



## CONTACT:

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## WCC Issue

Disaster Fraud

## Definition

To engage in an act or pattern of activity where the purpose is to defraud individuals, corporations or the government after a disaster occurs.

## How It Happens

Like many other types of fraud, disaster situations, unfortunately, attract con-artists from across the country. A disaster can strike anytime and anywhere. It takes many forms-hurricane, earthquake, tornado, flood, fire, hazardous spill, act of nature, or act of terrorism. It can build over weeks, or hit suddenly without warning. Every year millions of Americans face its terrifying consequences.<sup>1</sup>

Unfortunately, there are dishonest service providers that prey on disaster and take advantage of those who may not be thinking clearly. Some of the most common scams include: Insurance fraud (false claims) home repair fraud, charitable fraud, and financial fraud.

Insurance fraud can be summed up as any deliberate deception perpetrated against honest, unsuspecting people for financial gain.<sup>2</sup> Insurance fraud includes everything from padding estimates, to under-reporting how many employees work for a business. According to the National Insurance Crime Bureau, insurance fraud costs the American public more than \$30 billion a year. These costs ultimately contribute higher insurance premiums for every American.<sup>3</sup> In the wake of the tragedy in New York City, The National Insurance Crime Bureau was asked if they expected to receive any fraudulent insurance claims as a result of the WTC catastrophe. Their response was that they expect to receive thousands of legitimate complaints, but also realize that many individuals will try to take advantage of the system and they expect a variety of scenarios.

- ◆ False Business receipts
- ◆ Claims for damaged or destroyed cars that were nowhere around.
- ◆ Shady contractors, cleaning professionals and other firms that will submit bills for services that were never provided.<sup>4</sup>

Home repair fraud is also a viable problem when it comes to disaster fraud. Home improvement fraud can target roofing, furnace, driveway repairs, etc. A common scheme is for a "so called" contractor to convince a homeowner that a deposit must be made before their repair work can begin. When the deposit is made the homeowner never sees or hears from the con artist again.<sup>5</sup> To avoid becoming a victim never pay cash, be careful of people who want all the money before work is completed, and ask to see a state license of plumbers, electricians, carpenters, and general contractors. If possible get three written estimates from reliable contractors before you award your contract, and make sure before the construction begins you receive a certificate of liability insurance, this verifies that the contractor carries liability insurance.<sup>6</sup>

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<sup>1</sup> Disaster fraud management training, National White Collar Crime Center  
[http://www.training.nw3c.org/courses/courses\\_DFM.htm](http://www.training.nw3c.org/courses/courses_DFM.htm)

<sup>2</sup> <http://www.thehartford.com/corporate/claim/fraud/what.html>

<sup>3</sup> Ibid

<sup>4</sup> National Insurance Crime Bureau "Insurance in the wake of the WTC Disaster"  
<http://www.nicb.org/about/insurancefraud.html>

<sup>5</sup> Insurance Information Institute "How can I avoid scams after a disaster"  
<http://www.iii.org/individuals/home/help/scams/>

<sup>6</sup> University of Illinois Extension Disaster Resources "Home Repair Fraud"  
<http://www.ag.uiuc.edu/~disaster/facts/fraud.html>

Although it does feel wonderful to give in times of disaster make sure your donations go to legitimate agencies and not con-artists. With more than half a million federally recognized charities soliciting for charitable contributions, it pays to be cautious when making a donation.<sup>7</sup> Individuals should ask questions concerning the nature and activities of the organization to make sure the money contributed will support a worthwhile cause. Be wary of operations that try and pressure you into donating or want to send a courier to collect immediately. The Federal Trade Commission came up with a few tips that may help ensure that your donation dollars benefit the people and organizations you want to help.

- ♦ Ask for written information, including the charity's name, address, and telephone number.
- ♦ Ask for identification, most states require paid fundraisers to identify themselves and their charity's mission.
- ♦ Call the charity; find out if they are aware of the solicitation.
- ♦ Watch out for similar sounding names. Some phony charities use names that closely resemble legitimate organizations.<sup>8</sup>

When disasters occur cash and credit-strapped victims are looking for any way to get a little extra money to help cope with their problems. This scenario is all too common: A consumer receives a phone call or receives an e-mail saying that they have been approved for a loan or credit card regardless of their past credit history, but an up front "insurance," "security," or "processing fee" must be obtained first. Too often those who least can afford it end up losing their up-front fee and never hear from the company again.<sup>9</sup>

The Better Business Bureau, along with the Federal Trade Commission, offer a few tips to keep in mind before you respond to ads that promise easy credit, regardless of your credit history.

