWARD FRAUDULENT ACTIVITY IN SITUATIONS OTHER THAN INSURANCE**

Q. To what extent do you agree or disagree with each of these statements? (HAND RESPONDENT CARD) Do you strongly agree, agree, not sure but probably agree, not sure but probably disagree, disagree, or strongly disagree? (GET RATING FOR EACH)

	It is All Right to Say Your Current Income is Higher Than it Really is in a Job Interview in Order to Get a Higher Salary	It is All Right To Withhold Some Information About Your Debts When You Are Applying for A Bank Loan	It is All Right to Not Report Some of Your Income to the IRS in Order to Lower Your Income Taxes
Strongly agree	6%	4%	4%
Agree	12	11	7
Probably agree	15	13	10
<b>Total agree</b>	<b>32</b>	<b>28</b>	<b>21</b>
Probably disagree	12	15	12
Disagree	21	23	22
Strongly disagree	30	31	42
<b>Total disagree</b>	<b>64</b>	<b>69</b>	<b>77</b>
Don't know	4	3	2

Number = 1,987

Note: Due to rounding, subtotals may not equal sum of individual percentages.

fraudulent claims, but most appeared to think it would be worth the money. Sixty-six percent said they would pay one extra dollar on an auto insurance policy so that law enforcement officials could use it to investigate and prosecute insurance defrauders, and sixty-five percent said they would pay an extra dollar to be used to investigate and prosecute auto theft crimes.

### Fraud in Other Situations

To offer a basis for comparison, respondents were asked about their attitudes toward fraudulent activity in situations other than insurance. About one-third (32%) agreed or probably agreed that it is all right to lie about current income on a job interview, while slightly fewer respondents (28%) said it is all right to withhold some information about debts when applying for a bank loan. A substantially smaller percentage (21%) said they agreed or probably agreed that it is all right to not report some income to the IRS (Table 10).

### Comparison of Acceptability of Different Types of Fraud

Table 11 shows all the previously discussed fraudulent or questionable behaviors listed in order of acceptability. The frequency of acceptability for each activity was determined by combining a range of responses, and questions using two different response scales are presented (see Table 11). Activities found to be most widely accepted are underestimating the number of miles driven per year on an auto insurance application, and lying about current salary on a job interview. The activities considered least acceptable by PAM survey participants include filing a fake claim for injuries, being involved with an organized ring that submits fake claims, and abandoning a car and reporting it stolen.

TABLE 11  
COMPARING THE ACCEPTABILITY OF  
DIFFERENT TYPES OF FRAUD

	Acceptable?		
	Yes	No	Don't Know
Underestimating number of miles driven per year on an insurance application	32%	64%	4%
Lying about current salary on job interview*	32	64	4
Withholding information when applying for bank loan*	28	69	3
Increasing insurance claim to cover deductible*	23	73	4
On auto insurance application, listing area with lower rates than area in which car is actually garaged	23	73	4
Increasing insurance claim to cover premiums paid*	21	80	3
Not reporting some of your income to IRS*	21	77	2
Listing adult as main driver of car to be driven by a driver under age 21	20	76	3
Describing stolen car as having higher than actual value on an insurance claim	14	83	3
Omitting accidents/tickets from insurance application	14	83	3
Including previously existing damage when submitting claim	12	86	2
Continuing to go back to doctor or chiropractor for treatment after injury has healed	11	86	2
After being injured, agreeing with a doctor's or lawyer's suggestion to stay out of work for a longer period of time	11	86	3
Describing accident differently than it happened to reduce degree of fault	9	89	2
Allowing a doctor or lawyer to submit medical bills for treatment that wasn't received	8	90	2
Pretending a hit-and-run accident occurred in order to submit an insurance claim	7	92	2
Abandoning a car and reporting it stolen to insurance company	6	92	2
Being involved with an organized ring of doctors, lawyers and body shops that file false claims to get money from insurance companies	5	93	2
Filing a claim for injuries to people not in the car	4	94	2

\* Question was asked of entire sample (1,987 respondents) rather than "you personally" half of split sample (992 respondents). Also, question was on a six-point agree/disagree scale rather than a four-point acceptable/unacceptable scale.

**TABLE 12**  
**COMPARING THE ACCEPTABILITY OF DIFFERENT TYPES OF FRAUD BY SEX AND AGE**

	Percent Saying Activity is Acceptable								
	Sex		Age						
	Male	Female	18-24	25-29	30-34	35-44	45-54	55-64	65 and Over
Underestimating number of miles driven per year on an insurance application	37%	28%	41%	44%	38%	33%	33%	18%	20%
Lying about current salary on job interview*	37	28	40	44	38	36	33	21	17
Withholding information when applying for bank loan*	31	25	32	34	29	29	32	20	20
Increasing insurance claim to cover deductible*	26	21	29	30	24	24	24	16	17
On auto insurance application, listing area with lower rates than area in which car is actually garaged	26	21	29	34	23	21	28	18	16
Increasing insurance claim to cover premiums paid*	22	19	28	26	18	22	17	13	16
Not reporting some of your income to IRS*	25	18	26	23	22	24	26	14	13
Listing adult as main driver of car to be driven by a driver under age 21	23	18	32	24	24	20	22	12	11
Describing stolen car as having higher than actual value on an insurance claim	17	11	16	20	14	16	12	11	7
Omitting accidents, tickets, or claims from insurance application	16	12	20	19	15	12	14	11	9

\* Question was asked of entire sample (1,987 respondents) rather than "you personally" half of split sample (992 respondents). Also, question was on a six-point agree/disagree scale rather than a four-point acceptable/unacceptable scale.

The ten activities most frequently rated acceptable by all survey participants are shown in Table 12, broken down by sex and age of the respondents. The table shows that male respondents were consistently more likely than female respondents to consider the activities acceptable. Of the males rating the acceptability of underestimating the number of miles driven per year on an insurance application, 37% regarded the behavior acceptable, compared with 28% of females.

Responses to the other activities presented in Table 12 follow a similar pattern, with the difference between male and female responses ranging from 3 to 9 percentage points.

Responses also varied according to age. Respondents over 54 were significantly less likely to find the activities acceptable than those in other age groups. In addition, 18-29 year olds were often more likely than others to rate the activities acceptable.



**TABLE 14**  
**WHO WOULD PAY MEDICAL BILLS BY HOUSEHOLD INCOME AND AGE**

	<u>I Would Pay the Bills Myself</u>	<u>Employer or Its Workers' Compensation Insurer Would Pay Bills</u>	<u>Health Insurance Company, HMO or PPO Would Pay the Bills</u>	<u>The State Would Pay the Bills</u>
<u>Household Income</u>				
Under \$20,000	15%	60%	14%	3%
\$20,000-\$39,999	13	63	19	2
\$40,000 or over	8	64	25	*
<u>Age</u>				
18-24	9	56	16	2
25-29	12	67	17	*
30-34	13	67	18	1
35-44	12	63	22	1
45-54	13	58	23	2
55-64	14	56	25	4
65 and over	25	37	29	3

\* Less than 0.5%

**TABLE 15**  
**HOW WELL INFORMED ARE YOU ABOUT  
WORKERS' COMPENSATION IN YOUR STATE?**

Q. How well informed are you about the workers' compensation system in your state? Would you say you know a lot about it, know something about it, know very little about it, or know absolutely nothing about it? (Asked of and based on those who are employed or plan to be employed)

	<u>Percent of All Respondents</u>
Know a lot about it	13%
Know something about it	37
Know very little about it	35
Know absolutely nothing about it	14
Don't know	1
Number	1,442

The survey found that a large number of people who are employed or plan to be employed are misinformed about the way the workers' compensation system actually operates, and are unaware that the coverage provides benefits regardless of fault (Table 16). Respondents were asked whether injured workers are required to prove that their injuries are not their fault to receive benefits, or whether they receive benefits whether or not the injury is their fault. Just over half (51%) said workers receive benefits no matter who is at fault, with 37% saying that injured workers must prove that their injuries are not their own fault in order to receive workers' compensation benefits. The other 13% gave "don't know" responses. Respondents saying they know a lot or something about workers' compensation were about as likely to incorrectly identify the system as fault-based as respondents saying they know very little or nothing about the system. However, respondents saying they know a lot or something about

**TABLE 16**  
**HOW DOES WORKERS' COMPENSATION OPERATE?**

Q. As far as you know, which of the following statements comes closest to the way the workers' compensation system actually operates? (Asked of and based on those who are employed or plan to be employed)

	<u>Percent of All Respondents</u>	<u>Percent of Respondents Saying They Know A Lot or Something About Workers' Compensation</u>	<u>Percent of Respondents Saying They Know Very Little or Noth- ing About Workers' Compensation</u>
Injured workers must prove that their injuries were not their own fault in order to receive workers' compensation benefits	37%	37%	37%
Injured workers receive workers' compensation benefits whether or not the injury was their fault	51	60	42
Don't Know	13	3	21
Number	1,442	720	702

workers' compensation were more likely than others to correctly identify the coverage as no-fault, with 60% of those respondents indicating it is a no-fault system compared with 42% of those respondents saying they know very little or nothing about workers' compensation.

