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Is the Economy Driving Insurance Fraud?

By David M. Bogan, CFE

Anecdotal accounts of increasingly suspicious claims are shared between us at professional networking and social gatherings, almost as frequently as hello, and, how are you. But, at what rate is insurance fraud really increasing? CDI Commissioner, Steve Poisner had estimated insurance fraud costs in California alone at \$15 Billion annually. He further extrapolates that to the equivalent of a \$500 per year fraud tax on every man, woman, and child living in California. However, this number is under estimated as there is no accounting for the underground economy of unlicensed, uninsured business. These businesses, by not paying their share of premium dollars force increased premiums upon honest business. This causes a ripple effect which eventually increases the cost of goods and services we buy from legitimate businesses everyday, certainly increasing the true cost of fraud. In motor vehicle claims an increased rate of inflated or fraudulent Bodily Injuries (BI) has been identified by a November 2008 study conducted by the Insurance Research Council. The study ended policy year 2007 and concluded that fraud and build up added between \$4.8 and \$6.8 Billion in excess payments related to (BI) claims during 2007. Representing 13 to 18 percent of total payments related to BI claims. Of note, sprains and strains were reported in 87 percent of BI claims and were the most severe injury reported in 71 percent over-all. In 2002 the estimated excess payments related to fraud and build up in BI claims were estimated at \$4.3 to \$5.8 Billion or 11 to 15 percent of total payments related to BI claims. This reflects a two to three percent increase through policy year 2007. If the trend continues through 2009 we will be lucky to find a growth rate limited to 2 to 3 percent, given that the current economic crisis California and the rest of the country is in didn't reach full effect until 2008 and has continued through the present. Clearly medical record and medical bill review have become essential combating these trends. This same economically driven fraud trend is reflected in fraudulent Auto Theft claims or Owner Give Ups. The National Insurance Crime Bureau (NICB) reported in September 2008, that San Diego was ranked among Cities with the highest rate of suspected owner give ups, at number 10. A dubious honor for San Diego ranked behind Houston, TX, Las Vegas, NV, Phoenix, AZ, Los Angeles, CA, Chicago, IL, Detroit, MI, Miami, FL, Dallas, TX, Atlanta,

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NOTE FROM THE PRESIDENT

Customer service is what we all do. Whether we are servicing our customers or working with vendors and attorneys, you are providing customer service. Have you noticed that more and more restaurants are seeking surveys from their customers on how you could rate them? Insurance companies are doing the same and rewarding their employees who provide exemplary customer service and providing more training for employees who don't. Before the economy turned, customer service was an extinct animal. Hardly did you receive a smile. "How may I help you?" and "Thank You" were said repetitively and without sincerity. Spring forward to 2009 and every company is scrambling for customers. Customers who were caught in the mess of lay-offs and spending more than they can chew no longer can afford to spend frivolously. Frugality and necessity are the two main themes for this year and probably for the next two years. Rapport and reputation with the public and our vendors are even more important to keep viable in this economy. Claims isn't easy. I don't think anyone can honestly say that they always wanted to work in insurance. Like many graduates, I was unable to keep my position as a social worker. Every time the government funding ran out, I was immediately let go. What happened to all the families and children I worked with? What about paying my rent? Putting food on the table? Paying bills? I'm truly grateful for what I do. I wake up each day and I'm truly grateful that I have a good paying job that pays me so well; that I have an easy and manageable workload; excellent customers and cooperative attorneys; and knowledgeable mentors and supervisors with great hearts and

good intentions. Positive thinking is hard to manifest at times when you're stressed out. But don't be so hard on yourself because everyone is going through some sort of battle. Task yourself that you will do your best. Eventually, you will see your customers increase; business will grow; and you won't have to stress as much as to surviving. If your customers are happy, your reputation will allow you to prosper. I work in personal claims. I often have to work with injured parties who are either represented or in pro per. I find it helps to treat each person with kindness and fairness. Active listening allows for better communication. I understand that not everyone understands insurance lingo and therefore, a full explanation of the process and what to expect lessens the follow-up inquiries. Remember the Golden Rule, 'Treat others as you would like to be treated'. One avenue that I have discovered that is beneficial for your company and for yourself is by becoming a certified Arbitrator with Inter-Company Arbitration. For those of you that are not familiar, Inter-Company Arbitration is a way for insurance companies to have their disputes heard by a separate entity. Normally, to have the cases heard, the insurer must be a member. Once an insurer is a member, they must have their own claims representatives hear cases submitted by other insurance companies. If you are interested in becoming an Arbitrator, you must have five years claims experience, have your manager approve your request and complete three examinations. If you have successfully completed the examinations, you will be able to hear cases and be able to learn ways to improve your claims handling. If you're interested, please Brian Schnitzer at bschnitz@arbfile.org.