- ♦ Legitimate lenders never "guarantee" or say that you are likely to get a loan or a credit card before you apply.
- ♦ Never give your credit card account number, bank account information, or Social Security number over the telephone or Internet unless you are familiar with the company and know the information is necessary.
- ♦ Be wary of companies that ask you to send money through a private, third carrier. Con artists try to avoid using the U.S. mail because of federal law enforcement rules.<sup>10</sup>

## Cost/Statistics

Putting an exact dollar loss on disaster fraud would be very difficult. This crime involves individuals making false insurance claims all the way to the con-artists that take advantage of individuals after the disaster. It was been reported that property/casualty insurance fraud cost Americans \$20 billion dollars annually.<sup>11</sup> Unfortunately insurers have to make up for the roughly \$20 billion that fraud criminals steal from the property/casualty insurance industry each year. These costs are passed down in the form of higher insurance prices.<sup>12</sup>

Joseph G. Sullivan, assistant inspector general for the Investigations Division of FEMA's Office of the Inspector General (OIG) stated that theft of government property or claiming false disaster losses are felony charges and carry a maximum five-to ten year prison term and /or a \$250,000 fine. Mr. Sullivan also noted that just in the last 18 months, 83 individuals were either arrested or indicted for disaster-related fraud resulting in more than \$12.2 million in fines, restitution and other federal savings.<sup>13</sup>

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<sup>7</sup> Federal Trade Commission "Charitable Donation\$: Give or Take"  
<http://www.ftc.gov/bcp/online/pubs/tmarkg/charity.htm>

<sup>8</sup> Ibid

<sup>9</sup> Better Business Bureau "Consumers Beware of Advance Fee Loans"  
<http://www.bbb.org/library/advancefee042000.asp>

<sup>10</sup> Ibid

<sup>11</sup> NICUB -CPSU Society "What Fraud Costs You" <http://www.stopinsurancecheats.com/COSTSYOU.html>

<sup>12</sup> Ibid

<sup>13</sup> Federal Emergency Management Agency (FEMA) "FEMA Warns Against Hurricane Assistance Fraud"  
[www.fema.gov/fema/storm](http://www.fema.gov/fema/storm)

## High Profile Examples/Case Studies

A man was arrested after being charged in Boise, Idaho, with making a \$13,400 false claim to the Federal Emergency Management Agency (FEMA) for individual assistance. The man claimed that he lived in a dilapidated trailer during the 1997 winter storms when he was actually living with a friend in another town. He pleaded guilty to the charge and is awaiting sentencing in Federal court.

According to the National Consumers League many con artist's are exploiting the terrorist attacks from September 11th for their own benefit. Some of the reports they have received include:

- ♦ A man received an email message asking for financial support for a group of computer experts who were supposedly attempting to track Osama Bin Laden's whereabouts. The e-mail gave a bank account number in which donations could be deposited.
- ♦ A caller falsely claiming to represent readers digest sweepstakes told a consumer that her winnings could not be delivered because the mail service was disrupted. He asked her to wire him \$2,500 in order to expedite delivery.

In addition, some reports indicate that telemarketers operating fraudulent "Sweepstakes" or magazine-subscription schemes may be falsely promising consumers that a portion of their money will be provided to the September 11th disaster recovery efforts.<sup>14</sup> It is a federal felony for anyone to engage in mail fraud, wire fraud, or credit card fraud. Punishment for these types of crimes can range as high as 15 years imprisonment, or as high as 25 years imprisonment where the fraud is in connection with the conduct of telemarketing.<sup>15</sup>

## "For More Information Links" Web Sites

<http://www.fema.gov/>

[http://www.co.somerset.nj.us/FloodInfo/disaster\\_fraud\\_prevention.htm](http://www.co.somerset.nj.us/FloodInfo/disaster_fraud_prevention.htm)

<http://www.ag.uiuc.edu/~disaster/after.html>

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<sup>14</sup>United States Department of Justice "Special report on Possible Fraud Schemes - Solicitations of Donation for Victims of Terrorist Attacks" [www.usdoj.gov:80/criminal/fraud/WTCPent-SpecRpt.htm](http://www.usdoj.gov:80/criminal/fraud/WTCPent-SpecRpt.htm)

<sup>15</sup>Ibid