Table 17 shows perceptions of how the workers' compensation system operates by sex, age, region, household income and education. Male respondents were more likely than female respondents to correctly identify workers' compensation as a no-fault system. Fifty-five percent of males said it is a no-fault system compared with 46% of females. Respondents in the 30-34 year old age category were more likely than respondents in other age groups to say the coverage is not fault-based, with 61% of these respondents identifying it as such. Respondents in the West were more likely than those in other regions of the country to say the workers' compensation system is not fault-based.

**TABLE 17**  
**HOW WORKERS' COMPENSATION OPERATES**  
**BY SEX, AGE, REGION, HOUSEHOLD INCOME**  
**AND EDUCATION**

	Fault-Based System	No-Fault System	Don't Know
<b>Sex</b>			
Male	34%	55%	12%
Female	41	46	13
<b>Age</b>			
18-24	38	41	21
25-29	39	53	8
30-34	31	61	8
35-44	36	55	10
45-54	38	44	18
55-64	37	52	10
65 and over	45	45	10
<b>Region</b>			
Northeast	32	50	18
Midwest	36	52	12
South	40	48	12
West	38	54	8
<b>Household Income</b>			
Under \$20,000	43	43	14
\$20,000-\$39,999	38	49	13
\$40,000 and over	31	62	7
<b>Education</b>			
Non-high school graduate	39	41	21
High school graduate	34	52	14
Some college	37	52	11
College graduate	42	53	5

Fifty-four percent of them indicated that view, compared with 52% in the Midwest, 50% in the Northeast, and 48% in the South. Survey participants with incomes of \$40,000 or more were substantially more likely to correctly label the coverage as no-fault than those with lower incomes. Sixty-two percent of those in the \$40,000 or greater income category said workers' compensation is no-fault, while 49% of those with incomes of \$20,000-\$39,999 and 43% of those with incomes under \$20,000 expressed the same view. Finally, respondents who had not graduated from high school were less likely than those with higher levels of education to appropriately identify the coverage as no-fault.

Table 18 shows that more than one out of five respondents have been injured on the job. Twenty-one percent reported that they had been injured at work, while 77% said they had not. Two percent had no answer. Both groups of respondents, those who had been injured and those who had not, were equally likely (37%) to incorrectly say the workers' compensation system is fault-based (Table 19). However, 57% of those who had been injured at work were aware that workers' compensation is a no-fault system, compared with 49% of those who had not been injured.

**TABLE 18**  
**HAVE YOU BEEN INJURED ON THE JOB?**

Q. Have you ever been injured on the job? (Asked of and based on those who are employed or plan to be employed)

	Percent of All Respondents
Yes	21%
No	77
No answer	2
Number	1,442

**TABLE 19**  
**HOW WORKERS' COMPENSATION OPERATES**  
**BY WHETHER OR NOT RESPONDENT HAS BEEN**  
**INJURED ON THE JOB**

	Percent of Respondents Who Have Been Injured on the Job	Percent of Respondents Who Have Not Been Injured on the Job
Fault-based system	37%	37%
No-fault system	57	49
Don't know	1	14
Number	306	1,113



According to the survey, the majority of employees are not provided with information about workers' compensation. Respondents were asked whether their employer has ever explained workers' compensation or provided materials on the topic. Fifty-one percent reported that no information had been provided. Forty-two percent said that information on workers' compensation had been provided, and 7% did not know (Table 20). When responses to this question from those saying the workers' compensation system is fault-based and those saying it is not fault-based were compared, no significant difference was found.

### Attitudes Toward Involving Lawyers in Workers' Compensation Claims

Table 21 describes respondents' views on hiring a lawyer for a workers' compensation claim. Eleven percent said they would be very likely to hire a lawyer to handle a claim for a broken arm, while 13% said they would be somewhat likely to do so. Almost one-fifth (19%) thought they would be somewhat unlikely to hire a lawyer, and 36% thought they would be very unlikely to hire one.

Respondents who thought that workers' compensation is a fault-based system were more likely to say they would hire a lawyer than respondents who said the system is not fault-based. Of those saying workers' compensation is fault-based, 15% reported that they would be very likely to hire a lawyer, compared with 10% of those saying the system is no-fault. Thirty-three percent of those respondents saying the system is fault-based said they would be very unlikely to hire a lawyer, while 40% of those saying it is not fault-based reported that they would be very unlikely to hire one.

A 1990 IRC study<sup>6</sup> also reported on likelihood of hiring a lawyer, but the question asked about an auto insurance claim against an at-fault driver. As might be expected, this study found a higher percentage saying they would hire a lawyer. Thirty-seven percent of respondents said they would be very likely or somewhat likely to hire a lawyer if they broke an arm in an auto accident and believed the other driver was at fault.

**TABLE 20**  
**HAS EMPLOYER PROVIDED INFORMATION**  
**ABOUT WORKERS' COMPENSATION?**

Q. Has your employer ever explained, or given you materials explaining workers' compensation and what would happen if you were injured at work? (Asked of and based on those who are employed or plan to be employed)

	Percent of All Respondents
Yes	42%
No	51
Don't know	7
Number	1,442

**TABLE 21**  
**WOULD YOU HIRE A LAWYER FOR A**  
**WORKERS' COMPENSATION CLAIM?**

Q. Suppose you broke your arm in an accident at work and are eligible for workers' compensation benefits. How likely is it that you would hire a lawyer to handle your workers' compensation claim? Would you say that you would be very likely, somewhat likely, somewhat unlikely, or very unlikely to hire a lawyer to handle your claim? (Asked of and based on those who are employed or plan to be employed)

	Percent of All Respondents	Percent of Respondents Saying Workers' Compensation is a Fault-Based System	Percent of Respondents Saying Workers' Compensation is Not Fault-Based
Very likely	11%	15%	10%
Somewhat likely	13	16	13
Somewhat unlikely	19	19	21
Very unlikely	36	33	40
It depends (vol.)	13	13	12
Don't know	7	4	4
Number	1,442	532	729

6. Insurance Research Council, (formerly known as All-Industry Research Advisory Council). *Auto Insurance Reform*, September 1990.



the event of a workers' compensation claim, respondents with lower household incomes were more likely to say they would hire a lawyer than those with higher incomes (Table 22). Twenty-eight percent of those with incomes under \$20,000 said they would be very likely or somewhat likely to hire a lawyer for a workers' compensation claim, compared with 24% of those with incomes of \$20,000-\$39,999, and 22% of those with incomes of \$40,000 and over. Likelihood of hiring a lawyer also varied according to age, with the young and middle-aged groups showing greater likelihood than those over age 54.

TABLE 22  
LIKELIHOOD OF HIRING A LAWYER  
BY HOUSEHOLD INCOME AND AGE

	Likely	Unlikely	It Depends (vol.)	Don't Know
<u>Household Income</u>				
Under \$20,000	28%	52%	12%	9%
\$20,000-\$39,999	24	58	13	5
\$40,000 or over	22	59	13	6
<u>Age</u>				
18-24	28	42	16	14
25-29	25	55	16	4
30-34	21	58	15	6
35-44	27	59	9	5
45-54	26	52	12	10
55-64	18	64	12	5
65 and over	14	71	13	2

## CHAPTER 4

### TRAFFIC VIOLATIONS AND DRIVER IMPROVEMENT COURSES

This year's PAM survey again measured the public's response to a variety of traffic safety issues, focusing this time on attitudes toward driver improvement courses and certain traffic violations.

