

Rate Evasion Insurance Fraud Emerges as Problem in North Carolina

Just this March I issued an alert to all licensed property and liability and personal lines insurance agents to raise awareness of rate evasion insurance fraud. I'm revisiting this issue because it is a growing concern for our state, and I want to make sure that you are aware of how we are working to eliminate rate evasion in North Carolina, and how you can join us in preventing it.

Rate evasion fraud involves non-residents coming into North Carolina from other states and falsifying eligibility information on insurance applications to take advantage of our low auto insurance rates. Because North Carolina enjoys the fifth lowest auto rates in the nation, our state is a prime target for rate evaders. These rate evaders involve their agent in the scheme by misrepresenting residency status or garaging location of their vehicle in order to apply for insurance in North Carolina. This rate evasion fraud is not a "victimless crime," and we all pay the price when rate evaders return to their home states, expose themselves to higher risks and file expensive claims against North Carolina insurers.

The Department's Investigations Division is currently working with other state and federal agencies to detect and prosecute those who commit rate evasion fraud. The Agent Services Division, which licenses and regulates insurance agents, has conducted target examinations of agencies in which rate evasion has been suspected. In some instances, rate evasion fraud identified during these examinations has resulted in administrative action against agent licenses. The bottom line is that rate evasion fraud can have serious ramifications for agents. Some things to keep in mind when you're writing auto policies include:

- **Rate evaders are using laws that are meant to protect North Carolina drivers.** The Vehicle Responsibility Act of 1957 was enacted to make liability insurance compulsory for all North Carolina registered vehicles to protect North Carolina drivers. In order to make liability insurance accessible to all registered vehicles, the NCRF became operational on Oct. 9, 1973. Under the facility law, licensed writing carriers and agents must accept and insure any "eligible" applicant for coverages and limits which may be ceded to the NCRF.
- **Misconceptions exist among insurance agents that aid rate evaders.** Some agents have the incorrect belief that they cannot refuse to write liability insurance for ANY applicant due to North Carolina facility law. In fact, facility law provides for "eligible" applicants only. Eligible applicants are defined in the Facility Standard Practice Risk Manual, Section 2 and include:

- Residents of North Carolina who own a vehicle registered or principally garaged in this State, or who have a valid driver's license in this State, or who are required to file proof of financial responsibility in order to register their vehicle or obtain a driver's license in this state.
- Non-residents of North Carolina who own a motor vehicle registered or principally garaged in this State.
- **It's essential that agents determine the eligibility status of applicants for vehicle insurance at the point of sale.**

I hope that you will help the Department prevent rate evasion fraud. While we are currently seeking legislation to fight rate evasion, the Department is counting on agents to remain vigilant and report all suspected insurance fraud to our Investigations Division at 919-807-6840.

The Agent Services Division has created a rate evasion process that agencies can use to identify possible indicators of rate evasion. For applicants with some of the indicators present, the process recommends that agents ask additional questions and require documentation to confirm that an applicant meets the "eligible" risk requirements. To read the Department's recently updated rate evasion warning, visit the Hot Topics section of the Agent Services Division's section on www.ncdoi.com.

If you have questions or would like more information about rate evasion insurance fraud, please contact the Agent Services Division 919-807-6800.