

Testimony of
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Commissioners

Before the
Subcommittee on Consumer Protection, Product Safety,
Insurance, and Data Security
Committee on Commerce, Science, and Transportation
United States Senate

Regarding:
Insurance Fraud in America:
Current Issues Facing Industry and Consumers

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Introduction

Chairman Moran, Ranking Member Blumenthal, and members of the Subcommittee, thank you for the invitation to testify today. My name is John Doak. I am the elected Insurance Commissioner for the state of Oklahoma and a member of the National Association of Insurance Commissioners (NAIC).¹ I am also a member of the NAIC Antifraud Task Force as well as its Property and Casualty Committee. On behalf of my fellow state insurance regulators, I appreciate the opportunity to provide an overview of our efforts to detect, investigate, and prevent insurance fraud.

Insurance is an essential part of the financial services sector, a fundamental pillar of our economy and vital for the well-

State fraud bureaus initiate independent inquiries and conduct investigations on suspected fraudulent insurance acts. They also review reports or complaints of alleged fraudulent insurance activities from federal, state and local law enforcement and regulatory agencies, persons engaged in the business of insurance, and the public to determine whether the reports require further investigation and to conduct these investigations. State fraud bureaus regularly conduct independent examinations of alleged fraudulent insurance acts and undertake studies to determine the extent of these acts. States can also use the National Insurance Fraud Retrieval System (RIRS), which contains all final adjudicated actions taken and submitted by state insurance departments. This information typically includes administrative complaints, cease and desist orders, settlement agreements and consent orders, and license suspensions or revocations. Since 2007, there have been more than 96,000 adjudicated actions submitted by the states into RIRS. States can receive alerts through this system.

State insurance regulators work with insurers and their special investigation units (SIUs) to address suspected fraud. The SIUs are divisions within insurers to investigate insurance fraud and usually consist of former law enforcement or claims employees turned investigators. Insurers often use the *NAIC Insurance Fraud Prevention Model Act* (#680) or similar state fraud prevention statutes. This model act creates a framework to help state insurance regulators identify, investigate, and prevent insurance fraud and provides guidance on how to assist and receive assistance from other state, local and federal law enforcement and regulatory agencies in enforcing laws prohibiting fraudulent insurance acts. Further, the *NAIC Antifraud Plan Guideline* (#1690) establishes standards for SIUs regarding the preparation of an antifraud plan to meet state insurance department requirements. By conducting an audit or inspection, or

Current Insurance Fraud Trends

Through our interactions with our state and federal regulatory and law enforcement counterparts, we are seeing some disturbing insurance fraud trends, including:

Contractor/adjuster fraud following natural disasters: State insurance departments have seen a number of instances of contractor and adjuster fraud recently that have occurred immediately after floods, tornados, and other natural disasters. Contractors or insurance adjusters have required

These examples are a few of the recent trends