#### Acceptability of Speeding

Respondents were more likely in 1991 to agree that it is acceptable to speed on local roads than they were in 1990. Thirty-one percent of the 1991 respondents said it is acceptable, while 20% of the 1990 respondents held the same opinion. Nine percent said they strongly agreed with this view, compared with just 4% in 1990. Slightly more than one in five participants (22%) moderately agreed with the statement, while the 1990 survey showed only 16% saying they moderately agreed. Twenty-three percent moderately disagreed that it is acceptable to speed on local roads compared with 26% in 1990. Forty-four percent said they strongly disagreed, while 52% of the 1990 respondents expressed that view (Table 23).

**TABLE 23**  
**ACCEPTABILITY OF SPEEDING**  
**ON LOCAL ROADS**

Q. Some people think it is acceptable to drive a little faster than the posted speed limit on *local roads*. Do you strongly agree, moderately agree, moderately disagree, or strongly disagree with this belief?

	Percent of All Respondents	
	1991	1990
Strongly agree	9%	4%
Moderately agree	22	16
Moderately disagree	23	26
Strongly disagree	44	52
Don't know	2	2
Number	1,987	1,496

Respondents found it considerably more acceptable to speed on highways than on local roads. The share reporting that they strongly agree it is acceptable to speed on highways was 16%, or 7 percentage points higher than the share reporting that they strongly agree it is acceptable to speed on local roads. Similarly, 33% of respondents moderately agree that speeding on highways is acceptable, 11 percentage points higher than the share moderately agreeing that speeding on local roads is acceptable.

The 1991 figures pertaining to speeding on highways do not differ substantially from those found in 1990

(Table 24). About half of the survey participants either strongly or moderately agreed that it is acceptable to speed on highways, both in 1990 and 1991. In both surveys, 18% of respondents moderately disagreed with the statement. Percentages of respondents reporting that they strongly disagreed were 30% and 31% in 1991 and 1990, respectively.

**TABLE 24**  
**ACCEPTABILITY OF SPEEDING ON HIGHWAYS**

Q. Some people think it is acceptable to drive a little faster than the posted speed limit on *highways*. Do you strongly agree, moderately agree, moderately disagree, or strongly disagree with this belief?

	Percent of All Respondents	
	1991	1990
Strongly agree	16%	13%
Moderately agree	33	36
Moderately disagree	18	18
Strongly disagree	30	31
Don't know	2	2
Number	1,987	1,496

Table 25 shows the acceptability of speeding by sex, age, household income and region. Male respondents are more likely than female respondents to consider speeding acceptable. Fifty-six percent of males thought speeding on highways acceptable, compared with 44% of females. Similarly, 35% of males said it is acceptable to speed on local roads, while 27% of females shared this opinion. Attitudes toward speeding also varied according to age, with younger respondents more frequently reporting it acceptable. Fifty-eight percent of those age 18-24 agreed that speeding on highways is acceptable, compared with just 30% of those respondents 65 and over. When asked about speeding on local roads, 42% of those in the youngest group regarded the behavior acceptable, while only 17% of those in the oldest category held that opinion. Respondents from the highest income category were most likely to say it is acceptable to speed, both on highways and local roads. Sixty-four percent of those with household incomes of at least \$40,000 approved of speeding on highways, compared with 54% of those with incomes of \$20,000-\$39,999, and just 39% of those with incomes of less than \$20,000. Attitudes toward speeding on local roads followed a similar pattern. Of those with household incomes of \$40,000 or more, 41% considered it acceptable to speed on

local roads. Thirty-three percent of those with incomes of \$20,000-\$39,999 shared that opinion, and only 22% of those with incomes under \$20,000 indicated the same view. Regional differences are not so pronounced as those related to sex, age and household income. Respondents in the Northeast and West were slightly more likely to say it is acceptable to speed on highways than those in the Midwest and South, while respondents in the Northeast and Midwest were most likely to agree that it is acceptable to speed on local roads.

**TABLE 25**  
**ACCEPTABILITY OF SPEEDING ON HIGHWAYS**  
**AND LOCAL ROADS BY SEX, AGE, HOUSEHOLD**  
**INCOME AND REGION**

	Acceptable to Speed			
	Highways		Local Roads	
	Yes	No	Yes	No
<b>Sex</b>				
Male	56%	42%	35%	63%
Female	44	53	27	70
<b>Age</b>				
18-24	58	37	42	54
25-29	59	40	34	63
30-34	57	42	37	62
35-44	57	43	31	68
45-54	48	51	34	65
55-64	42	55	26	72
65 and over	30	67	17	81
<b>Household Income</b>				
Under \$20,000	39	58	22	76
\$20,000-\$39,999	54	45	33	66
\$40,000 and over	64	35	41	58
<b>Region</b>				
Northeast	54	43	34	63
Midwest	46	52	33	66
South	48	50	28	70
West	53	46	30	68

### Driver Improvement Courses

Some advocacy groups and government officials have proposed that auto insurance companies be required to rely on individual driver records as the main basis for calculating auto insurance premiums, and to discontinue or de-emphasize rating factors based on driver age, sex, marital status and geographic location. California's Proposition 103, narrowly adopted in a 1989 referendum, includes this requirement, and similar proposals have been considered in other states.

Unfortunately, a recent IRC report<sup>7</sup> shows that individual driving records maintained by state motor vehi-

cle departments do not provide comprehensive information on driver performance, and that quality is rapidly deteriorating over time. The 1990 survey of 39 states and the District of Columbia found that publicly available records contained information on only 40% of a sample of 27,629 known accidents serious enough to meet each state's accident reporting requirements. A similar study conducted in 1983 found information on 48% of the reportable accidents. Lack of reliable records is especially critical when high-risk drivers are involved in serious traffic violations that don't result in an insurance claim, because state driver records usually are the only source insurers can check for these convictions. The laws in many states allow judges to dismiss convictions such as these if the driver takes a driver improvement course, even though research in California<sup>8</sup> and elsewhere indicates attendance at such courses has no effect on subsequent accident involvement rates among those who attend. PAM survey participants were asked to rate the effectiveness of these courses in creating safer drivers. Fourteen percent thought the courses are very effective, while 39% believed they are somewhat effective. Twenty-one percent said they are not too effective, and 18% said they are not effective at all (Table 26).

**TABLE 26**  
**EFFECTIVENESS OF DRIVER**  
**IMPROVEMENT COURSES**

Q. In many states, judges can dismiss traffic tickets if the driver takes a driver improvement course. How effective do you think these courses are in creating safer drivers? Are they very effective, somewhat effective, not too effective, or not at all effective?

	Percent of All Respondents
Very effective	14%
Somewhat effective	39
Not too effective	21
Not at all effective	18
Don't know	9
Number	1,987

Table 27 presents views on driver improvement courses by region and education. Respondents in the West were most likely to believe that the courses are effective, with six in ten respondents indicating that view. Respondents in the South were next most likely with 56%, followed by the Midwest with 49% and the

7. Insurance Research Council, *Adequacy of Motor Vehicle Records in Evaluating Driver Performance*, April 1991.

8. Gebers, M.A., Tashima, H.N., and Marsh, W.C. 1987. *Traffic Violator School Dismissals: The Effects of Citation Masking on Accident-Risk Assessment and on the Volume of Department of Motor Vehicles' License Control Actions*. Sacramento, CA: State of California, Department of Motor Vehicles.



just with 45%. Beliefs about driver improvement courses also differed according to level of education. College graduates were most likely to say the courses are effective. Fifty-nine percent of college graduates expressed this opinion, compared with 52% each of those respondents with some college and with just high school diplomas, and 49% of non high-school graduates.

**TABLE 27**  
**EFFECTIVENESS OF DRIVER IMPROVEMENT COURSES BY REGION AND EDUCATION**

	Driver Improvement Courses Effective?	
	Yes	No
<b>Region</b>		
Northeast	45%	44%
Midwest	49	41
South	56	38
West	60	32
<b>Education</b>		
Non-high school graduate	49	38
High school graduate	52	40
Some college	52	42
College graduate	59	34

Next, survey participants were asked for their opinion on whether drivers with speeding violations should or should not be able to get their tickets dismissed or kept off the record by taking a driver improvement course. Thirty-six percent of all respondents thought the practice should be allowed (Table 28). Forty-three percent said it should not be allowed, and 16% volunteered that "it depends" on the situation. As might be expected, those respondents believing that driver improvement courses are effective were more likely to say drivers with speeding violations should be able to get their tickets dismissed or kept off the record by taking a driver improvement course. Half of those respondents said the practice should be allowed, compared with just 21% of those saying driver improvement courses are not effective.