Leah Miller



SAN DIEGO INSURANCE ADJUSTERS ASSOCIATION

PRESENTS

Low –Impact Collision and Bodily Injury Seminar

You will not want to miss this seminar if you handle material damage or low impact injury claims. In addition to lecture and theory, we will have a live collision -impact demonstration. You will see the impact first hand and be able to access the resulting damage. This seminar will present the critical components of any successful low-impact collision and bodily injury programs. Adjusters will walk away with a better knowledge about real world collision dynamics on the vehicle and human body.



LOW IMPACT SEMINAR - The low-impact claims seminar is tentatively planned for 09/18/09. Steve Meek will be coordinating this event. Please contact Steve at smeek@acmclaims.com or call him at 760-827-4962 to RSVP and if you have any questions about the event. The event is planned for the Catalina Room at the Marina Village. Check online at www.sdiaa.org for updates to the seminar information.

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GA, respectively. Although neither Los Angeles or San Diego topped the list of cities, when it comes to owner give ups, California as a state was ranked number one with more than double the rate of that of Texas which was ranked second. Vehicle owners finding themselves over their head in payments, adjusted mortgages, lease terms, balloon payments and ever increasing credit card debt, in an economic climate in which selling a used car is challenging at best, are prone to simply "give up" their vehicle. The two most common tactics for staging an owner give up are burning and flooding. Flooding is not a likely scenario in southern California, consequently we experience a disproportionate number of recovered burned (or stripped) vehicles. In this scenario, the vehicle is burned in hopes of destroying any evidence. The owner reports it stolen in the hopes that the vehicle is either, never recovered, or recovered so badly damaged it is an automatic total loss. The NICB study graphed the number of suspected owner give ups by month and year along with the price of gasoline over the same period. The two paralleled each other very closely. This does not necessarily mean that increased gas prices cause people to commit insurance fraud; however, gas prices are a clear indicator of the state of the economy. The connection between higher gas prices and increased fraud can not be overlooked. Keeping in mind the current uncertainty of our economy and the increased rates of insurance fraud identified through solid data, as opposed to anecdote, it is incumbent upon the claims industry to exercise every opportunity to identify and prosecute insurance fraud. Consider that while dollars lost due to fraud have increased, sales have diminished. Surveys have indicated that consumers are reducing coverage on automobiles to minimums and even cancelling coverage all together in an effort to save. Reducing premium while increase fraud losses multiplies the effects of fraud on us as consumers and even more so as industry professionals through adverse effects on salaries, bonuses and benefits. We must remain

vigilant and always watching for suspicious activity within our files and report that suspicious activity to the Special Investigative Unit for further investigation. It is equally important that we utilized every tool available to us to assist with fraud identification, interdiction and investigation. *David M. Bogan, CFE is President and CEO of PC550 Holdings, Inc. PC550 Holdings, Inc. is parent company to a conglomeration of companies all focused on providing Anti-Fraud services to the insurance claims industries. The PC550 Holdings companies include Med Claim Analysis, Inc. a medical record and medical bill review company, VIN Advanced Technologies & Forensics, Inc., a forensic analytical company specializing in forensic vehicle security system, mechanical failure and fluid analysis, DMB Investigators, Inc., a private investigations and contracted Special Investigative Unit service, Bogan Fraud Consulting, Inc. which provides clients with consulting services including fair claims practices, SIU compliance, and internal auditing, and SafeClaims, LLC, a software company which provides an integrated software solutions to assist adjusters in identifying, tracking and reporting red flags of fraud. PC550 Holdings, Inc. is located at 41679 Date St., suite 200 in Murrieta CA 92562 and can be reached at (951) 461-8829.*

Calif. Workers' Comp Rating Bureau to Recommend 22.8% Increase in Rates

insurancejournal.com - August 13, 2009

The WCIRB will submit a filing to the California Department of Insurance (CDI) recommending an approximate 22.8 percent increase in pure premium rates (or "claims cost benchmark") effective Jan. 1, 2010. The WCIRB Governing Committee made its decision to recommend the increase based on recommendations heard at the WCIRB Actuarial Committee on July 31, 2009. The recommendation is based on two principal components. First, the WCIRB's evaluation of March 31, 2009 loss experience produces an indicated increase in the claims cost benchmark of 16 percent. This indicated increase is primarily the result of increased medical costs. Second, the WCIRB's analysis of anticipated cost increases stemming from three recent Workers' Compensation Appeals Board decisions (Ogilvie