Far fewer respondents thought that drivers with violations such as drunk driving and leaving the scene of an accident should be able to get their tickets dismissed or kept off the record (Table 29). Only 6% said that should be allowed, compared with 85% saying it should not. Of those respondents saying driver improvement courses are effective, 10% said drivers with these violations should be able to get them dismissed or kept off the record. Of those respondents saying the courses are not effective, 3% agreed with this view.

**TABLE 28**  
**SHOULD DRIVER IMPROVEMENT COURSES ENABLE DRIVERS TO GET SPEEDING TICKETS DISMISSED OR KEPT OFF RECORD?**

Q. In your opinion should drivers with speeding violations be able to get their tickets dismissed or kept off the record by taking a driver improvement course?

	Percent of All Respondents	Percent of Respondents Saying Driver Improvement Courses are Effective	Percent of Respondents Saying Driver Improvement Courses are Not Effective
Yes	36%	50%	21%
No	43	31	63
It depends (vol.)	16	16	14
Don't know	5	2	2
Number	1,987	1,047	771

TABLE 29

# SHOULD DRIVER IMPROVEMENT COURSES ENABLE DRIVERS TO GET DRUNK DRIVING OR LEAVING ACCIDENT SCENE TICKETS DISMISSED OR KEPT OFF RECORD?

Q. In your opinion, should drivers with violations such as drunk driving or leaving the scene of an accident be able to get their tickets dismissed or kept off the record by taking a driver improvement course?

	<u>Percent of All Respondents</u>	<u>Percent of Respondents Saying Driver Improvement Courses are Effective</u>	<u>Percent of Respondents Saying Driver Improvement Courses are Not Effective</u>
Yes	6%	10%	3%
No	85	82	92
It depends (vol.)	6	8	5
Don't know	2	1	1
Number	1,987	1,047	771

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## **Public Attitude Monitor 1993**

**A Survey of Public Attitudes on the Use of Attorneys in Auto Insurance Claims, Insurance Fraud, the Rising Cost of Auto Insurance and Solutions to this Problem, Safety in the Workplace, Managed Health Care, and Responsibility for Maintaining Adequate Homeowner's Insurance Coverage**

**Insurance Research Council  
November 1993**

This report, Public Attitude Monitor 1993, is available from the Insurance Research Council, 1200 Harger Road, Suite 310, Oak Brook, Illinois 60521, telephone (708) 572-1177. In the United States, copies are \$10 each, postpaid. Copies to other countries are \$20, postpaid.

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## Chapter 3

### Insurance Fraud

Insurance fraud is widely recognized by insurers and consumers as a major driver of rising insurance costs. Nine out of ten people said that insurance claim fraud is a factor in the rising cost of auto insurance, and nearly seven out of ten said it's a major factor. Also considered a leading contributor to increasing auto insurance costs is the exaggeration of claims for legitimate losses, a practice known as buildup. In fact, because acceptance of insurance claim buildup appears to be so pervasive, many believe its effect on costs is much greater than the effect of false claims. This chapter analyzes public attitudes toward insurance fraud and claim buildup.

About one in five persons surveyed agreed that it is all right to increase the amount of an insurance claim to make up for insurance premiums paid in previous years. As shown in Figure 3-1, 19% of respondents said they either strongly agreed, agreed, or probably agreed with this opinion, while three-quarters disagreed. An even larger share (22%) agreed that it is all right to participate in claim buildup to make up for paying the required deductible.

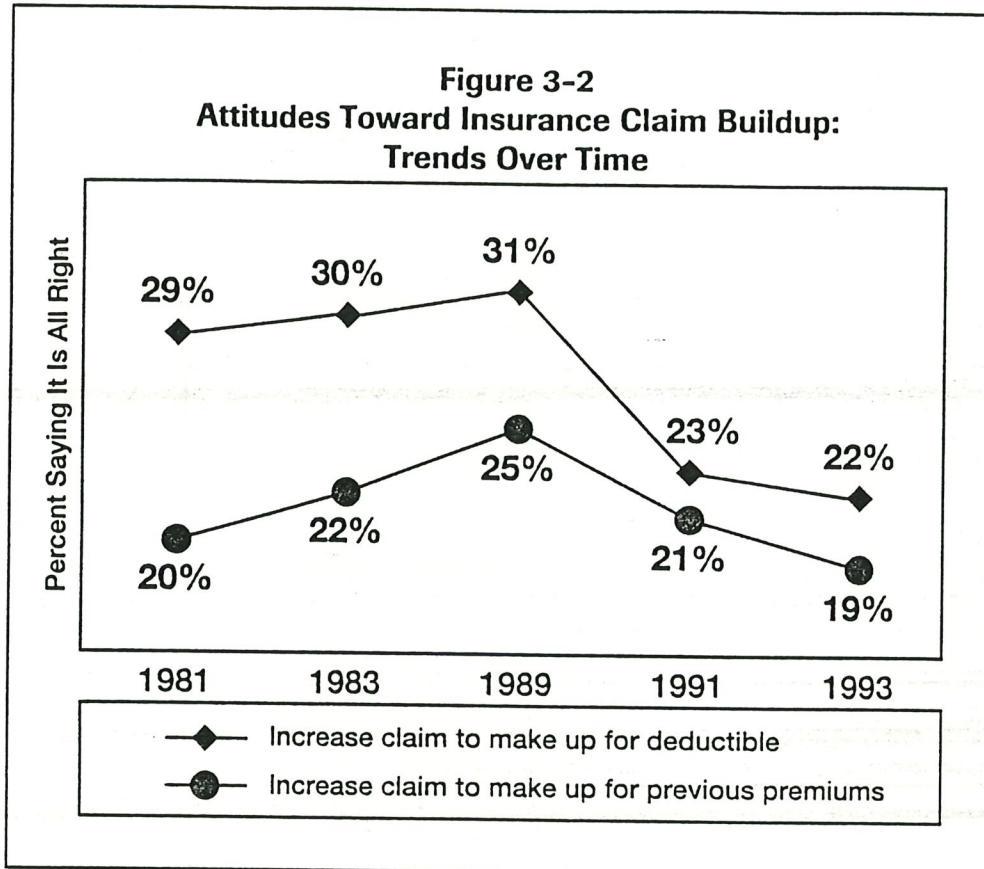
**Figure 3-1**  
**Public Attitudes Toward Insurance Claim Buildup**

It is All Right to increase the Amount of Your Insurance Claim by a Small Amount to Make Up for the Insurance Premiums You Have Paid When You Had No Claims		It is All Right to Increase the Amount of Your Insurance Claim by a Small Amount to Make Up for the Deductible Amount Which You Would Otherwise be Required to Pay Yourself	
Strongly Agree	2%	3%	
Agree	9%	11%	
Not Sure But Probably Agree	8%	8%	
Not Sure But Probably Disagree	7%	7%	
Disagree	26%	25%	
Strongly Disagree	42%	41%	
Don't Know	5%	5%	
19%		22%	
75%		73%	

Note: Totals may not sum due to rounding.

## Trends in attitudes toward fraud

IRC has been tracking responses to these two questions periodically since 1981 (see Figure 3-2). After hovering just under one-third of respondents for several years, the percentage agreeing that it is all right to pad a claim *to make up for the deductible* dropped to 22% in 1993. The number of people who agreed that it is all right to increase a claim *to make up for premiums paid in earlier years* rose in the 1980's, climbing from 20% in 1981 to 25% in 1989. Acceptability of this form of claim padding also declined by 1993, when 19% of the respondents said they agreed with the practice.



These positive changes in public attitude coincided with increased efforts by insurers and others to crack down on claim fraud and buildup. In 1992, about two-thirds of the property-casualty insurance market was serviced by insurers with Special Investigative Units (SIUs), up from about 50% in 1983. These SIUs investigate suspicious claims and provide training for claims people, showing them how to identify claims that should be given a closer look. The property and casualty insurance industry spends over \$200 million per year for fraud deterrence<sup>7</sup>. An insurer-funded National Insurance Crime Bureau was created in 1991, combining two separate auto theft and crime investi-

gation organizations. In addition, a growing number of states are establishing State Fraud Bureaus. These government entities — which range in size from two investigators to over 100 — are created to systematically confront the fraud problem, generally by prosecuting offenders and increasing public awareness of insurance fraud. Fifteen states currently have legislated fraud bureaus, of which seven were established since 1991.

## Attitudes vary by geographic region

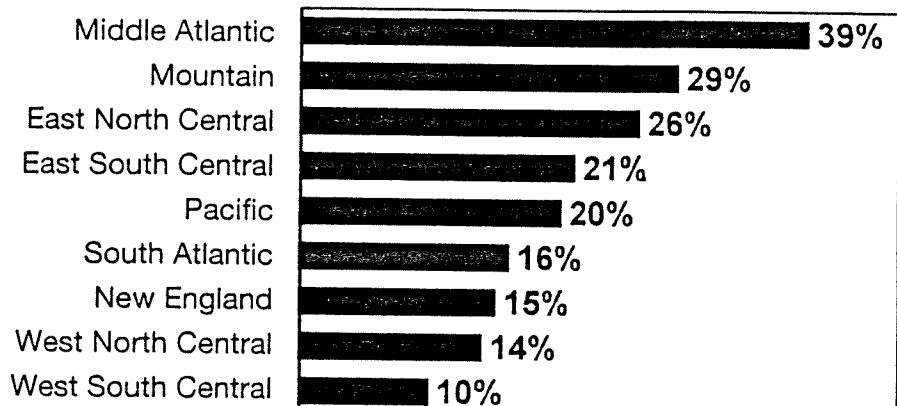
Countrywide, survey results still show significant acceptance of insurance fraud, but people in certain regions are more likely than people in other regions to find such behavior acceptable. Respondents living in the Middle Atlantic states<sup>8</sup> were most likely to say it is all right to increase a claim in order to make up for a deductible, with almost 4 in 10 respondents (39%) expressing this view. Residents of the Mountain and East

7. Insurance Research Council, *Fighting Fraud in the Insurance Industry*, October 1992.

8. For a description of the nine census regions, see the map in Appendix 2.

North Central regions also exhibited substantial approval of claim padding; the shares of respondents agreeing with the statement were 29% and 26% respectively. Respondents in the East North Central and East South Central regions were about average in their likelihood to approve the behavior, while lower acceptance rates were found with residents of the South Atlantic, New England, West North Central, and West South Central regions (see Figure 3-3).

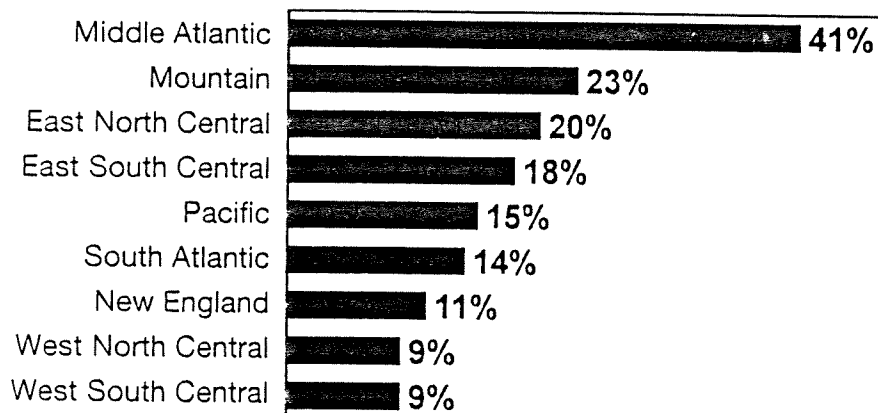
**Figure 3-3**  
**Respondents in the Middle Atlantic States**  
**Are Most Likely to Approve of Increasing**  
**Insurance Claims in Order to Make Up**  
**for the Deductible**



Percent Saying "Strongly Agree/Agree/  
 Not Sure But Probably Agree"

When asked for their view on claim padding in order to make up for premiums paid in previous years, residents of the Middle Atlantic states were again far more likely than others to say the behavior is all right. Forty-one percent of these respondents said it is all right to pad claims to make up for past premiums. No other region came close to this figure, but Mountain states' residents were again second, with 23% of the respondents agreeing. Smaller percentages approving the behavior were found in each of the remaining regions — all were lower than the national average of 22% (see Figure 3-4).

**Figure 3-4**  
**Respondents in the Middle Atlantic States**  
**Are Most Likely to Approve of Increasing**  
**Insurance Claims in Order to Make Up for**  
**Past Premiums**



Percent Saying "Strongly Agree/Agree/  
 Not Sure But Probably Agree"



## Attitudes vary by area of residence

Attitudes toward claim buildup varied significantly by area of residence as well as geographical region. Residents of large cities (those with populations over 1 million) were far more likely than residents of other areas to approve of claim padding for either purpose—43% said claim padding is all right to make up for paying the deductible, and 46% said the practice is permissible if done to make up for insurance premiums paid in past years (see Figure 3-5).

**Figure 3-5**  
**Big-City Residents More Likely to Condone Insurance Claim Buildup**

Area of Residence*	It is All Right to Increase the Amount of Your Insurance Claim by a Small Amount to Make Up for the Insurance Premiums You Have Paid When You Had No Claims		It is All Right to Increase the Amount of Your Insurance Claim by a Small Amount to Make Up for the Deductible Amount Which You Would Otherwise be Required to Pay Yourself	
	Total Agree	Total Disagree	Total Agree	Total Disagree
Large City	46 %	47 %	43 %	48 %
Large Suburb	24	69	28	64
Medium City	14	84	20	78
Medium Suburb	13	83	14	81
Small City	17	76	21	74
Small Suburb	23	69	22	69
Town	20	72	29	64
Open Area/Rural	12	87	16	84
Total	19 %	75 %	22 %	73 %

\* Listed in descending order of population size.  
Note: Agree and disagree figures do not total 100% due to rounding and "Don't Know" responses.

## Attitudes toward specific examples of fraudulent activity

Next, survey participants were asked their opinion on the acceptability of four specific activities in which people might engage in order to increase an insurance settlement or obtain an undeserved insurance settlement. Fraudulent and questionable behaviors were presented using neutral terminology so the matter of acceptability could be determined entirely by the respondent (i.e., activities were not characterized as "wrong" or "improper"). Figure 3-6 shows that nine percent of respondents said it is almost always or usually acceptable to continue seeing a doctor or chiropractor for treatment after an injury has healed to get a higher insurance settlement. Eight percent said it is almost always or usually acceptable to go along with a suggestion by a doctor or lawyer to stay out of work for a longer period of time to increase the settlement, and six percent said that allowing a doctor or lawyer to submit medical bills for treatment that wasn't received is almost always or

ally acceptable. Being involved with an organized ring of doctors, lawyers and body shops that file false claims to get money from insurance companies was considered almost always or usually acceptable by three percent of the respondents. Acceptability of these activities was slightly lower in 1993 than it was in 1991, but the differences were not statistically significant.

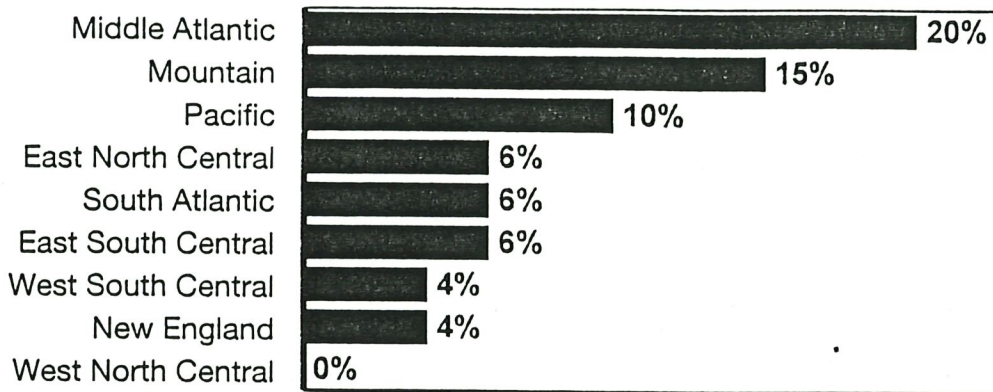
**Figure 3-6**  
**Public Attitudes Toward Actions Intended To Increase Insurance Settlement or Obtain Undeserved Settlement**

	Continuing Treatment After Injury Has Healed	Going along with a Doctor's or Lawyer's Suggestion to Stay Out of Work for a Longer Period of Time	Allowing a Doctor or Lawyer to Submit Medical Bills for Treatment That Wasn't Received	Being Involved With an Organized Ring of Doctors, Lawyers, and Body Shops that File False Claims
Almost Always Acceptable	1 %	1 %	1 %	1 %
Usually Acceptable	7 %	7 %	5 %	2 %
Usually Not Acceptable	18 %	16 %	14 %	9 %
Almost Never Acceptable	71 %	73 %	78 %	85 %
Don't Know	2 %	3 %	2 %	2 %

Note: Totals may not sum due to rounding.