continued on page 5 - see WC Rating

v. City and County of San Francisco, Almaraz v. Environmental Recovery Services and Guzman v. Milpitas Unified School District) indicates an additional increase of 5.8 percent. The proposed hike is sent to the Department of Insurance who approves, rejects or amends the change to the Claims Cost Benchmark. The Benchmark is purely advisory and the Department of Insurance does not set workers' compensation insurance rates. The WCIRB says that if the full 22.8 percent increase is approved by the Insurance Commissioner, the Jan. 1, 2010 pure premium rates will still be, on average, 55 percent lower than the approved pure premium rates in effect July 1, 2003. Insurance Commissioner Steve Poizner says he will closely scrutinize the new WCIRB filing and seek out evidence that efforts are being made to control costs. scrtoday issued the following statement on Workers' Compensation Insurance Rating Bureau's (WCIRB) request to increase the Workers Compensation Cost Claims Benchmark by 22.8 percent: "Last month, I rejected WCIRB's request to increase the Cost Claims Benchmark, in part because I found that insurers were inefficient and were not fully using available tools to control costs," Poizner said. "Instead of striving to control medical costs, I found that insurers were attempting to pass unsupported costs along to employers in the form of rate increases. They must work to be as efficient as their self-insured counterparts." Commissioner Poizner held an investigatory hearing in early June to examine the increasing medical costs in the workers' compensation system. During that hearing, he heard testimony that indicated that insurers were not realizing efficiencies to bring down the costs in the system. As a result of the June hearing, Commissioner Poizner has released an outline recommending areas where the workers' compensation system can achieve further efficiencies. He expects the industry to implement many of these changes before he will consider a positive rate change to the Benchmark. The Insurance Commissioner issues the Workers' Compensation Claims Cost

Benchmark to measure and project costs in the system. In July 2009, Commissioner Poizner declined WCIRB's application to increase the Benchmark by 23.7 percent. The WCIRB expects to submit its pure premium rate filing to the CDI on or around Aug.t 18, 2009. Once the filing is submitted, it may be viewed or downloaded from the Regulatory Filings section of the WCIRB web site at www.wcirbonline.org.

www.sdiaa.org

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Announcing the upcoming:

San Diego Insurance Adjusters Association

2009
Resource Guide

Vendors - reach out to our members throughout the year in our annual resource guide. Deadline for placing ad is August 3rd.

For more info please contact:
Jill Hess or Frank Rowe
800-722-4156 or 303-863-0521
jhess@rppublishing.com



California Releases New Draft of Pay-As-You-Drive Regulations

insurancejournal.com - August 4, 2009

The California Department of Insurance has released a new draft of the Pay-As-You-Drive (PAYD) regulations, after receiving dozens of comments from consumer groups, the insurance industry and other invested parties, it said. "After careful consideration of these comments, I have issued revised regulations that will continue to protect the privacy of California drivers while paving the way for insurance companies to offer innovative Pay as You Drive and 'price per mile 'insurance,'" Commissioner Steve Poizner said in a statement. The revised regulations are available at www.insurance.ca.gov. The pay-as-you-drive program is designed to create an incentive for drivers to drive less and reduce fuel costs and pollution, as insurers offer a new option of calculating insurance premiums based on exact mileage, rather than estimated mileage. Companies can continue to offer traditional insurance based on estimated mileage. However, now they can also offer a verified mileage program instead of or in addition to a traditional estimated mileage program. Commissioner Poizner originally proposed the PAYD regulations last summer to make a new, more mileage-accurate auto insurance option available for California consumers. The regulations were last revised in June 2009. The revised regulations also allow insurers to offer discounts to drivers who opt to purchase a mileage verification policy. Any auto insurance program, including a pay-as-you-drive program, must be approved by Commissioner Poizner before being placed on the market for consumers to purchase. If a driver elects to purchase a pay-as-you-drive policy, the insurer would verify the driver's miles through a variety of methods, including odometer readings taken by the insurer or its agents or vendors, auto repair dealers, smog check stations, self-reporting by the policyholder or a technological device placed in the consumer's vehicle. The

amended regulations explicitly prohibit insurers from gathering location data from consumers for automobile rating purposes through the addition of a technological device. The regulations would not affect existing multipurpose devices such as GM's Onstar system or the use of a technological device as part of an emergency roadside assistance program. Public comments on the new changes to the regulations are being accepted until 5 p.m. on August 17. Comments can be e-mailed to: PubComments.2008-020@insurance.ca.gov. After these procedures are completed, the regulations will take effect as soon as possible, the Commissioner said. Insurers will then be able to apply to offer pay-as-you-drive insurance in California. The regulations are anticipated to take effect in fall 2009.

2009-10 SDIAA Schedule

- August 28 - DM Races (Sold Out)
- September 19 – Low Impact Seminar
- October 11 – Family Halloween Picnic
- November TBD – Property Seminar
- December TBD – Holiday Party
- January TBD – DOI Training
- February TBD – Bowling Mixer
- March TBD – Seminar
- March TBD – Vendor Night
- April TBD – Mixer
- May TBD– Seminar
- June TBD – Mixer

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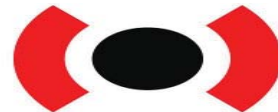


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Signature _____ Date _____

Pay online at sdiaa.org and send the application to SDIAA

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