Attitudes toward these examples of fraud and buildup varied by geographic region in a pattern similar to the one revealed by the claim padding questions. Residents of the Middle Atlantic region were generally most likely to consider fraudulent behavior acceptable, and large shares of respondents from the Mountain region often concurred. Figure 3-7 shows acceptability of continued treatment with a doctor or chiropractor after an injury has healed. One in five Middle Atlantic residents considered the behavior acceptable, and 15% of those from the Mountain region said the same. Allowing a doctor or lawyer to submit false medical bills was rated acceptable by 17% of the Middle Atlantic residents and 13% of those from the Mountain states. When asked about going along with a suggestion by a doctor or lawyer to stay out of work for a longer period of time, Mountain region residents were most approving, with 22% considering the behavior acceptable. Middle Atlantic residents also approved in large numbers, with 18% considering the behavior to be almost always or usually acceptable.

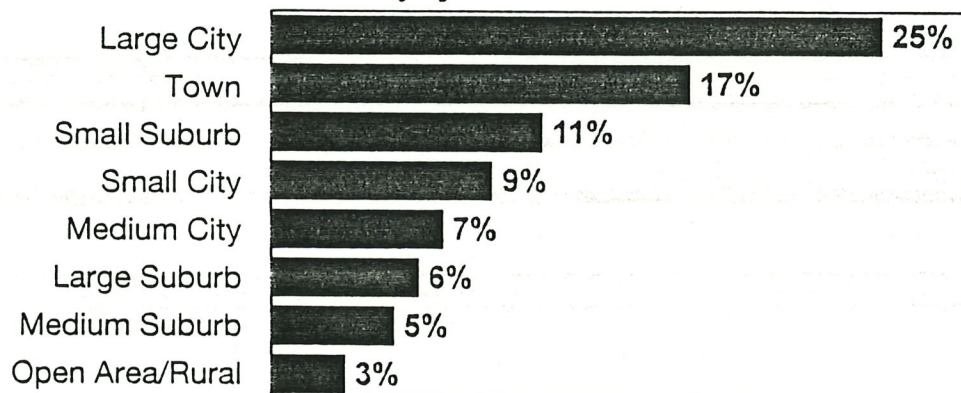
**Figure 3-7**  
**Residents of Middle Atlantic States Are More**  
**Likely to Say It Is Acceptable to Receive**  
**Treatment After an Injury Has Healed**



Percent Saying "Almost Always Acceptable/  
Usually Acceptable"

Acceptability of claim fraud again followed a pattern similar to that of claim padding when analyzed by area of residence. In general, large-city dwellers were more likely to tolerate the specific examples of fraud. One of four big-city residents said it is acceptable to continue receiving medical treatment after an injury has healed (see Figure 3-8) and almost as many (23%) considered submitting false medical bills to be acceptable behavior. Similarly, 21% of those living in large cities said it is acceptable to stay out of work longer in order to increase a settlement.

**Figure 3-8**  
**Residents of Large Cities Are More Likely to Say**  
**It Is Acceptable to Receive Treatment After an**  
**Injury Has Healed**



Percent Saying "Almost Always Acceptable/  
Usually Acceptable"



## Insurer responses to fraud

Respondents were asked to evaluate insurance company actions in response to the various examples of fraud and buildup discussed. For each of the examples presented, more than 90% of respondents said the insurer should take some action—prosecute the person for fraud, cancel the policy, refuse to pay the false claim, or pay only the valid part of the claim. And in every case, the penalty receiving the greatest support was prosecution. Figure 3-9 shows that almost two-thirds of the respondents thought that being involved with an organized ring that files false claims warranted prosecution, while cancelling the policy and refusing to pay the claim were each favored by 29% of those surveyed. Nearly half the respondents (47%) said a person should be prosecuted for submitting false medical bills, while 23% said the policy should be cancelled. Almost a third said the insurer should refuse to pay the false claim. Thirty-six percent of those surveyed said an insurer should prosecute a person who goes along with a suggestion by a doctor or lawyer to stay out of work for a longer period of time to get a higher insurance settlement.

**Figure 3-9**  
**Insurer Responses to Fraud**

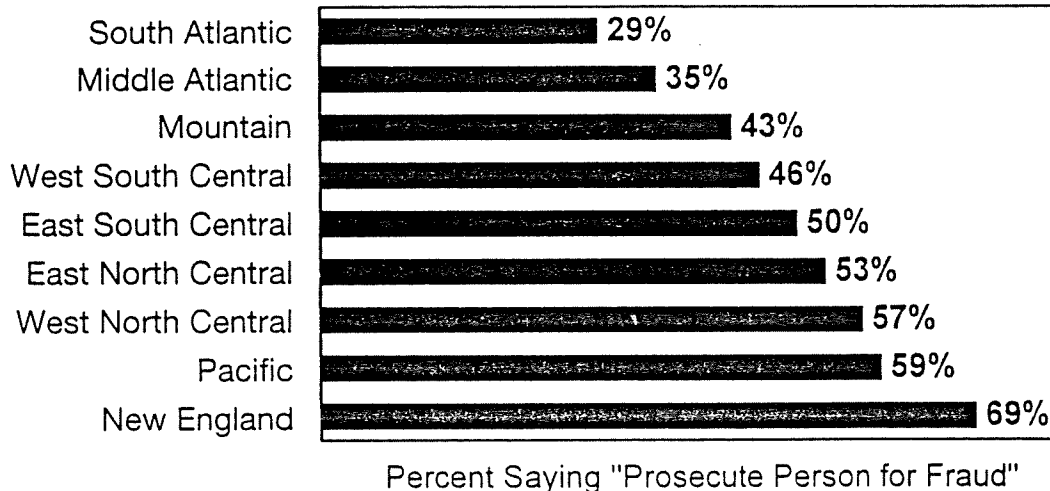
	Prosecute Person for Fraud	Cancel Policy	Refuse to Pay the False Claim	Pay Only the Valid Part of the Claim	Take No Action	Don't Know
Being involved with an organized ring of doctors, lawyers and body shops that file false claims to get money from insurance companies	65%	29%	29%	13%	1%	3%
Allowing a doctor or lawyer to submit medical bills for treatment that wasn't received, to get a higher insurance settlement	47	23	31	23	2	3
Going along with a suggestion by a doctor or lawyer to stay out of work for a longer period of time, to get a higher insurance settlement	36	26	32	27	3	4
Continuing to go back to a doctor or chiropractor for treatment after the injury has healed, to get a higher insurance settlement	35%	24%	32%	30%	3%	4%

Note: Percentages total more than 100% because multiple responses were allowed.

More than a quarter of respondents thought the policy should be cancelled, while 32% said the insurer should refuse to pay the claim. The activity for which the smallest percentage of respondents suggested prosecution was receiving treatment after an injury has healed, but a sizable group (35%) still indicated that the insurer should prosecute. About one-fourth of respondents said the policy should be cancelled, and nearly one-third said the insurer should refuse to pay the claim.

When compared with 1991 responses to this question, the share of respondents recommending prosecution has increased for at least one fraudulent activity—continuing to go back to a doctor or chiropractor after an injury has healed. Just 27% of respondents suggested prosecution in 1991, compared with 35% in 1993. Change was minimal for involvement with an organized ring (69% in 1991 and 65% in 1993) and submission of false medical bills (45% in 1991 and 47% in 1993). Staying out of work for a longer period of time was not included in the 1991 question.

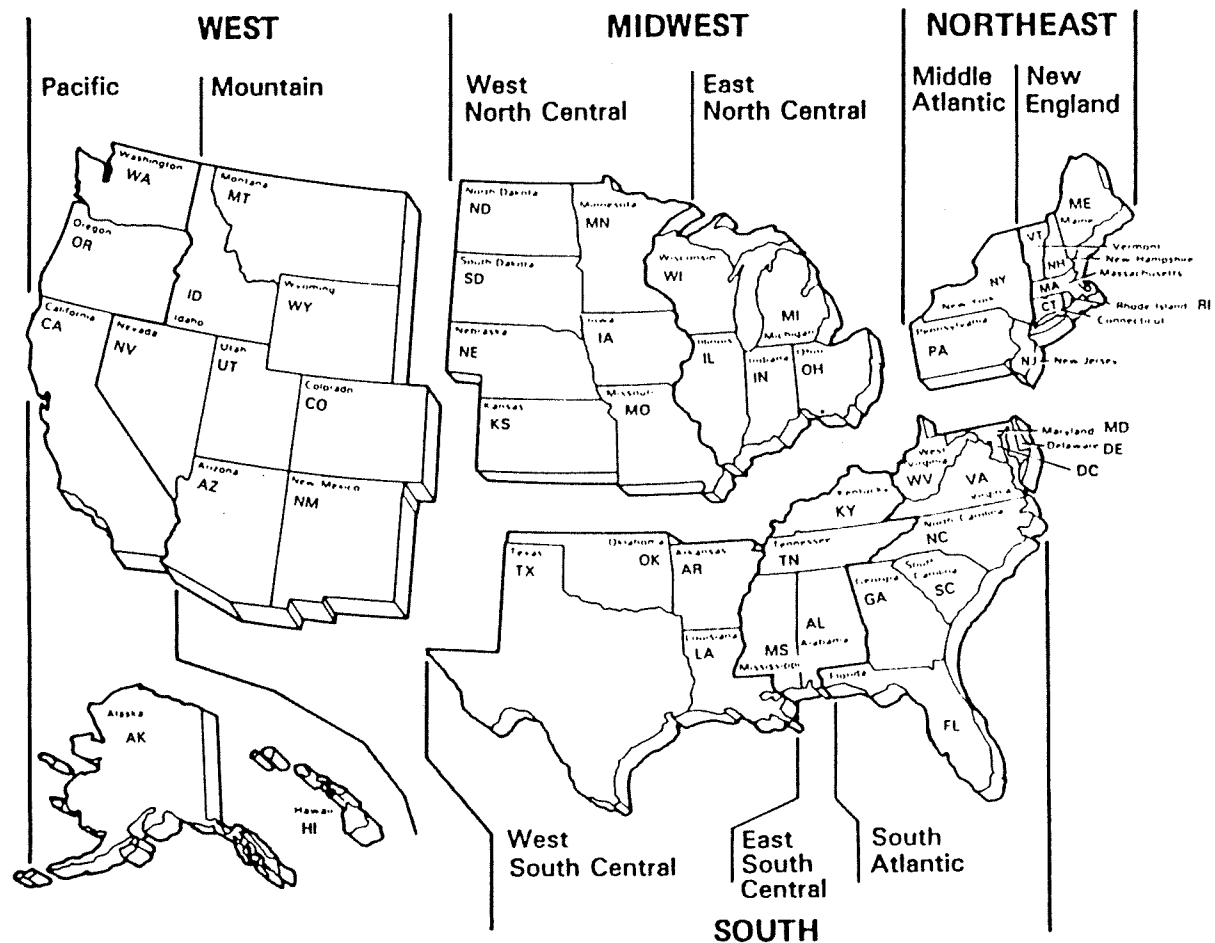
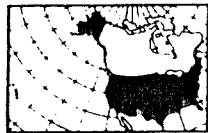
**Figure 3-10**  
**Residents in the South and Middle Atlantic States Are**  
**Least Likely to Favor Prosecution for Submitting Bills**  
**for Treatment Not Received**



Attitudes toward appropriate insurance company responses to fraudulent activity varied considerably by region, as one might expect after learning how attitudes regarding acceptability of fraud differed geographically. Figure 3-10 shows percentages of respondents by region who favor prosecution for the submission of false medical bills. The South Atlantic region was the least likely to choose prosecution as an appropriate insurance company response, with just 29% favoring such action. Not surprisingly, the Middle Atlantic and Mountain regions are also among the least likely to support prosecution. Thirty-five percent of Middle Atlantic residents thought a person should be prosecuted for submitting false medical bills, as did 43% of the respondents from the Mountain states.

Figure 1.

# **Map of the U.S., Showing Census Divisions and Regions**



Source: U.S. Bureau of the Census





**Kansas Farm Bureau Life Insurance Company, Inc.**

2627 KFB Plaza, P.O. Box 3600, Manhattan, Kansas 66502-8509 / (913) 587-6000

TO: House Financial Institutions and Insurance Committee  
FROM: Jerry Banaka, Corporate Development Manager  
DATE: March 9, 1994  
SUBJECT: Senate Bill No. 677

I appreciate the opportunity to appear before this committee to strongly support Senate Bill No. 677.

I am here not only on behalf of my company, Kansas Farm Bureau Life Insurance Company, but also on behalf of Farm Bureau Mutual Insurance Company, a sister Farm Bureau organization.

There are several studies that show insurance fraud is real. Many studies indicate the total impact runs into billions of dollars. Cost that eventually is built into the rating process and is paid by policyholders.

Although there are no accumulative statistics to show what the actual cost is to the consuming public as a result of fraud, insurance fraud does exist in our state.

When we recognize that Kansas has been adversely affected by legitimate claims in record number in the past few years, it makes passing this legislation even more important.

This legislation will add much needed emphasis to the fraud issue, plus it will put restitution into the formula.

In addition, this legislation, if passed, will provide a much needed deterrent to all who would abuse insurance and will help control the cost of insurance in our state.

As Kansas domestic companies, we feel very strongly that this legislation is important to Kansas and encourage your support.

*House File*  
*Attachment 7*  
*3-9-94*

SENATE BILL 239  
UNIFORM TRANSFER ON DEATH SECURITY REGISTRATION ACT  
HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS  
AND INSURANCE

MARCH 9, 1994

TESTIMONY PREPARED BY  
DAVID A. ROSS

REPRESENTING  
THE KANSAS ASSOCIATION OF LIFE UNDERWRITERS

Mr. Chairman and Members of the Committee,

I am David A. Ross representing the Kansas Association of Life Underwriters. I appear before you in support of SB239, as amended, the Uniform Transfer on Death Security Registration Act.

Presently, owners of securities that are not considered tax qualified are not permitted a beneficiary designation to transfer the security upon their death to a named beneficiary. Therefore, to accomplish transfer of the security upon their death, the security owner must be a joint tenant with the person they desire to receive the security prior to their death. This creates considerable problems. The security owner no longer has control over decisions in regard to the security should their needs change, should the joint tenants live in different states changes are difficult to make because all must sign, charitable gifts become impractical because the institution becomes a business partner prior to death, and inclusion of joint tenants can create complications in regards to gifts and the taxes associated with gifts.

Enactment of SB239 will permit security owners to designate a beneficiary for their securities to effect transfer upon their death. It will allow the security owner to maintain control over decisions regarding the security and how it is to be disposed upon their death.

The Kansas Association of Life Underwriters is an association comprised of over 2000 insurance agents across Kansas. Most are licensed to sell mutual funds which will be impacted by enactment of this legislation and many are active in estate planning. SB239 will provide citizens of Kansas a better way to transfer assets to their heirs. I urge your support for SB239.

*David A. Ross*  
*Attachment 8*  
*3-9-94*



The Security Benefit  
Group of Companies

Security Benefit Life Insurance Company  
Security Benefit Group, Inc.  
Security Distributors, Inc.  
Security Management Company

700 Harrison St.  
Topeka, Kansas 66636-0001  
(913) 295-3000

March 9, 1994

Subj: Senate Bill 239  
Transfer on Death Beneficiary Designations

Dear Chairperson and Committee Members:

The Security Benefit Group of Companies is a diversified financial services organization offering life insurance, mutual funds, annuities and retirement plans. The parent company, Security Benefit Life Insurance Company, has been in business for over 100 years. The Security Benefit Group of Companies has nearly \$4 billion in assets under management and employs over 500 Kansans. We support Senate Bill 239.

Security Management Company, a member of the Security Benefit Group of Companies, is an investment adviser registered with the Securities and Exchange Commission. Security Management Company provides investment advisory and transfer agency services to seven open-end management investment companies, more commonly called mutual funds.

Senate Bill 239 would allow the owner or owners of a mutual fund account to designate a beneficiary to which the account would be transferred upon the death of the owner or owners. It is our belief that transfer on death ("TOD") beneficiary designations are beneficial to owners of securities, their beneficiaries, and registering entities.

Currently, if an owner wishes to transfer a security on death without going through probate, he or she must register the security in joint tenancy with the intended beneficiary or establish a trust. In either case, the owner must relinquish rights during the owner's lifetime. If the security is registered in joint tenancy, both owners have to join in the transfer or exercise of any ownership right. Often times, an owner does not wish to relinquish sole control during his or her lifetime. A transfer on death beneficiary designation will alleviate this problem.

A TOD beneficiary designation is revocable unless expressly made irrevocable. If an owner of a security utilizes a TOD beneficiary designation, the owner retains the right to enjoy the asset and to dispose of it during his or her lifetime. Under such a designation, the beneficiary has no rights until the death of the owner.

*James F. D. D.*  
*Attachment 9*



In addition, the proposed legislation will reduce the number of requirements with which a person must comply in order to transfer the security after the owner's death. Also, it reduces the time and administrative efforts that a registering entity must expend in making the transfer.

Presently, if an owner of mutual fund shares dies, the owner's intended successor must provide the following information: a certified copy of the death certificate; any outstanding stock certificates representing an interest in a fund; evidence of the appointment of an executor or administrator; inheritance tax waiver and/or affidavit of domicile; and a liquidation request from the executor or administrator with a guaranteed signature.

If transfer on death beneficiary designations were allowed, the beneficiary would need to complete a liquidation request with a guaranteed signature and provide a certified death certificate.

We believe that this legislation is beneficial to our mutual fund clients and their intended beneficiaries. Because it makes our mutual funds a more attractive investment alternative, it is beneficial to Security Benefit.

Please let me know if you have any questions. Thank you for your time and consideration.

Very truly yours,



Anita Larson  
Assistant Counsel  
Security Benefit Group, Inc.





The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

March 9, 1994

TO: House Committee on Financial Institutions and Insurance  
RE: SB 239 - The Uniform Transfer On Death Security Registration Act

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear in support of SB 239. The KBA strongly supports this legislation which has been adopted already in most states. The provisions of this bill make the process of transferring securities upon death much less burdensome for stockholders.

In a recent letter to our office, a bank trust officer made the following list of items currently needed to transfer a security that is registered to a deceased owner:

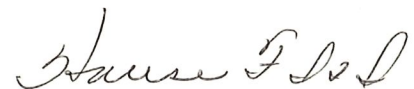
- (1) Stock certificate
- (2) Signature guaranteed stock power signed by executor of administrator of estate
- (3) Court appointment papers for executor or administrator
- (4) Inheritance tax waiver from state
- (5) Notarized affidavit of domicile
- (6) A certified death certificate is sometimes required

As he further pointed out, all of these documents must have original signatures and be dated within a 60-day period.

This puts enormous pressure on grieving family members who often times are not familiar with such complicated procedures. In addition, transfer agents are notoriously slow in processing documentation and this too adds to the anxiety of those trying to put the affairs of the estate in order.

Creating a "transfer on death" process similar to the "POD" (payable on death) accounts available with bank deposits would be a tremendous help to Kansas citizens. Your favorable consideration of SB 239 would be greatly appreciated.

  
James S. Maag  
Senior Vice President

  
Attachment 10

3-9-94





# KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney  
Governor

Wm. F. Caton  
President

TESTIMONY  
SENATE BILL 508  
HOUSE FINANCIAL INSTITUTIONS AND INSURANCE  
MARCH 8, 1994  
WM. F. CATON

Thank you for the opportunity to appear before you today to request an amendment to Senate Bill 508. This amendment would allow state chartered banks to invest in a state tax credit equity fund that will be established assuming H.B. 2726 is approved by the Senate and the Governor. Attached is a balloon I have prepared to facilitate the proposed amendment.

As you will recall, H.B. 2726 originally included language to allow this investment by state chartered banks. S.B. 508 properly places limitations on investments of this kind which are necessary to maintain the safety and soundness of our state banking system. Language was removed from your committee on H.B. 2726 in anticipation of this amendment to S.B. 508.

I have discussed this amendment with Judy Stork, Deputy Bank Commissioner, and Jim Maag, Kansas Bankers Association, and both have verbally indicated they have no objections to this amendment.

This amendment is critical to the success of a state tax credit equity fund. As I testified on H.B. 2726, the state anticipates pooling several small projects, especially in rural areas, that possibly would not materialize without the assistance of selling the tax credits associated with the projects.

Thank you for your attention. I will be glad to answer any questions or provide any additional information you might request.

*House F.D. & F*

*Attachment 11*

*March 9, 1994*

SB 508  
WM F. Catton  
Pres. KDF.A.

**Credit Card Late Fees  
Currently Assessed in Texas**

**1/11/94  
Draft #1**

<u>Credit Grantor</u>	<u>Late Fee</u>
Best Buy	\$10.00
Builders Square	\$15.00
Circuit City	\$15.00/\$18.00 for Extended Payment Plans
Dillard's	\$10.00
Eddie Bauer	\$5.00
Goodyear	\$15.00
Lane Bryant	Greater of 5% of payment due or \$5.00
Lerner	Greater of 5% of payment due or \$5.00
Limited	Greater of 5% of payment due or \$5.00
Marshall Field	\$10.00
Nordstrom	\$10.00
Service Merchandise	\$17.50
Spiegel	\$5.00
Structure	Greater of 5% of payment due or \$5.00
Target	\$10.00
AT&T Universal Card	\$15.00
First USA Visa	\$15.00
Household Gold Visa	\$10.00
Kroger MC	\$15.00

*Haus F.B.L.*  
*Attachment 12*  
*3-9-94*



**RETAIL CREDIT (2 PARTY)**

**STATES THAT AUTHORIZE LATE PAYMENT FEE**

<b><u>State</u></b>	<b><u>Maximum Late Payment Fee Authorized</u></b>
Arizona	5% of monthly payment up to maximum of \$10.00
Arkansas	No statutory limit. Must equal that assessed in at least one other state
California	The lessor of 5% of monthly payment or \$5.00
Colorado	Not to exceed \$15.00
Connecticut	The lessor of 5% of monthly payment or \$10.00
Florida	The lessor of 5% of monthly payment or \$5.00, none allowed if 5% is less than \$1.00
Georgia	Maximum of \$5.00
Hawaii	The lessor of 5% of monthly payment or \$50.00
Idaho	The greater of 5% of payment or \$5.00
Illinois	Not to exceed \$10.00
Indiana	Not to exceed \$15.00 adjusted yearly
Kansas	5% of monthly payment with a \$25.00 maximum
Louisiana	5% of the monthly payment with a maximum of no set amount (Parity with late fees being exported into state by out of state banks)
Maryland	The lessor of 5% of monthly payment or \$5.00
Massachusetts	Not to exceed \$10.00
Michigan	Not to exceed \$5.00
Mississippi	Maximum of \$10.00
Missouri	Not to exceed \$5.00
Montana	The lessor of 5% of monthly payment or \$15.00
Nevada	Any agreed upon amount, no statutory limit
New York	Any agreed upon amount, no statutory limit
North Carolina	Maximum of \$5.00
Ohio	The lessor of 5% of monthly payment or \$3.00
Oklahoma	The greater of 5% of the monthly payment or \$12.50
Oregon	No Statutory limit other than the charge be reasonable
South Carolina	5% of payment not to exceed \$10.00 or 40% of \$10.00
Texas	The lessor of 5% of monthly payment or \$5.00
Utah	The greater of 5% of monthly payment or \$20.00
Virginia	Any agreed upon amount
Washington	No statutory limit other than amount must be reasonable
West Virginia	The lessor of 5% of monthly payment or \$5.00
Wisconsin	Maximum of \$2.00

1/94

12-2